

**International Auditing and  
Assurance Standards Board®**

**Handbook of International  
Quality Control, Auditing,  
Review, Other Assurance,  
and Related Services  
Pronouncements**

***2020 Edition  
Volume II***

**ISAE**

**ISRE**

**ISRS**

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**HANDBOOK OF INTERNATIONAL QUALITY CONTROL,  
AUDITING, REVIEW, OTHER ASSURANCE, AND  
RELATED SERVICES PRONOUNCEMENTS**

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**INTERNATIONAL STANDARD ON REVIEW  
ENGAGEMENTS 2400 (REVISED)**

**ENGAGEMENTS TO REVIEW HISTORICAL  
FINANCIAL STATEMENTS**

(Effective for reviews of financial statements for periods ending on  
or after December 31, 2013)

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International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, should be read in conjunction with the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

## Introduction

### Scope of this ISRE

1. This International Standard on Review Engagements (ISRE) deals with: (Ref: Para. A1)
  - (a) The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements; and
  - (b) The form and content of the practitioner's report on the financial statements.
2. This ISRE does not address a review of an entity's financial statements or interim financial information performed by a practitioner who is the independent auditor of the entity's financial statements (Ref: Para. A2)
3. This ISRE is to be applied, adapted as necessary, to reviews of other historical financial information. Limited assurance engagements other than reviews of historical financial information are performed under ISAE 3000 (Revised).<sup>1</sup>

### *Relationship with ISQC 1<sup>2</sup>*

4. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's engagements to review financial statements.<sup>3</sup> The provisions of this ISRE regarding quality control at the level of individual review engagements are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A5)

### The Engagement to Review Historical Financial Statements

5. The review of historical financial statements is a limited assurance engagement, as described in the *International Framework for Assurance Engagements* (the Assurance Framework).<sup>4</sup> (Ref: Para. A6–A7)
6. In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. The practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

<sup>2</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>3</sup> ISQC 1, paragraph 4

<sup>4</sup> Assurance Framework, paragraphs 15 and 16

7. The practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this ISRE.
8. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner designs and performs additional procedures, as the practitioner considers necessary in the circumstances, to be able to conclude on the financial statements in accordance with this ISRE.

### **Authority of this ISRE**

9. This ISRE contains the objectives of the practitioner in following the ISRE which provide the context in which the requirements of this ISRE are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a review engagement.
10. The ISRE contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.
11. In addition, this ISRE contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the ISRE.
12. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRE that assists in the application of the requirements.

### **Effective Date**

13. This ISRE is effective for reviews of financial statements for periods ending on or after December 31, 2013.

### **Objectives**

14. The practitioner’s objectives in a review of financial statements under this ISRE are to:
  - (a) Obtain limited assurance, primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to the practitioner’s attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and
  - (b) Report on the financial statements as a whole and communicate, as required by this ISRE.



15. In all cases when limited assurance cannot be obtained and a qualified conclusion in the practitioner’s report is insufficient in the circumstances, this ISRE requires that the practitioner either disclaim a conclusion in the report issued for the engagement or, where appropriate, withdraw from the engagement if withdrawal is possible under applicable law or regulation. (Ref. Para. A8–A10, A121–A122)

## Definitions

16. The Handbook’s Glossary of Terms<sup>5</sup> (the Glossary) includes the terms defined in this ISRE as well as descriptions of other terms used in this ISRE, to assist in consistent application and interpretation. For example, the terms “management” and “those charged with governance” used throughout this ISRE are as defined in the Glossary. (Ref: Para. A11–A12)
17. For purposes of this ISRE, the following terms have the meanings attributed below:
- (a) *Analytical procedures*—Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
  - (b) *Engagement risk*—The risk that the practitioner expresses an inappropriate conclusion when the financial statements are materially misstated.
  - (c) *General purpose financial statements*—Financial statements prepared in accordance with a general purpose framework.
  - (d) *General purpose framework*—A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.
  - (e) *Inquiry*—Inquiry consists of seeking information of knowledgeable persons from within or outside the entity.
  - (f) *Limited assurance*—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this ISRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a

<sup>5</sup> The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (the Handbook), published by IFAC

meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements. (Ref: Para. A13)

- (g) *Practitioner*—A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this ISRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
- (h) *Professional judgment*—The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.
- (i) *Relevant ethical requirements*—Ethical requirements to which the engagement team is subject when undertaking review engagements, which ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with national requirements that are more restrictive.
- (j) *Special purpose financial statements*—Financial statements prepared in accordance with a special purpose framework.
- (k) *Special purpose framework*—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

## Requirements

### Conduct of a Review Engagement in Accordance with this ISRE

18. The practitioner shall have an understanding of the entire text of this ISRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A14)

### Complying with Relevant Requirements

19. The practitioner shall comply with each requirement of this ISRE, unless a requirement is not relevant to the review engagement. A requirement is relevant to the review engagement when the circumstances addressed by the requirement exist.
20. The practitioner shall not represent compliance with this ISRE in the practitioner's report unless the practitioner has complied with all the requirements of this ISRE relevant to the review engagement.

**Ethical Requirements**

21. The practitioner shall comply with relevant ethical requirements, including those pertaining to independence. (Ref: Para. A15–A16)

**Professional Skepticism and Professional Judgment**

22. The practitioner shall plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A17–A20)
23. The practitioner shall exercise professional judgment in conducting a review engagement. (Ref: Para. A21–A25)

**Engagement Level Quality Control**

24. The engagement partner shall possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances. (Ref: Para. A26)
25. The engagement partner shall take responsibility for: (Ref: Para. A27–A30)
- (a) The overall quality of each review engagement to which that partner is assigned;
  - (b) The direction, supervision, planning and performance of the review engagement in compliance with professional standards and applicable legal and regulatory requirements; (Ref: Para. A31)
  - (c) The practitioner’s report being appropriate in the circumstances; and
  - (d) The engagement being performed in accordance with the firm’s quality control policies, including the following:
    - (i) Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity; (Ref: Para. A32–A33)
    - (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities, including assurance skills and techniques and expertise in financial reporting, to:
      - a. Perform the review engagement in accordance with professional standards and applicable legal and regulatory requirements; and
      - b. Enable a report that is appropriate in the circumstances to be issued; and
    - (iii) Taking responsibility for appropriate engagement documentation being maintained.

*Relevant Considerations after Engagement Acceptance*

26. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

*Compliance with Relevant Ethical Requirements*

27. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

*Monitoring*

28. An effective system of quality control for a firm includes a monitoring process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate and operate effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the review engagement.

**Acceptance and Continuance of Client Relationships and Review Engagements**

*Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements*

29. Unless required by law or regulation, the practitioner shall not accept a review engagement if: (Ref: Para. A34–A35)
- (a) The practitioner is not satisfied:
    - (i) That there is a rational purpose for the engagement; or (Ref: Para. A36)
    - (ii) That a review engagement would be appropriate in the circumstances; (Ref: Para. A37)
  - (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;
  - (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable; (Ref: Para. A38)

- (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or (Ref: Para. A33)
- (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

*Preconditions for Accepting a Review Engagement*

30. Prior to accepting a review engagement, the practitioner shall: (Ref: Para. A39)
  - (a) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users; and (Ref: Para. A40–A46)
  - (b) Obtain the agreement of management that it acknowledges and understands its responsibilities: (Ref: Para. A47–A50)
    - (i) For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;
    - (ii) 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; and
    - (iii) To provide the practitioner with:
      - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
      - b. Additional information that the practitioner may request from management for the purpose of the review; and
      - c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.
31. If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this ISRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this ISRE.

32. If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with management or those charged with governance, and shall determine:
- (a) Whether the matter can be resolved;
  - (b) Whether it is appropriate to continue with the engagement; and
  - (c) Whether and, if so, how to communicate the matter in the practitioner's report.

*Additional Considerations When the Wording of the Practitioner's Report Is Prescribed by Law or Regulation*

33. The practitioner's report issued for the review engagement shall refer to this ISRE only if the report complies with the requirements of paragraph 86.
34. In some cases, when the review is performed pursuant to applicable law or regulation of a jurisdiction, the relevant law or regulation may prescribe the layout or wording of the practitioner's report in a form or in terms that are significantly different from the requirements of this ISRE. In those circumstances, the practitioner shall evaluate whether users might misunderstand the assurance obtained from the review of the financial statements and, if so, whether additional explanation in the practitioner's report can mitigate possible misunderstanding. (Ref: Para. A51, A148)
35. If the practitioner concludes that additional explanation in the practitioner's report cannot mitigate possible misunderstanding, the practitioner shall not accept the review engagement unless required by law or regulation to do so. A review conducted in accordance with such law or regulation does not comply with this ISRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this ISRE. (Ref: Para. A51, A148)

*Agreeing the Terms of Engagement*

36. The practitioner shall agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement.
37. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A52–A54, A56)
- (a) The intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable;
  - (b) Identification of the applicable financial reporting framework;
  - (c) The objective and scope of the review engagement;

- (d) The responsibilities of the practitioner;
- (e) The responsibilities of management, including those in paragraph 30(b); (Ref: Para. A47–A50, A55)
- (f) A statement that the engagement is not an audit, and that the practitioner will not express an audit opinion on the financial statements; and
- (g) Reference to the expected form and content of the report to be issued by the practitioner, and a statement that there may be circumstances in which the report may differ from its expected form and content.

### Recurring Engagements

38. On recurring review engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement. (Ref: Para. A57)

### *Acceptance of a Change in the Terms of the Review Engagement*

39. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. (Ref: Para. A58–A60)
40. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so. (Ref: Para. A61–A62)
41. If the terms of engagement are changed during the course of the engagement, the practitioner and management or those charged with governance, as appropriate, shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

### Communication with Management and Those Charged with Governance

42. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review engagement that, in the practitioner’s professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A63–A69)

### Performing the Engagement

#### *Materiality in a Review of Financial Statements*

43. The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (Ref: Para. A70–A73)

44. The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially. (Ref. Para. A74)

*The Practitioner's Understanding*

45. The practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (Ref: Para. A75–A77)
46. The practitioner's understanding shall include the following: (Ref: Para. A78, A87, A90)
- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;
  - (b) The nature of the entity, including:
    - (i) Its operations;
    - (ii) Its ownership and governance structure;
    - (iii) The types of investments that the entity is making and plans to make;
    - (iv) The way that the entity is structured and how it is financed; and
    - (v) The entity's objectives and strategies;
  - (c) The entity's accounting systems and accounting records; and
  - (d) The entity's selection and application of accounting policies.

*Designing and Performing Procedures*

47. In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures: (Ref: Para. A79–A83, A87, A90)
- (a) To address all material items in the financial statements, including disclosures; and
  - (b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.
48. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A84–A88)
- (a) How management makes the significant accounting estimates required under the applicable financial reporting framework;



- (b) The identification of related parties and related party transactions, including the purpose of those transactions;
- (c) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:
  - (i) Significant changes in the entity's business activities or operations;
  - (ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;
  - (iii) Significant journal entries or other adjustments to the financial statements;
  - (iv) Significant transactions occurring or recognized near the end of the reporting period;
  - (v) The status of any uncorrected misstatements identified during previous engagements; and
  - (vi) Effects or possible implications for the entity of transactions or relationships with related parties;
- (d) The existence of any actual, suspected or alleged:
  - (i) Fraud or illegal acts affecting the entity; and
  - (ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations;
- (e) Whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements;
- (f) The basis for management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A89)
- (g) Whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern;
- (h) Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and
- (i) Material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.

49. In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures. (Ref: Para. A90–A92)

#### Procedures to Address Specific Circumstances

##### Related parties

50. During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner.
51. If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about:
- (a) The nature of those transactions;
  - (b) Whether related parties could be involved; and
  - (c) The business rationale (or lack thereof) of those transactions.

##### Fraud and non-compliance with laws and regulations

52. When there is an indication that fraud or non-compliance with laws and regulations, or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the practitioner shall:
- (a) Communicate that matter, unless prohibited by law or regulation, with the appropriate level of management or those charged with governance as appropriate; (Ref: Para. A93)
  - (b) Request management's assessment of the effect(s), if any, on the financial statements;
  - (c) Consider the effect, if any, of management's assessment of the effects of identified or suspected fraud or non-compliance with laws and regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
  - (d) Determine whether law, regulation or relevant ethical requirements: (Ref: Para. A94–A98)
    - (i) Require the practitioner to report to an appropriate authority outside the entity.
    - (ii) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

### Going concern

53. A review of financial statements includes consideration of the entity's ability to continue as a going concern. In considering management's assessment of the entity's ability to continue as a going concern, the practitioner shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation where a longer period is specified.
54. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall: (Ref: Para. A99)
- (a) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern;
  - (b) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:
    - (i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or
    - (ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern; and
  - (c) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.

### Use of work performed by others

55. In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes. (Ref: Para. A80)

### *Reconciling the Financial Statements to the Underlying Accounting Records*

56. The practitioner shall obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records. (Ref: Para. A100)

*Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated*

57. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A101–A105)
- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
  - (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

**Subsequent Events**

58. If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner’s report that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements.
59. The practitioner has no obligation to perform any procedures regarding the financial statements after the date of the practitioner’s report. However, if, after the date of the practitioner’s report but before the date the financial statements are issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner’s report, may have caused the practitioner to amend the report, the practitioner shall:
- (a) Discuss the matter with management or those charged with governance, as appropriate;
  - (b) Determine whether the financial statements need amendment; and
  - (c) If so, inquire how management intends to address the matter in the financial statements.
60. If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner’s report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action to seek to prevent reliance on the practitioner’s report.

**Written Representations**

61. The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: (Ref: Para. A106–A108)

- (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and
- (b) All transactions have been recorded and are reflected in the financial statements.

If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required by subparagraphs (a)–(b), the relevant matters covered by such statements need not be included in the written representation.

62. The practitioner shall also request management’s written representations that management has disclosed to the practitioner: (Ref: Para. A107)

- (a) The identity of the entity’s related parties and all the related party relationships and transactions of which management is aware;
- (b) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
- (c) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity’s financial statements;
- (d) All information relevant to use of the going concern assumption in the financial statements;
- (e) That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;
- (f) Material commitments, contractual obligations or contingencies that have affected or may affect the entity’s financial statements, including disclosures; and
- (g) Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.

63. If management does not provide one or more of the requested written representations, the practitioner shall: (Ref: Para. A106)

- (a) Discuss the matter with management and those charged with governance, as appropriate;
- (b) Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and

- (c) Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this ISRE.
64. The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if:
- (a) The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or
  - (b) Management does not provide the required representations required by paragraph 61.

*Date of and Period(s) Covered by Written Representations*

65. The date of the written representations shall be as near as practicable to, but not after, the date of the practitioner's report. The written representations shall be for all financial statements and period(s) referred to in the practitioner's report.

**Evaluating Evidence Obtained from the Procedures Performed**

66. The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements. (Ref: Para. A109)
67. If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. A110–A111)

*Evaluating the Effect on the Practitioner's Report*

68. The practitioner shall evaluate the evidence obtained from the procedures performed to determine the effect on the practitioner's report. (Ref: Para. A109)

**Forming the Practitioner's Conclusion on the Financial Statements**

*Consideration of the Applicable Financial Reporting Framework in Relation to the Financial Statements*

69. In forming the conclusion on the financial statements, the practitioner shall:
- (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A112–A113)
  - (b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed:
    - (i) The terminology used in the financial statements, including the title of each financial statement, is appropriate;

- (ii) The financial statements adequately disclose the significant accounting policies selected and applied;
  - (iii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
  - (iv) Accounting estimates made by management appear reasonable;
  - (v) The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and
  - (vi) The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements. (Ref: Para. A114–A116)
70. The practitioner shall consider the impact of:
- (a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and
  - (b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A117–A118)
71. If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include: (Ref: Para. A115)
- (a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework; and
  - (b) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.

### *Form of the Conclusion*

72. The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the financial statements.

### *Unmodified Conclusion*

73. The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

74. When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: (Ref: Para. A119–A120)
- (a) “Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or
  - (b) “Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,” (for financial statements prepared using a compliance framework).

#### Modified Conclusion

75. The practitioner shall express a modified conclusion in the practitioner’s report on the financial statements as a whole when:
- (a) The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated; or
  - (b) The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.
76. When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:
- (a) Use the heading “Qualified Conclusion,” “Adverse Conclusion” or “Disclaimer of Conclusion,” as appropriate, for the conclusion paragraph in the practitioner’s report; and
  - (b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, “Basis for Qualified Conclusion,” “Basis for Adverse Conclusion” or “Basis for Disclaimer of Conclusion,” as appropriate), in a separate paragraph in the practitioner’s report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).

#### Financial statements are materially misstated

77. If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:
- (a) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or



- (b) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.
78. When the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:
- (a) “Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or
- (b) “Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,” (for financial statements prepared using a compliance framework).
79. When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:
- (a) “Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or
- (b) “Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,” (for financial statements prepared using a compliance framework).
80. In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall:
- (a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;

- (b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or
- (c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Inability to obtain sufficient appropriate evidence

81. If the practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall:
- (a) Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive; or
  - (b) Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
82. The practitioner shall withdraw from the engagement if the following conditions are present: (Ref: Para. A121–A123)
- (a) Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements;
  - (b) The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive; and
  - (c) Withdrawal is possible under applicable law or regulation.
83. When the practitioner expresses a qualified conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:
- (a) “Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or
  - (b) “Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable

financial reporting framework,” (for financial statements prepared using a compliance framework).

84. When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that:
- (a) Due to the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements; and
  - (b) Accordingly, the practitioner does not express a conclusion on the financial statements.
85. In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability to obtain sufficient appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient appropriate evidence.

### **The Practitioner’s Report**

86. The practitioner’s report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A124–A127, A148, A150)
- (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;
  - (b) The addressee(s), as required by the circumstances of the engagement;
  - (c) An introductory paragraph that:
    - (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;
    - (ii) Refers to the summary of significant accounting policies and other explanatory information; and
    - (iii) States that the financial statements have been reviewed;
  - (d) A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for: (Ref: Para. A128–A131)
    - (i) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;
    - (ii) 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;

- (e) If the financial statements are special purpose financial statements:
  - (i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and
  - (ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management’s responsibility for the financial statements to management’s responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances;
- (f) A description of the practitioner’s responsibility to express a conclusion on the financial statements including reference to this ISRE and, where relevant, applicable law or regulation; (Ref: Para. A132–133, A149)
- (g) A description of a review of financial statements and its limitations, and the following statements: (Ref: Para. A134)
  - (i) A review engagement under this ISRE is a limited assurance engagement;
  - (ii) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and
  - (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements;
- (h) A paragraph under the heading “Conclusion” that contains:
  - (i) The practitioner’s conclusion on the financial statements as a whole in accordance with paragraphs 72–85, as appropriate; and
  - (ii) A reference to the applicable financial reporting framework used to prepare the financial statements, including identification of the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board, or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board; (Ref: Para. A135–A136)

- (i) When the practitioner's conclusion on the financial statements is modified:
  - (i) A paragraph under the appropriate heading that contains the practitioner's modified conclusion in accordance with paragraphs 72 and 75–85, as appropriate; and
  - (ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification; (Ref: Para. A137)
- (j) A reference to the practitioner's obligation under this ISRE to comply with relevant ethical requirements;
- (k) The date of the practitioner's report; (Ref: Para. A144–A147)
- (l) The practitioner's signature; and (Ref: Para. A138)
- (m) The location in the jurisdiction where the practitioner practices.

*Emphasis of Matter and Other Matter Paragraphs in the Practitioner's Report*

Emphasis of Matter Paragraphs

- 87. The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to information presented or disclosed in the financial statements.
- 88. The practitioner's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A139–A140)
- 89. The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

Other Matter Paragraphs

- 90. If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not

prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner’s report with the heading “Other Matter” or other appropriate heading.

*Other Reporting Responsibilities*

91. A practitioner may be requested to address other reporting responsibilities in the practitioner’s report on the financial statements that are in addition to the practitioner’s responsibilities under this ISRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner’s report headed “Report on Other Legal and Regulatory Requirements,” or otherwise as appropriate to the content of the section, following the section of the report headed “Report on the Financial Statements.” (Ref: Para. A141–A143)

*Date of the Practitioner’s Report*

92. The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner’s conclusion on the financial statements, including being satisfied that: (Ref: Para. A144–A147)
- (a) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and
  - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

**Documentation**

93. The preparation of documentation for the review provides evidence that the review was performed in accordance with this ISRE, and legal and regulatory requirements where relevant, and a sufficient and appropriate record of the basis for the practitioner’s report. The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A151)
- (a) The nature, timing and extent of the procedures performed to comply with this ISRE and applicable legal and regulatory requirements;
  - (b) Results obtained from the procedures, and the practitioner’s conclusions formed on the basis of those results; and
  - (c) Significant matters arising during the engagement, the practitioner’s conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

94. In documenting the nature, timing and extent of procedures performed as required in this ISRE, the practitioner shall record:
- (a) Who performed the work and the date such work was completed; and
  - (b) Who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.
95. The practitioner shall also document discussions with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.
96. If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

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## Application and Other Explanatory Material

### Scope of this ISRE (Ref: Para. 1–2)

- A1. In performing a review of financial statements, the practitioner may be required to comply with legal or regulatory requirements, which may differ from the requirements established in this ISRE. While the practitioner may find aspects of this ISRE helpful in these circumstances, it is the responsibility of the practitioner to ensure compliance with all relevant legal, regulatory and professional obligations.

### *Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities*

- A2. Review engagements in accordance with this ISRE may be requested for component entities by the auditor of the financial statements of a group of entities.<sup>6</sup> Such a review engagement performed in accordance with this ISRE may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.

### *Relationship with ISQC 1 (Ref: Para. 4)*

- A3. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements, including review engagements. Those responsibilities are directed at establishing the firm's:

<sup>6</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A52

- Quality control system; and
- Related policies designed to achieve the objective of the quality control system and the firm’s procedures to implement and monitor compliance with those policies, including policies and procedures that address each of the following elements:
  - Leadership responsibilities for quality within the firm.
  - Relevant ethical requirements.
  - Acceptance and continuance of client relationships and specific engagements.
  - Human resources.
  - Engagement performance.
  - Monitoring.

A4. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>7</sup>

A5. National requirements that deal with the firm’s responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 when they address all the elements referred to in paragraph A3, and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

**The Engagement to Review Historical Financial Statements (Ref: Para. 5–8, 14)**

A6. Reviews of financial statements may be performed for a wide range of entities that vary by type or size, or by the level of complexity in their financial reporting. In some jurisdictions, the review of financial statements of certain types of entity may also be the subject of local laws or regulations and related reporting requirements.

A7. Reviews may be performed in a variety of circumstances. For example, they may be required for entities that are exempt from requirements specified in law or regulation for mandatory audit. Reviews may also be requested on a voluntary basis, such as in connection with financial reporting undertaken for arrangements under the terms of a private contract, or to support funding arrangements.

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<sup>7</sup> ISQC 1, paragraph 11



**Objectives (Ref: Para. 15)**

- A8. This ISRE requires the practitioner to disclaim a conclusion on the financial statements if:
- (a) The practitioner issues a report, or is required to issue a report for the engagement; and
  - (b) The practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, and the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- A9. The situation of being unable to obtain sufficient appropriate evidence in a review engagement (referred to as a scope limitation) may arise from:
- (a) Circumstances beyond the control of the entity;
  - (b) Circumstances relating to the nature or timing of the practitioner’s work; or
  - (c) Limitations imposed by management or those charged with governance of the entity.
- A10. This ISRE sets out requirements and guidance for the practitioner when the practitioner encounters a scope limitation, either prior to accepting a review engagement, or during the engagement.

**Definitions (Ref: Para. 16)***Use of the Terms “Management” and “Those Charged with Governance”*

- A11. The respective responsibilities of management and those charged with governance will differ between jurisdictions, and between entities of various types. These differences affect the way the practitioner applies the requirements of this ISRE in relation to management or those charged with governance. Accordingly, the phrase “management and, where appropriate, those charged with governance” used in various places throughout this ISRE is intended to alert the practitioner to the fact that different entity environments may have different management and governance structures and arrangements.
- A12. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:
- The resources and structure of the entity; and
  - The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements

established for the entity (for example, as recorded in contracts, a constitution or other type of establishment documents of the entity).

For example, in small entities there is often no separation of the management and governance roles. In larger entities, management is often responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance oversee management. In some jurisdictions, the responsibility for preparation of financial statements for an entity is the legal responsibility of those charged with governance, and in some other jurisdictions it is a management responsibility.

*Limited Assurance – Use of the Term Sufficient Appropriate Evidence* (Ref: Para. 17(f))

A13. Sufficient appropriate evidence is required to obtain limited assurance to support the practitioner’s conclusion. Evidence is cumulative in nature and is primarily obtained from the procedures performed during the course of the review.

**Conduct of a Review Engagement in Accordance with this ISRE (Ref: Para. 18)**

A14. This ISRE does not override laws and regulations that govern a review of financial statements. In the event that those laws and regulations differ from the requirements of this ISRE, a review conducted only in accordance with laws and regulations will not automatically comply with this ISRE.

**Ethical Requirements (Ref: Para. 21)**

A15. The IESBA Code establishes the fundamental principles of ethics, which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

The IESBA Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out *International Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.

A16. In the case of an engagement to review financial statements, the IESBA Code requires that the practitioner be independent of the entity whose financial statements are reviewed. The IESBA Code describes independence as comprising

both independence of mind and independence in appearance. The practitioner's independence safeguards the practitioner's ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the practitioner's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

### **Professional Skepticism and Professional Judgment**

#### *Professional Skepticism* (Ref: Para. 22)

- A17. Professional skepticism is necessary for the critical assessment of evidence in a review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.
- A18. Professional skepticism includes being alert to, for example:
- Evidence that is inconsistent with other evidence obtained.
  - Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
  - Conditions that may indicate possible fraud.
  - Any other circumstances that suggest the need for additional procedures.
- A19. Maintaining professional skepticism throughout the review is necessary if the practitioner is to reduce the risks of:
- Overlooking unusual circumstances.
  - Over-generalizing when drawing conclusions from evidence obtained.
  - Using inappropriate assumptions in determining the nature, timing and extent of the procedures performed in the review, and evaluating the results thereof.
- A20. The practitioner cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism or allow the practitioner to be satisfied with evidence that is inadequate for the purpose of the review.

#### *Professional Judgment* (Ref: Para. 23)

- A21. Professional judgment is essential to the proper conduct of a review engagement. This is because interpretation of relevant ethical requirements and the requirements of this ISRE, and the need for informed decisions throughout the performance of a review engagement, require the application of relevant

knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular:

- Regarding decisions about materiality, and the nature, timing and extent of procedures used to meet the requirements of this ISRE, and to gather evidence.
- When evaluating whether the evidence obtained from the procedures performed reduces the engagement risk to a level that is acceptable in the engagement circumstances.
- When considering management’s judgments in applying the entity’s applicable financial reporting framework.
- When forming the conclusion on the financial statements based on the evidence obtained, including considering the reasonableness of the estimates made by management in preparing the financial statements.

A22. The distinguishing feature of the professional judgment expected of the practitioner is that it is exercised by a practitioner whose training, knowledge and experience, including in the use of assurance skills and techniques, have assisted in developing the necessary competencies to achieve reasonable judgments. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the practitioner in making informed and reasonable judgments.

A23. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the practitioner throughout the engagement, including:

- Knowledge acquired from engagements carried out with respect to the entity’s financial statements in prior periods, where applicable.
- The practitioner’s understanding of the entity and its environment, including its accounting system, and of the application of the applicable financial reporting framework in the entity’s industry.
- The extent to which the preparation and presentation of the financial statements require the exercise of management judgment.

A24. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and accounting principles, and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner’s report.

A25. Professional judgment needs to be exercised throughout the engagement. It also needs to be appropriately documented in accordance with the requirements of this ISRE. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement, or the evidence obtained.

**Engagement Level Quality Control (Ref: Para. 24–25)**

A26. Assurance skills and techniques include:

- Applying professional skepticism and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures for the review;
- Applying procedures as appropriate to the review engagement, which may include other types of procedures in addition to inquiry and analytical procedures (such as inspection, re-calculation, re-performance, observation and confirmation);
- Systematic documentation practices; and
- Application of skills and practices relevant for writing reports for assurance engagements.

A27. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement, and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

A28. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking responsibility for the overall quality on each review engagement, emphasize the fact that quality is essential in performing a review engagement, and the importance to the quality of the review engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements.
- (b) Complying with the firm's quality control policies and procedures as applicable.
- (c) Issuing a report for the engagement that is appropriate in the circumstances.
- (d) The engagement team's ability to raise concerns without fear of reprisals.

A29. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to regulatory and legal requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the review engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.

A30. A deficiency in the firm's system of quality control does not necessarily indicate that a review engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

*Assignment of Engagement Teams (Ref: Para. 25(b))*

A31. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, review engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or assurance.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

*Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 25(d)(i))*

A32. ISQC 1 requires the firm to obtain information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance and continuance of client relationships and review engagements are appropriate may include information concerning:

- The integrity of the principal owners, key management and those charged with governance; and
- Significant matters that have arisen during the current or a previous review engagement, and their implications for continuing the relationship.

A33. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the review, it is not appropriate under this ISRE to accept the engagement, unless required by law or regulation, as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

### **Acceptance and Continuance of Client Relationships and Review Engagements** (Ref: Para. 29)

A34. The practitioner's consideration of engagement continuance, and relevant ethical requirements, including independence, occurs throughout the engagement, as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance and evaluation of relevant ethical requirements (including independence) at the beginning of an engagement informs the practitioner's decisions and actions prior to the performance of other significant activities for the engagement.

#### *Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements* (Ref: Para. 29)

A35. Assurance engagements may only be accepted when the engagement exhibits certain characteristics<sup>8</sup> that are conducive to achieving the practitioner's objectives specified for the engagement.

#### *Rational Purpose* (Ref: Para. 29(a)(i))

A36. It may be unlikely that there is a rational purpose for the engagement if, for example:

- (a) There is a significant limitation on the scope of the practitioner's work;
- (b) The practitioner suspects the engaging party intends to associate the practitioner's name with the financial statements in an inappropriate manner; or
- (c) The engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited.

#### *Review Engagement Is Appropriate* (Ref: Para. 29(a)(ii))

A37. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be

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<sup>8</sup> Assurance Framework, paragraph 22

appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

Information Needed to Perform the Review Engagement (Ref: Para. 29(c))

A38. An example of where the practitioner may have cause to doubt that the information needed to perform the review will be available or reliable is where the accounting records necessary for purposes of performing analytical procedures are suspected to be substantially inaccurate or incomplete. This consideration is not directed at the need that sometimes arises in the course of a review engagement to assist management by recommending adjusting entries required to finalize the financial statements prepared by management.

*Preconditions for Accepting a Review Engagement* (Ref: Para. 30)

A39. This ISRE also requires the practitioner to ascertain certain matters, upon which it is necessary for the practitioner and the entity's management to agree, and which are within the control of the entity, prior to the practitioner accepting the engagement.

The Applicable Financial Reporting Framework (Ref: Para. 30(a))

A40. A condition for acceptance of an assurance engagement is that the criteria<sup>9</sup> referred to in the definition of an assurance engagement are suitable and available to intended users.<sup>10</sup> For purposes of this ISRE, the applicable financial reporting framework provides the criteria the practitioner uses to review the financial statements including, where relevant, the fair presentation of the financial statements. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, including what constitutes a complete set of financial statements.

Acceptability of the applicable financial reporting framework

A41. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the practitioner does not have suitable criteria for the review of the financial statements.

A42. The practitioner's determination of the acceptability of the financial reporting framework applied in the financial statements is made in the context of the

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<sup>9</sup> Assurance Framework, paragraph 42

<sup>10</sup> Assurance Framework, paragraph 22(b)(ii)



practitioner's understanding of who the intended users of the financial statements are. The intended users are the person, persons or group of persons for whom the practitioner prepares the report. The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it.

- A43. In many cases, in the absence of any indications to the contrary, the practitioner may presume that the applicable financial reporting framework is acceptable (for example, a financial reporting framework that is prescribed by law or regulation in a jurisdiction to be used in the preparation of general purpose financial statements for certain types of entities).
- A44. Factors that are relevant to the practitioner's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization).
  - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users).
  - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement).
  - Whether the applicable financial reporting framework is prescribed in relevant law or regulation.
- A45. If the financial reporting framework used to prepare the financial statements is not acceptable in view of the purpose of the financial statements and management will not agree to use of a financial reporting framework that is acceptable in the practitioner's view, the practitioner is required under this ISRE to decline the engagement.
- A46. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the review engagement has been accepted. When use of that financial reporting framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the practitioner is required under this ISRE to agree the new terms of the review engagement with management to reflect the change in the applicable financial reporting framework.

Responsibilities of Management and Those Charged with Governance (Ref: Para. 30(b), 37(e))

- A47. The financial statements subject to review are those of the entity, prepared by management of the entity with oversight from those charged with governance.

This ISRE does not impose responsibilities on management and those charged with governance, nor does it override laws and regulations that govern their respective responsibilities. However, a review in accordance with this ISRE is conducted on the premise that management, and those charged with governance as appropriate, have acknowledged certain responsibilities that are fundamental to the conduct of the review. The review of the financial statements does not relieve management and those charged with governance of their responsibilities.

- A48. As part of its responsibility for the preparation of the financial statements, management is required to exercise judgment in making accounting estimates that are reasonable in the circumstances, and to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.
- A49. Because of the significance of the preconditions for undertaking a review of financial statements, the practitioner is required under this ISRE to obtain the agreement of management that it understands its responsibilities before accepting a review engagement. The practitioner may obtain management's agreement either orally or in writing. However, management's agreement is subsequently recorded within the written terms of the engagement.
- A50. If management, and those charged with governance where appropriate, do not or will not acknowledge their responsibilities in relation to the financial statements, it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is required to accept the review engagement, the practitioner may need to explain to management and those charged with governance, where different, the importance of these matters and the implications for the engagement.

*Additional Considerations When the Wording of the Practitioner's Report Is Prescribed by Law or Regulation* (Ref: Para. 34–35)

- A51. This ISRE requires the practitioner to not represent compliance with this ISRE unless the practitioner has complied with all the requirements of this ISRE that are relevant to the review engagement. Law or regulation may prescribe matters in relation to an engagement that would ordinarily cause the practitioner to decline the engagement were it possible to do so, for example, if:
- The practitioner considers that the financial reporting framework prescribed by law or regulation is not acceptable; or
  - The prescribed layout or wording of the practitioner's report is in a form or in terms that are significantly different from the layout or wording required by this ISRE.

Under this ISRE, a review conducted in these situations does not comply with this ISRE and the practitioner cannot represent compliance with this ISRE in the report issued for the engagement. Notwithstanding that the practitioner is not permitted to represent compliance with this ISRE, the practitioner is,

however, encouraged to apply this ISRE, including the reporting requirements, to the extent practicable. When appropriate to avoid misunderstanding, the practitioner may consider including a statement in the report that the review is not conducted in accordance with this ISRE.

### *Agreeing the Terms of Engagement*

Engagement Letter or Other Form of Written Agreement (Ref: Para. 37)

A52. It is in the interests of both management and those charged with governance, and the practitioner, that the practitioner sends an engagement letter prior to performing the review engagement, to help avoid misunderstandings with respect to the engagement.

Form and content of the engagement letter

A53. The form and content of the engagement letter may vary for each engagement. In addition to including the matters required by this ISRE, an engagement letter may make reference to, for example:

- Arrangements concerning the involvement of other practitioners and experts in the review engagement.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
- The fact that a review engagement will not satisfy any statutory or third party requirements for an audit.
- The expectation that management will provide written representations to the practitioner.
- The agreement of management to inform the practitioner of facts that may affect the financial statements of which management may become aware during the period from the date of the practitioner's report to the date the financial statements are issued.
- A request for management to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

Review of components of groups of entities

A54. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this ISRE. The group auditor may also specify additional procedures to supplement the work done for the review performed under this ISRE. Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this ISRE.

Responsibilities of management prescribed by law or regulation (Ref: Para. 37(e))

A55. If, in the circumstances of the engagement, the practitioner concludes that it is not necessary to record certain terms of the engagement in an engagement letter, the practitioner is still required to seek the written agreement from management, and those charged with governance where appropriate, required under this ISRE that they acknowledge and understand their responsibilities set out in this ISRE. This written agreement may use the wording of the law or regulation if the law or regulation establishes responsibilities for management that are equivalent in effect to those described in this ISRE.

Illustrative Engagement Letter (Ref: Para. 37)

A56. An illustrative engagement letter for a review engagement is set out in Appendix 1 to this ISRE.

Recurring Engagements (Ref: Para. 38)

A57. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the review engagement or to remind management and those charged with governance, as appropriate, of the existing terms of the engagement:

- Any indication that management misunderstands the objective and scope of the review.
- Any revised or special terms of the engagement.
- A recent change of senior management of the entity.
- A significant change in ownership of the entity.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements affecting the entity.
- A change in the applicable financial reporting framework.

*Acceptance of a Change in the Terms of the Review Engagement*

Request to Change the Terms of the Review Engagement (Ref: Para. 39)

A58. A request from the entity for the practitioner to change the terms of the review engagement may result from factors including:

- A change in circumstances affecting the need for the service.
- Misunderstanding as to the nature of a review engagement as originally requested.
- A restriction on the scope of the review engagement, whether imposed by management or caused by other circumstances.

- A59. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change to the terms of the review engagement.
- A60. In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the practitioner is unable to obtain sufficient appropriate evidence for a material item in the financial statements, and management asks for the engagement to be changed to a related services engagement to avoid the expression of a modified conclusion by the practitioner.

#### Request to Change the Nature of the Engagement (Ref: Para. 40)

- A61. Before agreeing to change a review engagement to another type of engagement or related service, a practitioner who was engaged to perform a review in accordance with this ISRE may need to assess, in addition to the matters referred to in this ISRE, any legal or contractual implications of the change.
- A62. If the practitioner concludes that there is reasonable justification to change the review engagement to another type of engagement or related service, the work performed in the review engagement to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the other engagement or related service would not include reference to:
- (a) The original review engagement; or
  - (b) Any procedures that may have been performed in the original review engagement, except where the review engagement is changed to an engagement to perform agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

#### Communication with Management and Those Charged with Governance (Ref: Para. 42)

- A63. In a review engagement, the practitioner's communications with management and those charged with governance take the form of:
- (a) Inquiries the practitioner makes in the course of performing the procedures for the review; and
  - (b) Other communications, in the context of having effective two-way communication to understand matters arising and to develop a constructive working relationship for the engagement.
- A64. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant factors include the significance and nature of the matter, and any action expected to be taken by management or those charged

with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the review as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

- A65. Law or regulation may restrict the practitioner's communication of certain matters with those charged with governance. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the practitioner's obligations of confidentiality and obligations to communicate may be complex. In such cases, the practitioner may consider obtaining legal advice.

*Communicating Matters Concerning the Review*

- A66. Matters to be communicated to management or those charged with governance, as appropriate, under this ISRE may include:

- The practitioner's responsibilities in the review engagement, as included in the engagement letter or other suitable form of written agreement.
- Significant findings from the review, for example:
  - The practitioner's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant findings from the performance of procedures, including situations where the practitioner considered performance of additional procedures necessary under this ISRE. The practitioner may need to confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
  - Matters arising that may lead to modification of the practitioner's conclusion.
  - Significant difficulties, if any, encountered during the review; for example, unavailability of expected information; unexpected inability to obtain evidence that the practitioner considers necessary for the review; or restrictions imposed on the practitioner by management. In some circumstances, such difficulties may constitute a scope limitation that, if not addressed by management or those charged with governance, may lead to modification of the practitioner's conclusion or to the practitioner's withdrawal from the engagement in certain circumstances.

- A67. In some entities, different persons are responsible for the management and the governance of an entity. In these circumstances, management may have the responsibility to communicate matters of governance interest to those charged

with governance. Communication by management with those charged with governance of matters that the practitioner is required to communicate does not relieve the practitioner of the responsibility to also communicate them to those charged with governance. However, communication of these matters by management may affect the form or timing of the practitioner's communication with those charged with governance.

#### *Communication with Third Parties*

A68. In some jurisdictions, the practitioner may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some jurisdictions the practitioner has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies or, in some cases, make such reports publicly available.

A69. Unless required by law or regulation to provide a third party with a copy of the practitioner's written communications with those charged with governance, the practitioner may need the prior consent of management or those charged with governance before doing so.

### **Performing the Engagement**

#### *Materiality in a Review of Financial Statements* (Ref: Para. 43)

A70. The practitioner's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

- A71. If present in the applicable financial reporting framework, a discussion of the concept of materiality provides a frame of reference for the practitioner in determining materiality for the review. If not present, the above considerations provide the practitioner with a frame of reference.
- A72. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the practitioner to assume that users:
- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information in the financial statements with reasonable diligence;
  - Understand that financial statements are prepared, presented and reviewed to levels of materiality;
  - Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
  - Make reasonable economic decisions on the basis of the information in the financial statements.

Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

- A73. The practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

#### Revising Materiality (Ref: Para. 44)

- A74. The practitioner's determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of:
- A change in the circumstances that occurred during the review (for example, a decision to dispose of a major part of the entity's business).
  - New information, or a change in the practitioner's understanding of the entity and its environment as a result of performing procedures for the review in accordance with this ISRE (for example, if during the review it appears as though actual financial results are likely to be substantially different from the anticipated period-end financial results that were used initially to determine materiality for the financial statements as a whole).



*The Practitioner's Understanding* (Ref: Para. 45–46)

- A75. The practitioner uses professional judgment to determine the extent of the understanding of the entity and its environment required to perform the review of the entity's financial statements in accordance with this ISRE. The practitioner's primary consideration is whether the understanding obtained is sufficient to meet the practitioner's objectives for the engagement. The breadth and depth of the overall understanding that the practitioner obtains is less than that possessed by management.
- A76. Obtaining an understanding of the entity and its environment is a continual dynamic process of gathering, updating and analyzing information throughout the review engagement. The practitioner's understanding is obtained and applied on an iterative basis throughout performance of the engagement, and is updated as changes in conditions and circumstances occur. Initial procedures for engagement acceptance and continuance at the time of commencement of a review engagement are based on the practitioner's preliminary understanding of the entity and of the engagement circumstances. In a continuing client relationship, the practitioner's understanding includes knowledge obtained from prior engagements performed by the practitioner in relation to the entity's financial statements and other financial information.
- A77. The understanding establishes a frame of reference within which the practitioner plans and performs the review engagement, and exercises professional judgment throughout the engagement. Specifically, the understanding needs to be sufficient for the practitioner to be able to identify areas in the financial statements where material misstatements are likely to arise, to inform the practitioner's approach to designing and performing procedures to address those areas.
- A78. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:
- Whether the entity is a component of a group of entities, or an associated entity of another entity.
  - The complexity of the financial reporting framework.
  - The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
  - Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.

- The level of development of the entity’s management and governance structure regarding management and oversight of the entity’s accounting records and financial reporting systems that underpin preparation of the financial statements. Smaller entities often have fewer employees, which may influence how management exercises oversight. For example, segregation of duties may not be practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.
- The “tone at the top” and the entity’s control environment through which the entity addresses risks relating to financial reporting and compliance with the entity’s financial reporting obligations.
- The level of development and complexity of the entity’s financial accounting and reporting systems and related controls through which the entity’s accounting records and related information are maintained.
- The entity’s procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- The types of matters that required accounting adjustments in the entity’s financial statements in prior periods.

*Designing and Performing Procedures* (Ref: Para. 47, 55)

A79. The planned nature, timing and extent of the procedures the practitioner considers are needed to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole are influenced by:

- (a) The requirements of this ISRE; and
- (b) Requirements established under applicable law or regulation, including additional reporting requirements contained in applicable laws or regulations.

A80. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner’s objectives for the review engagement stated in this ISRE, but in the context of the group financial statements.

A81. The requirements of this ISRE relating to designing and performing inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to enable the practitioner to achieve the objectives specified in this ISRE. The circumstances of review engagements vary widely and, accordingly, there may be circumstances where the practitioner may consider it effective or efficient to design and perform other procedures. For example, if in the course of obtaining an understanding of the entity, the practitioner becomes aware of a significant contract the practitioner may choose to read the contract.

A82. The fact that the practitioner may deem it necessary to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

#### Significant or Unusual Transactions

A83. The practitioner may consider reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

#### Inquiry (Ref: Para. 46–48)

A84. In a review, inquiry includes seeking information of management and other persons within the entity, as the practitioner considers appropriate in the engagement circumstances. The practitioner may also extend inquiries to obtain non-financial data if appropriate. Evaluating the responses provided by management is integral to the inquiry process.

A85. Depending on the engagement circumstances, inquiries may also include inquiries about:

- Actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.
- Communications the entity has received, or expects to receive or obtain, from regulatory agencies.
- Matters arising in the course of applying other procedures. When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures, and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

A86. Evidence obtained through inquiry is often the principal source of evidence about management intent. However, information available to support management's intent may be limited. In that case, 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 relevant information to corroborate the evidence obtained through inquiry. Application of professional skepticism in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matter(s) that would cause the practitioner to believe the financial statements may be materially misstated.

A87. Performing inquiry procedures assists the practitioner also in obtaining or updating the practitioner's understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

A88. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ISRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner;<sup>11</sup> and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner’s work in accordance with this ISRE (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

Inquiry about the entity’s ability to continue as a going concern (Ref: Para. 48(f))

A89. Often in smaller entities, management may not have prepared an assessment of the entity’s ability to continue as a going concern, but instead may rely on knowledge of the business and anticipated future prospects. In these circumstances, it may be appropriate to discuss the medium and long-term prospects and financing of the entity with management, including consideration of whether management’s contentions are not inconsistent with the practitioner’s understanding of the entity.

Analytical Procedures (Ref: Para. 46–47, 49)

A90. In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner’s understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial

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<sup>11</sup> See, for example, paragraphs R360.31–360.35 A1 of the IESBA Code.

statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements.

A91. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analysis using statistical techniques. The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements through analysis of plausible relationships among both financial and non-financial data, and assessment of results for consistency with expected values with a view to identifying relationships and individual items that appear unusual, or that vary from expected trends or values. The practitioner would compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the practitioner from information obtained from relevant sources. Examples of sources of information the practitioner often uses to develop expectations, depending on the engagement circumstances, include:

- Financial information for comparable prior period(s), taking known changes into account.
- Information about expected operating and financial results, such as budgets or forecasts including extrapolations from interim or annual data.
- Relationships among elements of financial information within the period.
- Information regarding the industry in which the entity operates, such as gross margin information, or comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.
- Relationships of financial information with relevant non-financial information, such as payroll costs to number of employees.

A92. The practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the practitioner's understanding of the entity and its environment, and is influenced by the nature and source of the data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
- Comparability of the information available. For example, broad industry data may need to be supplemented or be adjusted to be comparable to data of an entity that produces and sells specialized products;

- Nature and relevance of the information available; for example, whether the entity's budgets are established as results to be expected rather than as goals to be achieved; and
- The knowledge and expertise involved in the preparation of the information, and related controls that are designed to ensure its completeness, accuracy and validity. Such controls may include, for example, controls over the preparation, review and maintenance of budgetary information.

#### Procedures to Address Specific Circumstances

Fraud and non-compliance with laws and regulations (Ref: Para. 52(a) and (d))

Communication with management and those charged with governance

A93. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

Reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity

A94. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
- (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A95); or
- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so (see paragraph A96).

A95. In some cases, the relevant ethical requirements may require the practitioner to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, the IESBA Code requires the practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations, and consider whether further action

is needed, which may include reporting to an appropriate authority outside the entity.<sup>12</sup> The IESBA Code explains that such reporting would not be considered a breach of the duty of confidentiality under the IESBA Code.<sup>13</sup>

- A96. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the practitioner with the right to report identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity.
- A97. In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements.
- A98. The determination required by paragraph 52(d) may involve complex considerations and professional judgments. Accordingly, the practitioner may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The practitioner may also consider obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.

Events or conditions that may cast doubt regarding use of the going concern assumption in the financial statements (Ref: Para. 54)

- A99. The list of factors below gives examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. The list is not all-inclusive, and the existence of one or more of the items does not always signify that uncertainty exists about whether the entity can continue as a going concern.

#### Financial

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets
- Indications of withdrawal of financial support by creditors
- Negative operating cash flows indicated by historical or prospective financial statements
- Adverse key financial ratios

<sup>12</sup> See, for example, paragraphs R360.36–360.36 A3 of the IESBA Code.

<sup>13</sup> See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the IESBA Code.

- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- Arrears or discontinuance of dividends
- Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements
- Change from credit to cash-on-delivery transactions with suppliers
- Inability to obtain financing for essential new product development or other essential investments

Operating

- Management intentions to liquidate the entity or to cease operations
- Loss of key management without replacement
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s)
- Labor difficulties
- Shortages of important supplies
- Emergence of a highly successful competitor

Other

- Non-compliance with capital or other statutory requirements
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy
- Changes in law or regulation or government policy expected to adversely affect the entity
- Uninsured or underinsured catastrophes when they occur

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

*Reconciling the Financial Statements to the Underlying Accounting Records* (Ref: Para. 56)

A100. The practitioner ordinarily obtains evidence that the financial statements agree with, or reconcile to, the underlying accounting records by tracing the financial statement amounts and balances to the relevant accounting records such as the



general ledger, or to a summary record or schedule that reflects the agreement or reconciliation of the financial statement amounts with the underlying accounting records (such as a trial balance).

*Performing Additional Procedures* (Ref: Para. 57)

A101. Additional procedures are required under this ISRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated.

A102. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.

A103. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is guided by:

- Information obtained from the practitioner's evaluation of the results of the procedures already performed;
- The practitioner's updated understanding of the entity and its environment obtained throughout the course of the engagement; and
- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the financial statements may be materially misstated.

A104. Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
- Other types of procedures, for example, substantive test of details or external confirmations.

A105. The following example illustrates the practitioner's evaluation of the need to perform additional procedures, and the practitioner's response when the practitioner believes additional procedures are necessary.

- In the course of performing the inquiry and analytical procedures for the review, the practitioner's analysis of accounts receivable shows a material amount of past due accounts receivable, for which there is no allowance for bad or doubtful debts.

- This causes the practitioner to believe that the accounts receivable balance in the financial statements may be materially misstated. The practitioner then inquires of management whether there are uncollectible accounts receivable that would need to be shown as being impaired.
- Depending on management’s response, the practitioner’s evaluation of the response may:
  - (a) Enable the practitioner to conclude that the accounts receivable balance is not likely to be materially misstated. In that case, no further procedures are required.
  - (b) Enable the practitioner to determine that the matter causes the financial statements to be materially misstated. No further procedures are required, and the practitioner would form the conclusion that the financial statements as a whole are materially misstated.
  - (c) Lead the practitioner to continue to believe that the accounts receivable balance is likely to be materially misstated, while not providing sufficient appropriate evidence for the practitioner to determine that they are in fact misstated.

In that case, the practitioner is required to perform additional procedures, for example, requesting from management an analysis of amounts received for those accounts after the balance sheet date to identify uncollectible accounts receivable. The evaluation of the results of the additional procedures may enable the practitioner to get to (a) or (b) above. If not, the practitioner is required to:

- (i) Continue performing additional procedures until the practitioner reaches either (a) or (b) above; or
- (ii) If the practitioner is not able to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated, or to determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists and the practitioner is not able to form an unmodified conclusion on the financial statements.

**Written Representations** (Ref: Para. 61–63)

A106. Written representations are an important source of evidence in a review engagement. If management modifies or does not provide the requested written representations, it may alert the practitioner to the possibility that one or more significant issues may exist. Further, a request for written, rather than

oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

A107. In addition to the written representations required under this ISRE, the practitioner may consider it necessary to request other written representations about the financial statements. These may be needed, for example, to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

A108. In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of management's knowledge and belief. It is reasonable for the practitioner to accept such wording if the practitioner is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

**Evaluating Evidence Obtained from the Procedures Performed** (Ref: Para. 66–68)

A109. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances. In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements. The practitioner may:

- Extend the work performed; or
- Perform other procedures judged by the practitioner to be necessary in the circumstances.

Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this ISRE to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement, for example, if a member of management is unavailable at the time of the review to respond to the practitioner's inquiries on significant matters. This situation may arise even though the practitioner has not become aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, as addressed in paragraph 57.

*Scope Limitations*

A110. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

A111. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner’s consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

### **Forming the Practitioner’s Conclusion on the Financial Statements**

#### *Description of the Applicable Financial Reporting Framework (Ref: Para. 69(a))*

A112. The description of the applicable financial reporting framework in the financial statements is important because it advises users of the financial statements of the framework on which the financial statements are based. If the financial statements are special purpose financial statements, they may be prepared under a special purpose financial reporting framework that is available only to the engaging party and the practitioner. Description of the special purpose financial reporting framework used is important as the special purpose financial statements may not be appropriate for any use other than the intended use identified for the special purpose financial statements.

A113. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with International Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.

#### *Disclosure of Effects of Material Transactions and Events on Information Conveyed in the Financial Statements (Ref: Para. 69(b)(vi), 71)*

A114. The practitioner is required under this ISRE to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity’s financial position, financial performance and cash flows.

A115. In the case of financial statements prepared in accordance with the requirements of a fair presentation framework, management may need to include additional disclosures in the financial statements beyond those specifically required by the applicable financial reporting framework or, in extremely rare circumstances, to depart from a requirement in the framework, in order to achieve the fair presentation of the financial statements.

#### *Considerations When a Compliance Framework Is Used*

A116. It will be extremely rare for the practitioner to consider financial statements prepared in accordance with a compliance framework to be misleading if, in accordance with this ISRE, the practitioner has determined at the time of engagement acceptance that the framework is acceptable.

#### *Qualitative Aspects of the Entity’s Accounting Practices (Ref: Para. 70(b))*

A117. In considering the qualitative aspects of the entity’s accounting practices, the practitioner may become aware of possible bias in management’s judgments.

The practitioner may conclude that the cumulative effect of a lack of neutrality, together with the effect of apparent uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the practitioner's evaluation of whether the financial statements as a whole may be materially misstated include the following:

- The selective correction of apparent misstatements brought to management's attention during the review (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A118. Indicators of possible management bias do not necessarily mean there are misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the practitioner's consideration of whether the financial statements as a whole may be materially misstated.

#### *Form of the Conclusion* (Ref: Para. 74)

##### Description of the Information the Financial Statements Present

A119. In the case of financial statements prepared in accordance with a fair presentation framework, the practitioner's conclusion states that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects, ... (or do not give a true and fair view of ...) in accordance with [the applicable fair presentation framework]. In the case of many general purpose frameworks, for example, the financial statements are required to fairly present (or give a true and fair view of) the financial position of the entity as at the end of a period, and the entity's financial performance and cash flows for that period.

*“Present fairly, in all material respects” or “gives a true and fair view”*

A120. Whether the phrase “present fairly, in all material respects,” or the phrase “gives a true and fair view” is used in any particular jurisdiction is determined by the law or regulation governing the review of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in this ISRE for the practitioner to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

##### *Inability to Form a Conclusion Due to a Management-Imposed Limitation on the Scope of the Review after Engagement Acceptance* (Ref: Para. 15, 82)

A121. The practicality of withdrawing from the engagement may depend on the stage of completion of the engagement at the time that management imposes the

scope limitation. If the practitioner has substantially completed the review, the practitioner may decide to complete the review to the extent possible, disclaim a conclusion and explain the scope limitation in the paragraph in the report that describes the basis for disclaiming a conclusion.

- A122. In certain circumstances, withdrawal from the engagement may not be possible if the practitioner is required by law or regulation to continue the engagement. For example, this may be the case for a practitioner appointed to review the financial statements of a public sector entity. It may also be the case in jurisdictions where the practitioner is appointed to review the financial statements covering a specific period, or appointed for a specific period, and is prohibited from withdrawing before the completion of the review of those financial statements or before the end of that period, respectively. The practitioner may also consider it necessary to include an Other Matter paragraph in the practitioner’s report to explain why it is not possible for the practitioner to withdraw from the engagement.

#### Communication with Regulators or the Entity’s Owners

- A123. When the practitioner concludes that withdrawal from the engagement is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the practitioner to communicate matters relating to the withdrawal from the engagement to regulators or the entity’s owners.

#### **The Practitioner’s Report (Ref: Para. 86–92)**

- A124. The written report encompasses reports issued in hard copy format and those using an electronic medium.

#### *Elements of the Practitioner’s Report* (Ref: Para. 86)

- A125. A title indicating the report is the report of an independent practitioner, for example, “Independent Practitioner’s Review Report,” affirms that the practitioner has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner’s report from reports issued by others.
- A126. Law or regulation may specify to whom the practitioner’s report is to be addressed in that particular jurisdiction. The practitioner’s report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being reviewed.
- A127. When the practitioner is aware that the financial statements that have been reviewed will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial statements that have been reviewed are presented. This helps users to identify the financial statements to which the practitioner’s report relates.

*Management's Responsibility for the Financial Statements* (Ref: Para. 86(d))

- A128. The requirement of this ISRE that the practitioner must obtain management's agreement that it acknowledges and understands its responsibilities, both in relation to the preparation of the financial statements and in relation to the review engagement, is fundamental to performing the review and reporting on the engagement. The description of management's responsibilities in the practitioner's report provides context for readers of the practitioner's report about management's responsibilities, as they relate to the review engagement performed.
- A129. The practitioner's report need not refer specifically to "management" but instead may use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference is to those charged with governance of the entity.
- A130. There may be circumstances when it is appropriate for the practitioner to add to the description of management's responsibilities as described in this ISRE to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of a jurisdiction, or due to the type of entity.
- A131. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of the accounting books and records, or accounting system. As books, records and systems are an integral part of internal control, this ISRE does not use these descriptions or make any specific reference to them.

*The Practitioner's Responsibility* (Ref: Para. 86(f))

- A132. The practitioner's report states that the practitioner's responsibility is to express a conclusion on the financial statements based on the review performed, in order to contrast the practitioner's responsibility with management's responsibility for preparation of the financial statements.

## Reference to standards (Ref: Para. 86(f))

- A133. The reference to the standards used by the practitioner for the review conveys to the users of the practitioner's report that the review has been conducted in accordance with established standards.

## Communication of the Nature of a Review of Financial Statements (Ref: Para. 86(g))

- A134. The description of the nature of a review engagement in the practitioner's report explains the scope and limitations of the engagement undertaken for the benefit of the readers of the report. This explanation clarifies, for avoidance of doubt, that the review is not an audit and that accordingly, the practitioner does not express an audit opinion on the financial statements.

Description of the Applicable Financial Reporting Framework and How It May Affect the Practitioner's Conclusion (Ref: Para. 86(i)(ii))

A135. The identification of the applicable financial reporting framework in the practitioner's conclusion is intended to advise users of the practitioner's report of the context in which that conclusion is expressed. It is not intended to limit the evaluation required in paragraph 30(a). The applicable financial reporting framework is identified in such terms as:

“... in accordance with International Financial Reporting Standards;” or

“... in accordance with accounting principles generally accepted in Jurisdiction X ...”

A136. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act.”

Basis for Modification Paragraph When the Conclusion Is Modified (Ref: Para. 85(h)(ii))

A137. An adverse conclusion or a disclaimer of conclusion relating to a specific matter described in the basis for modification paragraph does not justify the omission of a description of other identified matters that would have otherwise required a modification of the practitioner's conclusion. In such cases, the disclosure of such other matters of which the practitioner is aware may be relevant to users of the financial statements.

Signature of the Practitioner (Ref: Para. 86(l))

A138. The practitioner's signature is either in the name of the practitioner's firm, the personal name of the individual practitioner, or both, as appropriate for the particular jurisdiction. In addition to the practitioner's signature, in certain jurisdictions, the practitioner may be required to make a declaration in the practitioner's report about professional designations or recognition by the appropriate licensing authority in that jurisdiction.

*Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework* (Ref: Para. 88)

A139. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. For avoidance of misunderstanding, it is important that the practitioner alert users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.



*Restriction on Distribution or Use*

A140. In addition to the alert to the reader of the practitioner's report that is required by this ISRE when the financial statements are prepared using a special purpose framework, the practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the paragraph containing the alert about the use of a special purpose framework may be expanded to include these other matters, and the heading modified accordingly.

*Other Reporting Responsibilities (Ref: Para. 91)*

A141. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are supplementary to the practitioner's responsibility under this ISRE. For example, the practitioner may be asked to report certain matters if they come to the practitioner's attention during the course of the review of the financial statements. Alternatively, the practitioner may be asked to perform and report on additional specified procedures, or to express a conclusion on specific matters, such as the adequacy of accounting books and records. Standards on engagements to review financial statements in the specific jurisdiction may provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A142. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities within the practitioner's report on the financial statements. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A143. These other reporting responsibilities are addressed in a separate section of the practitioner's report, to clearly distinguish them from the practitioner's responsibility under this ISRE to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s). In some jurisdictions, the additional reporting responsibilities may be addressed in a report that is separate from the practitioner's report provided for the review of the financial statements.

*Date of the Practitioner's Report (Ref: Para. 86(k), 92)*

A144. The date of the practitioner's report informs the user of the practitioner's report that the practitioner has considered the effect of events and transactions of which the practitioner became aware and that occurred up to that date.

A145. The practitioner's conclusion is provided on the financial statements and the financial statements are the responsibility of management. The practitioner is not in a position to conclude that sufficient appropriate evidence has been obtained until the practitioner is satisfied that all the statements that comprise

the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.

- A146. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation may identify the point in the financial statement reporting process at which the review is expected to be complete.
- A147. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the practitioner to conclude on the financial statements. The date of approval of the financial statements for purposes of this ISRE is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

*Practitioner's Report Prescribed by Law or Regulation* (Ref: Para. 34–35, 86)

- A148. Consistency in the practitioner's report, when the review has been conducted in accordance with this ISRE, promotes credibility in the global marketplace by making more readily identifiable those reviews of financial statements that have been conducted in accordance with globally recognized standards. The practitioner's report may refer to this ISRE when the differences between the legal or regulatory requirements and this ISRE relate only to the layout or wording of the practitioner's report and, at a minimum, the report complies with the requirements of paragraph 86 of this ISRE. Accordingly, in such circumstances the practitioner is considered to have complied with the requirements of this ISRE, even when the layout and wording used in the practitioner's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with this ISRE, adoption of the layout and wording used in this ISRE assists users of the practitioner's report to more readily recognize the practitioner's report as a report on a review of financial statements conducted in accordance with this ISRE. Circumstances where law or regulation prescribes the layout or wording of the practitioner's report in terms that are significantly different from the requirements of this

ISRE are addressed in the requirements of this ISRE concerning acceptance of review engagements and continuance of client relationships.

*Practitioner's Report for Reviews Conducted in Accordance with Both Relevant Standards of a Specific Jurisdiction and this ISRE* (Ref: Para. 86(f))

A149. When, in addition to complying with the requirements of this ISRE, the practitioner also complies with relevant national standards, the report may refer to the review having been performed in accordance with both this ISRE and relevant national standards for engagements to review financial statements. However, a reference to both this ISRE and relevant national standards is not appropriate if there is a conflict between the requirements of this ISRE and those in the relevant national standards that would lead the practitioner to form a different conclusion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, would be required by this ISRE. In such a case, the practitioner's report refers only to the relevant standards (either this ISRE or the relevant national standards) in accordance with which the practitioner's report has been prepared.

*Illustrative Review Reports* (Ref: Para. 86)

A150. Appendix 2 to this ISRE contains illustrations of practitioners' reports for a review of financial statements incorporating the reporting requirements of this ISRE.

## **Documentation**

*Timeliness of Engagement Documentation* (Ref: Para. 93)

A151. ISQC 1 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis.

**Appendix 1**

(Ref: Para. A56)

**Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements**

The following is an example of an engagement letter for a review of general purpose financial statements (prepared in accordance with International Financial Reporting Standards (IFRSs)), which illustrates the relevant requirements and guidance contained in this ISRE. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISRE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the review of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring reviews. It may be appropriate to seek legal advice that any proposed letter is suitable.

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To the appropriate representative of management or those charged with governance of ABC Company:<sup>1</sup>

*[The objective and scope of the review]*

You<sup>2</sup> have requested that we review the general purpose financial statements of ABC 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 cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of expressing our conclusion on the financial statements. Our conclusion, if unmodified, will be in the form “Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (*or do not give a true and fair view of*) the financial position of the company as at [date] and (*of*) its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).”

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<sup>1</sup> The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons—see paragraph 36 of this ISRE.

<sup>2</sup> Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “practitioner” would be used or amended as appropriate in the circumstances.

*[The practitioner's responsibilities]*

We will conduct our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. ISRE 2400 (Revised) also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. We will perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the financial statements as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial statements in accordance with ISRE 2400 (Revised). The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of ABC Company and its environment, and our understanding of IFRSs and its application in the industry context.

A review is not an audit of the financial statements, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the financial statements reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE 2400 (Revised).
- (b) In expressing our conclusion from the review of the financial statements, our report on the financial statements will expressly disclaim any audit opinion on the financial statements.

*[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example, it is assumed that the practitioner has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 30(b) of this ISRE are therefore used).]*

Our review will be conducted on the basis that [management and, where appropriate, those charged with governance]<sup>3</sup> acknowledge and understand that they have the responsibility:

- (a) For preparation and fair presentation of the financial statements in accordance with IFRSs;<sup>4</sup>

<sup>3</sup> Use terminology as appropriate in the circumstances.

<sup>4</sup> Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with IFRSs"

- (b) 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; and
- (c) To provide us with:
  - (i) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters;
  - (ii) Additional information that we may request from management for the purpose of the review; and
  - (iii) Unrestricted access to persons within ABC Company from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your staff during our review.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

*[Reporting]*

*[Insert appropriate reference to the expected form and content of the practitioner's report.]*

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

**Appendix 2**

(Ref: Para. A150)

**Illustrative Practitioners' Review Reports****Review Reports on General Purpose Financial Statements***Illustrative Review Reports with Unmodified Conclusions*

- Illustration 1: A practitioner's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, the International Financial Reporting Standard for Small and Medium-sized Entities).

*Illustrative Review Reports with Modified Conclusions*

- Illustration 2: A practitioner's report containing a qualified conclusion due to an apparent material misstatement of the financial statements. Financial statements prepared in accordance with a compliance framework designed to meet the common information needs of a wide range of users. (Financial statements prepared using a compliance framework)
- Illustration 3: A practitioner's report containing a qualified conclusion due to the practitioner's inability to obtain sufficient appropriate evidence. (Financial statements prepared using a fair presentation framework—IFRSs)
- Illustration 4: A practitioner's report containing an adverse conclusion due to material misstatement of the financial statements. (Financial statements prepared using a fair presentation framework—IFRSs)
- Illustration 5: A practitioner's report containing a disclaimer of conclusion due to the practitioner's inability to obtain sufficient appropriate evidence about multiple elements of the financial statements—resulting in inability to complete the review. (Financial statements prepared using a fair presentation framework—IFRSs)

**Review Reports on Special Purpose Financial Statements**

- Illustration 6: A practitioner's report on financial statements prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 7: A practitioner's report on a single financial statement prepared in accordance with the cash receipts and disbursements basis of accounting (for purposes of this illustration, a fair presentation framework).

**Illustration 1**

**Circumstances include the following:**

- **Review of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.**
- **The terms of the review engagement reflect the description of management’s responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **In addition to the review of the financial statements, the practitioner has other reporting responsibilities under local law.**

## INDEPENDENT PRACTITIONER’S REVIEW REPORT

[Appropriate Addressee]

### Report on the Financial Statements<sup>1</sup>

We have reviewed the accompanying financial statements of ABC 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 a summary of significant accounting policies and other explanatory information.

#### *Management’s<sup>2</sup> Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities,<sup>3</sup> 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.

#### *Practitioner’s Responsibility*

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come

<sup>1</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>2</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

<sup>3</sup> 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 the International Financial Reporting Standard for Small and Medium-sized Entities, and for such ...”



to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (or *do not give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**Illustration 2**

**Circumstances include the following:**

- **Review of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The terms of the review engagement reflect the description of management’s responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **Based on the review, inventories are misstated. The misstatement is material but not pervasive to the financial statements.**
- **In addition to the review of the financial statements, the practitioner has other reporting responsibilities under local law.**

## **INDEPENDENT PRACTITIONER’S REVIEW REPORT**

[Appropriate Addressee]

### **Report on the Financial Statements<sup>4</sup>**

We have reviewed the accompanying financial statements of ABC 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 a summary of significant accounting policies and other explanatory information.

#### *Management’s<sup>5</sup> Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with XYZ Law of Jurisdiction X, 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.

#### *Practitioner’s Responsibility*

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review

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<sup>4</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>5</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

#### *Basis for Qualified Conclusion*

The company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the requirements of the Financial Reporting Framework (XYZ Law) of Jurisdiction X. The company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

#### *Qualified Conclusion*

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements of ABC Company are not prepared, in all material respects, in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X.

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**Illustration 3**

**Circumstances include the following:**

- **Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with [a financial reporting framework designed to achieve fair presentation other than International Financial Reporting Standards].**
- **The terms of the review engagement reflect the description of management’s responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **The practitioner was unable to obtain sufficient appropriate evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate evidence are deemed to be material but not pervasive to the financial statements.**
- **The practitioner does not have other reporting responsibilities under local law in addition to the review of the consolidated financial statements.**

## **INDEPENDENT PRACTITIONER’S REVIEW REPORT**

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC 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 a summary of significant accounting policies and other explanatory information.

### **Management’s<sup>6</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards],<sup>7</sup> 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.

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<sup>6</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

<sup>7</sup> 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 [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards], and for such ...”

## Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

## Basis for Qualified Conclusion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain access to the relevant financial information of XYZ concerning the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year. Consequently, we were unable to perform the procedures we considered necessary.

## Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, (or *do not give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and cash flows for the year then ended in accordance with [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**Illustration 4**

**Circumstances include the following:**

- **Review of consolidated general purpose financial statements prepared by management of the parent in accordance with International Financial Reporting Standards.**
- **The terms of the review engagement reflect the description of management’s responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.**
- **The practitioner does not have other reporting responsibilities under local law in addition to the review of the consolidated financial statements.**

## **INDEPENDENT PRACTITIONER’S REVIEW REPORT**

[Appropriate Addressee]

### **Report on the Consolidated Financial Statements<sup>8</sup>**

We have reviewed the accompanying consolidated financial statements of ABC Company, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management’s<sup>9</sup> Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards,<sup>10</sup> and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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<sup>8</sup> The sub-title “Report on the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>9</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

<sup>10</sup> 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 ...”

*Practitioner's Responsibility*

Our responsibility is to express a conclusion on the accompanying consolidated financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of consolidated financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated financial statements.

*Basis for Adverse Conclusion*

As explained in Note X, the company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under International Financial Reporting Standards, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected.

*Adverse Conclusion*

Based on our review, due to the significance of the matter discussed in the Basis for Adverse Conclusion paragraph, the consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of ABC Company and its subsidiaries as at December 31, 20X1, and (of) their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**Illustration 5**

**Circumstances include the following:**

- **Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with International Financial Reporting Standards.**
- **The terms of the review engagement reflect the description of management’s responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **The practitioner was unable to form a conclusion on the financial statements, due to inability to obtain sufficient appropriate evidence about multiple elements of the financial statements, and the practitioner believes the effect is material and pervasive to the financial statements. Specifically, the practitioner was unable to obtain evidence about the entity’s physical inventory and accounts receivable.**

## **INDEPENDENT PRACTITIONER’S REVIEW REPORT**

[Appropriate Addressee]

We were engaged to review the accompanying financial statements of ABC 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 a summary of significant accounting policies and other explanatory information.

### **Management’s<sup>11</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards,<sup>12</sup> 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.

### **Practitioner’s Responsibility**

Our responsibility is to express a conclusion on the accompanying financial statements. Because of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

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<sup>11</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

<sup>12</sup> 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 ...”



**Basis for Disclaimer of Conclusion**

Management did not conduct a count of physical inventory on hand at the end of the year. We were unable to perform the procedures we considered necessary concerning the inventory quantities held at December 31, 20X1, which are stated at xxx in the statement of financial position at December 31, 20X1.

In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable and inventory. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

**Disclaimer of Conclusion**

Due to the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on the accompanying financial statements. Accordingly, we do not express a conclusion on these financial statements.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**Illustration 6**

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework), to comply with the provisions of the contract. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the review engagement reflect the description of management’s responsibility for the financial statements in paragraph 30(b) of this ISRE.
- Distribution or use of the practitioner’s report is restricted.

## INDEPENDENT PRACTITIONER’S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between ABC Company and DEF Company (“the contract”).

### Management’s<sup>13</sup> Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Section Z of the contract, 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.

### Practitioner’s Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

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<sup>13</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract.

### **Basis of Accounting, and Restriction on Distribution and Use**

Without modifying our conclusion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**Illustration 7**

**Circumstances include the following:**

- **Review of a statement of cash receipts and disbursements**
- **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. The basis of accounting applied to prepare the financial statement has been agreed between the entity and the creditor.**
- **The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.**
- **The practitioner has determined that it is appropriate to use the phrase “presents fairly, in all material respects,” in the practitioner’s conclusion.**
- **The terms of the review engagement reflect the description of management’s responsibility for the financial statement in paragraph 30(b) of this ISRE.**
- **Distribution or use of the practitioner’s report is not restricted.**

## **INDEPENDENT PRACTITIONER’S REVIEW REPORT**

[Appropriate Addressee]

We have reviewed the accompanying statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, and a summary of significant accounting policies and other explanatory information (together “the financial statement”). The financial statement has been prepared by management of ABC Company using the cash receipts and disbursements basis of accounting described in Note X.

### **Management’s<sup>14</sup> Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X, and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

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<sup>14</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

## Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statement. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statement is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on this financial statement.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statement does not present fairly, in all material respects, (or *does not give a true and fair view of*) the cash receipts and disbursements of ABC Company for the year ended December 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

## Basis of Accounting

Without modifying our conclusion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the financial statement may not be suitable for another purpose.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**INTERNATIONAL STANDARD ON REVIEW  
ENGAGEMENTS 2410**

**REVIEW OF INTERIM FINANCIAL INFORMATION  
PERFORMED BY THE INDEPENDENT AUDITOR  
OF THE ENTITY**

(Effective for reviews of interim financial information for periods  
beginning on or after December 15, 2006)

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International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, should be read in the context of the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

## Introduction

1. The purpose of this International Standard on Review Engagements (ISRE) is to establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report. The term "auditor" is used throughout this ISRE, not because the auditor is performing an audit function but because the scope of this ISRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity.
2. For purposes of this ISRE, interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework<sup>1</sup> and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year.
3. **The auditor who is engaged to perform a review of interim financial information should perform the review in accordance with this ISRE.** Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review.
- 3a. This ISRE is directed towards a review of interim financial information by an entity's auditor. However, it is to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client.\*

## General Principles of a Review of Interim Financial Information

4. **The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity.** These ethical requirements govern the auditor's professional responsibilities in the following

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<sup>1</sup> For example, International Financial Reporting Standards as issued by the International Accounting Standards Board

\* Paragraph 3a and footnote 4 were inserted in this ISRE in December 2007 to clarify the application of the ISRE



areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards.

5. **The auditor should implement quality control procedures that are applicable to the individual engagement.** The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.
6. **The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.** An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity.

## **Objective of an Engagement to Review Interim Financial Information**

7. The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.
8. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with International Standards on Auditing (ISAs). A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
9. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

## Agreeing the Terms of the Engagement

10. **The auditor and the client should agree on the terms of the engagement.**
11. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:
  - The objective of a review of interim financial information.
  - The scope of the review.
  - Management's responsibility for the interim financial information.
  - Management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information.
  - Management's responsibility for making all financial records and related information available to the auditor.
  - Management's agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records.
  - The anticipated form and content of the report to be issued, including the identity of the addressee of the report.
  - Management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by the entity's auditor, the review report will also be included in the document.

An illustrative engagement letter is set out in Appendix 1 to this ISRE. The terms of engagement to review interim financial information can also be combined with the terms of engagement to audit the annual financial statements.

## Procedures for a Review of Interim Financial Information

### Understanding the Entity and its Environment, Including its Internal Control

12. **The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:**
  - (a) **Identify the types of potential material misstatement and consider the likelihood of their occurrence; and**

**(b) Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**

13. As required by ISA 315 (Revised), *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, the auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.
14. The auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied.
15. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
  - Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
  - Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
  - Reading the most recent annual and comparable prior period interim financial information.
  - Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
  - Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.

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- Considering significant financial accounting and reporting matters that may be of continuing significance such as significant deficiencies in internal control.
  - Considering the results of any audit procedures performed with respect to the current year's financial statements.
  - Considering the results of any internal audit performed and the subsequent actions taken by management.
  - Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
  - Inquiring of management about the effect of changes in the entity's business activities.
  - Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
  - Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.
16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim financial information of components, and the auditor's understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.
17. **In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with ISAs, should obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information.**
18. This understanding enables the auditor to focus the inquiries made, and the analytical and other review procedures applied in performing a review of interim financial information in accordance with this ISRE. As part of obtaining this understanding, the auditor ordinarily makes inquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit, and for any prior interim periods in the current year that have been reviewed by the predecessor auditor. In doing so, the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the predecessor auditor, any significant risks, including the

risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as significant deficiencies in internal control.

### **Inquiries, Analytical and Other Review Procedures**

19. **The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**
20. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.
21. The auditor ordinarily performs the following procedures:
  - Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
  - Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
  - Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
  - Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
    - Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.

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- Whether there have been any changes in accounting principles or in the methods of applying them.
- Whether any new transactions have necessitated the application of a new accounting principle.
- Whether the interim financial information contains any known uncorrected misstatements.
- Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
- Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
- Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
- Significant changes in commitments and contractual obligations.
- Significant changes in contingent liabilities including litigation or claims.
- Compliance with debt covenants.
- Matters about which questions have arisen in the course of applying the review procedures.
- Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
- Knowledge of any fraud or suspected fraud affecting the entity involving:
  - Management;
  - Employees who have significant roles in internal control;  
or
  - Others where the fraud could have a material effect on the interim financial information.
- Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
- Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.

- Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques. Appendix 2 to this ISRE contains examples of analytical procedures the auditor may consider when performing a review of interim financial information.
  - Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.
22. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.
23. The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of interim financial information. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the interim financial information also may be used for the annual audit. The auditor may also decide to perform, at the time of the interim review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements, for example, performing audit procedures on significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions.
24. A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

25. The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records. The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:
- (a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
  - (b) Other supporting data in the entity's records as necessary.
26. **The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.** It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.
27. **The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:**
- (a) **Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and**
  - (b) **Consider the adequacy of the disclosure about such matters in the interim financial information.**
28. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also inquires as to the feasibility of management's plans and whether management believes that the outcome of these plans will improve the situation. However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.
29. **When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.** For example, if the auditor's review



procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

## Evaluation of Misstatements

30. **The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.**
31. A review of interim financial information, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
32. The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected. The auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, and the potential effect of the misstatements on future interim or annual periods.
33. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations, and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

## Management Representations

34. **The auditor should obtain written representation from management that:**
  - (a) **It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;**
  - (b) **The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;**
  - (c) **It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as**

**a whole. A summary of such items is included in or attached to the written representations;**

- (d) **It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;**
- (e) **It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud;<sup>2</sup>**
- (f) **It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and**
- (g) **It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.**

35. The auditor obtains additional representations as are appropriate related to matters specific to the entity's business or industry. An illustrative management representation letter is set out in Appendix 3 to this ISRE.

## **Auditor's Responsibility for Accompanying Information**

36. **The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.** If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended. If an amendment is necessary in the interim financial information and management refuses to make the amendment, the auditor considers the implications for the review report. If an amendment is necessary in the other information and management refuses to make the amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray financial performance than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

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<sup>2</sup> Paragraph 36 of ISA 240, *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*, explains that the nature, extent and frequency of such an assessment vary from entity to entity and that management may make a detailed assessment on an annual basis or as part of continuous monitoring. Accordingly, this representation, insofar as it relates to the interim financial information, is tailored to the entity's specific circumstances.

37. **If a matter comes to the auditor’s attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity’s management.** While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor’s attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented). When discussing the matter with the entity’s management, the auditor considers the validity of the other information and management’s responses to the auditor’s inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining legal advice.

## Communication

38. **When, as a result of performing the review of interim financial information, a matter comes to the auditor’s attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.**
39. **When, in the auditor’s judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance.** The communication is made as soon as practicable, either orally or in writing. The auditor’s decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.
40. **When, in the auditor’s judgment, those charged with governance do not respond appropriately within a reasonable period of time, the auditor should consider:**
- (a) **Whether to modify the report; or**
  - (b) **The possibility of withdrawing from the engagement; and**
  - (c) **The possibility of resigning from the appointment to audit the annual financial statements.**
41. **When, as a result of performing the review of interim financial information, a matter comes to the auditor’s attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations the auditor should communicate the matter as soon as**

**practicable to the appropriate level of management.** The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

42. **The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance.** As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

## **Reporting the Nature, Extent and Results of the Review of Interim Financial Information**

43. **The auditor should issue a written report that contains the following:**
- (a) **An appropriate title.**
  - (b) **An addressee, as required by the circumstances of the engagement.**
  - (c) **Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.**
  - (d) **If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.**
  - (e) **In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.**
  - (f) **A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.**
  - (g) **A statement that the review of the interim financial information was conducted in accordance with International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.**

- (h) **A statement that a review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.**
- (i) **If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards).**
- (j) **In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards).**
- (k) **The date of the report.**
- (l) **The location in the country or jurisdiction where the auditor practices.**
- (m) **The auditor's signature.**

Illustrative review reports are set out in Appendix 4 to this ISRE.

44. In some jurisdictions, law or regulation governing the review of interim financial information may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 43(i) or (j). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this ISRE for coming to the conclusion remain the same.

### **Departure from the Applicable Financial Reporting Framework**

45. **The auditor should express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information**

**for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.**

46. If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report, and qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 5 to this ISRE.
47. When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion. Illustrative review reports with an adverse conclusion are set out in Appendix 7 to this ISRE.

### **Limitation on Scope**

48. A limitation on scope ordinarily prevents the auditor from completing the review.
49. **When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report.**

### **Limitation on Scope Imposed by Management**

50. The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity.
51. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment

to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters in accordance with the guidance in paragraphs 38–40.

52. The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor’s attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

### Other Limitations on Scope

53. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion and is guided by paragraphs 51–52. There may be, however, some rare circumstances where the limitation on the scope of the auditor’s work is clearly confined to one or more specific matters that, while material, are not in the auditor’s judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this ISRE, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 6 to this ISRE.
54. The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

### Going Concern and Significant Uncertainties

55. In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor’s conclusion, to highlight a matter that is included in a note to the interim financial information that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.
56. **If adequate disclosure is made in the interim financial information, the auditor should add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity’s ability to continue as a going concern.**

57. The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.
58. If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.
59. **If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.**
60. **The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.**

### **Other Considerations**

61. The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.
62. If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.
63. Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the financial position and performance of the entity since the annual reporting date. This is because it is presumed that the users of the



interim financial information will have access to the latest audited financial statements, such as is the case with listed entities. In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is misleading in the circumstances, and the implications for the review report.

## Documentation

64. **The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this ISRE and applicable legal and regulatory requirements.** The documentation enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the inquiries made, and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

## Effective Date

65. This ISRE is effective for reviews of interim financial information for periods beginning on or after December 15, 2006. Earlier adoption of the ISRE is permissible.

## Public Sector Perspective

1. *Paragraph 10 requires that the auditor and the client agree on the terms of engagement. Paragraph 11 explains that an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Consequently, engagement letters may not be a widespread practice in the public sector. Nevertheless, an engagement letter setting out the matters referred to in paragraph 11 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter.*
2. *In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept (see paragraph 50) or to withdraw from a review engagement (see paragraphs 36 and 40(b)). The public sector auditor*

*also may not be in the position to resign from the appointment to audit the annual financial statements (see paragraphs 40(c)) and 62).*

3. *Paragraph 41 discusses the auditor's responsibility when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities.*

## Appendix 1

### Example of an Engagement Letter for a Review of Interim Financial Information

The following letter is to be used as a guide in conjunction with the consideration outlined in paragraph 10 of this ISRE and will need to be adapted according to individual requirements and circumstances.

To the Board of Directors (or the appropriate representative of senior management)

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to review the entity's interim balance sheet as at June 30, 20X1 and the related statements of income, changes in equity and cash flows for the six-month period then ended.

Our review will be conducted in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting when the financial reporting framework used is not International Financial Reporting Standards]. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of interim financial information is substantially less than the scope of an audit conducted in accordance with International Standards on Auditing whose objective is the expression of an opinion regarding the financial statements and, accordingly, we shall express no such opinion.

We expect to report on the interim financial information as follows:

[Include text of sample report.]

Responsibility for the interim financial information, including adequate disclosure, is that of management of the entity. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. As part of our review, we will request written representations from management concerning assertions made in connection with the review. We will also request that where any document containing interim financial information indicates that the interim financial information has been reviewed, our report will also be included in the document.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

A review of interim financial information does not provide assurance that we will become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial statements.

Acknowledged on behalf of ABC Entity by

(signed)

Name and Title

Date

## Appendix 2

### **Analytical Procedures the Auditor May Consider When Performing a Review of Interim Financial Information**

Examples of analytical procedures the auditor may consider when performing a review of interim financial information include the following:

- Comparing the interim financial information with the interim financial information of the immediately preceding interim period, with the interim financial information of the corresponding interim period of the preceding financial year, with the interim financial information that was expected by management for the current period, and with the most recent audited annual financial statements.
- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes to pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).
- Comparing current interim financial information with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that are reasonably expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts.
  - By product line or source of revenue.
  - By location, for example, by component.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

- By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen.
- By several attributes of the transaction, for example, sales by product and month.

## Appendix 3

### Example of a Management Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from entity to entity and from one interim period to the next.

(Entity Letterhead)

(To Auditor)

(Date)

Opening paragraphs if interim financial information comprises condensed financial statements:

This representation letter is provided in connection with your review of the condensed balance sheet of ABC Entity as of March 31, 20X1 and the related condensed statements of income, changes in equity and cash flows for the three-month period then ended for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

We acknowledge our responsibility for the preparation and presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

Opening paragraphs if interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation:

This representation letter is provided in connection with your review of the balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended and a summary of the significant accounting policies and other explanatory notes for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the financial position of ABC Entity as at March 31, 20X1, and of its financial performance and its cash flows in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

We acknowledge our responsibility for the fair presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

We confirm, to the best of our knowledge and belief, the following representations:

- The interim financial information referred to above has been prepared and presented in accordance with [indicate applicable financial reporting framework].
- We have made available to you all books of account and supporting documentation, and all minutes of meetings of shareholders and the board of directors (namely those held on [insert applicable dates]).
- There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
- There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information in the event of noncompliance.
- We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
- We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.
- We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as the result of fraud.
- We believe the effects of uncorrected misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole.
- We confirm the completeness of the information provided to you regarding the identification of related parties.
- The following have been properly recorded and, when appropriate, adequately disclosed in the interim financial information:
  - Related party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties;
  - Guarantees, whether written or oral, under which the entity is contingently liable; and
  - Agreements and options to buy back assets previously sold.
- The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with [indicate applicable financial reporting framework]. The assumptions used reflect our intent and ability to carry specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.



REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

- We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial information.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.
- The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.
- We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
- [Add any additional representations related to new accounting standards that are being implemented for the first time and consider any additional representations required by a new International Standard on Auditing that are relevant to interim financial information.]

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that may require adjustment to or disclosure in the aforementioned interim financial information.

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(Senior Executive Officer)

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(Senior Financial Officer)

## Appendix 4

### Examples of Review Reports on Interim Financial Information

#### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

##### Report on Review of Interim Financial Information

(Appropriate addressee)

##### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>1</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

##### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>2</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial

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<sup>1</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

<sup>2</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: “We conducted our review in accordance with International Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity.” The remainder of the report should be adapted as necessary in the circumstances.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

reporting framework when the financial reporting framework used is not International  
Financial Reporting Standards].

AUDITOR

Date

Address

**Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

*Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>3</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>4</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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<sup>3</sup> See footnote 1.

<sup>4</sup> See footnote 2.

## Examples of Review Reports with a Qualified Conclusion for a Departure from the Applicable Financial Reporting Framework

### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

#### Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>1</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>2</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at March 31, 20X1, property would be increased by \$\_\_\_\_\_, long-term debt by \$\_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$\_\_\_\_\_, \$\_\_\_\_\_, \$\_\_\_\_\_, and \$\_\_\_\_\_, respectively for the three-month period then ended.

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<sup>1</sup> See footnote 1 of Appendix 4.

<sup>2</sup> See footnote 2 of Appendix 4.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

*Qualified Conclusion*

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including the reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

## Other Interim Financial Information (see paragraph 43(j))

### Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>3</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>4</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at March 31, 20X1, property would be increased by \$ \_\_\_\_\_, long-term debt by \$ \_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$ \_\_\_\_\_, \$ \_\_\_\_\_, \$ \_\_\_\_\_, and \$ \_\_\_\_\_, respectively for the three-month period then ended.

#### *Qualified Conclusion*

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects,

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<sup>3</sup> See footnote 1 of Appendix 4.

<sup>4</sup> See footnote 2 of Appendix 4.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address



## Examples of Review Reports with a Qualified Conclusion for a Limitation on Scope Not Imposed By Management

### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>1</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>2</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling \$ \_\_\_\_\_ included in the interim financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

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<sup>1</sup> See footnote 1 of Appendix 4.

<sup>2</sup> See footnote 2 of Appendix 4.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

*Qualified Conclusion*

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (*or “does not present fairly, in all material respects,”*) the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

## Other Interim Financial Information (see paragraph 43(j))

### Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>3</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with International Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Auditor of the Entity*.<sup>4</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling \$ \_\_\_\_\_ included in the interim financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

#### *Qualified Conclusion*

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance

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<sup>3</sup> See footnote 1 of Appendix 4.

<sup>4</sup> See footnote 2 of Appendix 4.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

## Examples of Review Reports with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework

### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

#### Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>1</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Auditor of the Entity*.<sup>2</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Adverse Conclusion*

Commencing this period, management of the entity ceased to consolidate the financial statements of its subsidiary companies since management considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

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<sup>1</sup> See footnote 1 of Appendix 4.

<sup>2</sup> See footnote 2 of Appendix 4.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

*Adverse Conclusion*

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information does not give a true and fair view of (*or "does not present fairly, in all material respects,"*) the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

## Other Interim Financial Information (see paragraph 43(j))

### Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>3</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independence Auditor of the Entity*.<sup>4</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Adverse Conclusion*

Commencing this period, management of the entity ceased to consolidate the financial statements of its subsidiary companies since management considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including the reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

#### *Adverse Conclusion*

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information is not prepared, in all material respects, in accordance

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<sup>3</sup> See footnote 1 of Appendix 4.

<sup>4</sup> See footnote 2 of Appendix 4.

REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE  
INDEPENDENT AUDITOR OF THE ENTITY

with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address



**INTERNATIONAL STANDARD ON ASSURANCE  
ENGAGEMENTS 3000 (REVISED)**

**ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR  
REVIEWS OF HISTORICAL FINANCIAL INFORMATION**

(Effective for assurance reports dated on or after December 15, 2015)

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International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, should be read in conjunction with the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

## Introduction

1. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements other than audits or reviews of historical financial information, which are dealt with in International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs), respectively. (Ref: Para. A21–A22)
2. Assurance engagements include both attestation engagements, in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria, and direct engagements, in which the practitioner measures or evaluates the underlying subject matter against the criteria. This ISAE contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements. This ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.
3. This ISAE is premised on the basis that:
  - (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A30–A34)
  - (b) The practitioner who is performing the engagement is a member of a firm that is subject to ISQC 1,<sup>1</sup> or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control, that are at least as demanding as ISQC 1. (Ref: Para. A61–A66)
4. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance engagements. Professional accountants in public practice will be familiar with such requirements. If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with this or other ISAE, it is important to recognize that this ISAE includes requirements that reflect the premise in the preceding paragraph.

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<sup>1</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

## Scope

5. This ISAE covers assurance engagements other than audits or reviews of historical financial information, as described in the *International Framework for Assurance Engagements* (Assurance Framework). Where a subject-matter specific ISAE is relevant to the subject matter of a particular engagement, that ISAE applies in addition to this ISAE. (Ref: Para. A21–A22)
6. Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that are not assurance engagements, as defined by paragraph 12(a) (and therefore are not covered by the ISAE) include:
  - (a) Engagements covered by International Standards on Related Services (ISRS), such as agreed-upon procedure and compilation engagements;<sup>2</sup>
  - (b) The preparation of tax returns where no assurance conclusion is expressed; and
  - (c) Consulting (or advisory) engagements, such as management and tax consulting. (Ref: Para. A1)
7. An assurance engagement performed under the ISAE may be part of a larger engagement. In such circumstances, the ISAE are relevant only to the assurance portion of the engagement.
8. The following engagements, which may be consistent with the description in paragraph 12(a), are not considered assurance engagements in terms of the ISAE:
  - (a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and
  - (b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:
    - (i) Those opinions, views or wording are merely incidental to the overall engagement;
    - (ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;
    - (iii) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and
    - (iv) The engagement is not represented as an assurance engagement in the professional accountant's report.

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<sup>2</sup> ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, and ISRS 4410 (Revised), *Compilation Engagements*

## Effective Date

9. This ISAE is effective for assurance engagements where the assurance report is dated on or after December 15, 2015.

## Objectives

10. In conducting an assurance engagement, the objectives of the practitioner are:
  - (a) To obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement;
  - (b) To express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that conveys either a reasonable assurance or a limited assurance conclusion and describes the basis for the conclusion; (Ref: Para. A2) and
  - (c) To communicate further as required by this ISAE and any other relevant ISAE.
11. In all cases when reasonable assurance or limited assurance, as appropriate, cannot be obtained and a qualified conclusion in the practitioner's assurance report is insufficient in the circumstances for purposes of reporting to the intended users, this ISAE requires that the practitioner disclaim a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

## Definitions

12. For purposes of this ISAE and other ISAEs, unless indicated to the contrary, the following terms have the meanings attributed below. (Ref: Para. A27)
  - (a) Assurance engagement—An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified on two dimensions: (Ref: Para. A3)
    - (i) Either a reasonable assurance engagement or a limited assurance engagement:
      - a. Reasonable assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of

the measurement or evaluation of the underlying subject matter against criteria.

- b. Limited assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential. (Ref: Para. A3–A7)
- (ii) Either an attestation engagement or a direct engagement: (Ref: Para. A8)
- a. Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. In an attestation engagement, the practitioner’s conclusion addresses whether the subject matter information is free from material misstatement. The practitioner’s conclusion may be phrased in terms of: (Ref: Para. A179, A181)
    - i. The underlying subject matter and the applicable criteria;
    - ii. The subject matter information and the applicable criteria; or
    - iii. A statement made by the appropriate party(ies).

- b. Direct engagement—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
- (b) Assurance skills and techniques—Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. (Ref: Para. A9)
- (c) Criteria—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. (Ref: Para. A10)
- (d) Engagement circumstances—The broad context defining the particular engagement, which includes: the terms of the engagement; whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter; the measurement or evaluation criteria; the information needs of the intended users; relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment; and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.
- (e) Engagement partner—The partner or other person in the firm who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. “Engagement partner” should be read as referring to its public sector equivalents where relevant.
- (f) Engagement risk—The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. (Ref: Para. A11–A14)
- (g) Engaging party—The party(ies) that engages the practitioner to perform the assurance engagement. (Ref: Para. A15)
- (h) Engagement team—All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner’s external expert engaged by the firm or a network firm.

- (i) Evidence—Information used by the practitioner in arriving at the practitioner’s conclusion. Evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the ISAE: (Ref: Para. A147–A153)
  - (i) Sufficiency of evidence is the measure of the quantity of evidence.
  - (ii) Appropriateness of evidence is the measure of the quality of evidence.
- (j) Firm—A sole practitioner, partnership or corporation or other entity of individual practitioners. “Firm” should be read as referring to its public sector equivalents where relevant.
- (k) Historical financial information—Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (l) Internal audit function – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.
- (m) Intended users—The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed. (Ref: Para. A16–A18, A37))
- (n) Measurer or evaluator—The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possesses expertise in the underlying subject matter. (Ref: Para. A37, A39)
- (o) Misstatement—A difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.
- (p) Misstatement of fact (with respect to other information)—Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the subject matter information.
- (q) Other information—Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing the subject matter information and the assurance report thereon.



- (r) Practitioner—The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. (Ref: Para. A37)
  - (s) Practitioner’s expert—An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm), or a practitioner’s external expert.
  - (t) Professional judgment—The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
  - (u) Professional skepticism—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.
  - (v) Responsible party—The party(ies) responsible for the underlying subject matter. (Ref: Para. A37)
  - (w) Risk of material misstatement—The risk that the subject matter information is materially misstated prior to the engagement.
  - (x) Subject matter information—The outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter. (Ref: Para. A19)
  - (y) Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria.
13. For the purposes of this ISAE and other ISAE, references to “appropriate party(ies)” should be read hereafter as “the responsible party, the measurer or evaluator, or the engaging party, as appropriate.” (Ref: Para. A20, A37)

## Requirements

### Conduct of an Assurance Engagement in Accordance with ISAE

#### *Complying with Standards that are Relevant to the Engagement*

- 14. The practitioner shall comply with this ISAE and any subject matter-specific ISAE relevant to the engagement.
- 15. The practitioner shall not represent compliance with this or any other ISAE unless the practitioner has complied with the requirements of this ISAE and any other ISAE relevant to the engagement. (Ref: Para. A21–A22, A171)

*Text of an ISAE*

16. The practitioner shall have an understanding of the entire text of an ISAE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A23–A28)

*Complying with Relevant Requirements*

17. Subject to the following paragraph, the practitioner shall comply with each requirement of this ISAE and of any relevant subject matter-specific ISAE unless, in the circumstances of the engagement the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. (Ref: Para. A29)
18. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISAE. In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.

*Failure to Achieve an Objective*

19. If an objective in this ISAE or a relevant subject matter-specific ISAE cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner’s conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in a relevant ISAE represents a significant matter requiring documentation in accordance with paragraph 79 of this ISAE.

**Ethical Requirements**

20. The practitioner shall comply with the provisions of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A30–A34, A60)

**Acceptance and Continuance**

21. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed by the firm, and shall determine that conclusions reached in this regard are appropriate.
22. The practitioner shall accept or continue an assurance engagement only when: (Ref: Para. A30–A34)

- (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
  - (b) The practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities (see also paragraph 32); and
  - (c) The basis upon which the engagement is to be performed has been agreed, through:
    - (i) Establishing that the preconditions for an assurance engagement are present (see also paragraphs 24–26); and
    - (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner’s reporting responsibilities.
23. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

*Preconditions for the Assurance Engagement*

24. In order to establish whether the preconditions for an assurance engagement are present, the practitioner shall, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), determine whether: (Ref: Para. A35–A36)
- (a) The roles and responsibilities of the appropriate parties are suitable in the circumstances; and (Ref: Para. A37–A39)
  - (b) The engagement exhibits all of the following characteristics:
    - (i) The underlying subject matter is appropriate; (Ref: Para. A40–A44)
    - (ii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances, including that they exhibit the following characteristics: (Ref: Para. A45–A50)
      - a. Relevance.
      - b. Completeness.
      - c. Reliability.
      - d. Neutrality.
      - e. Understandability.

- (iii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users; (Ref: Para. A51–A52)
  - (iv) The practitioner expects to be able to obtain the evidence needed to support the practitioner’s conclusion; (Ref: Para. A53–A55)
  - (v) The practitioner’s conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
  - (vi) A rational purpose including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance. (Ref: Para. A56)
25. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with ISAE. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with this ISAE or any other ISAE(s).

*Limitation on Scope Prior to Acceptance of the Engagement*

26. If the engaging party imposes a limitation on the scope of the practitioner’s work in the terms of a proposed assurance engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the subject matter information, the practitioner shall not accept such an engagement as an assurance engagement, unless required by law or regulation to do so. (Ref: Para. A156(c))

*Agreeing on the Terms of the Engagement*

27. The practitioner shall agree the terms of the engagement with the engaging party. The agreed terms of the engagement shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation. (Ref: Para. A57–A58)
28. On recurring engagements, the practitioner shall assess whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of the engagement.

*Acceptance of a Change in the Terms of the Engagement*

29. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If such a change is made, the practitioner shall not disregard evidence that was obtained prior to the change. (Ref: Para. A59)

*Assurance Report Prescribed by Law or Regulation*

30. In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the assurance report. In these circumstances, the practitioner shall evaluate:
- (a) Whether intended users might misunderstand the assurance conclusion; and
  - (b) If so, whether additional explanation in the assurance report can mitigate possible misunderstanding.

If the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, the practitioner shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with ISAE. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with this ISAE or any other ISAE (see also paragraph 71).

**Quality Control**

*Characteristics of the Engagement Partner*

31. The engagement partner shall:
- (a) Be a member of a firm that applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1; (Ref: Para. A60–A66)
  - (b) Have competence in assurance skills and techniques developed through extensive training and practical application; and (Ref: Para. A60)
  - (c) Have sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion. (Ref: Para. A67–A68)

*Assignment of the Team*

32. The engagement partner shall: (Ref: Para. A69)
- (a) Be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities to: (Ref: Para. A70–A71)
    - (i) Perform the engagement in accordance with relevant standards and applicable legal and regulatory requirements; and
    - (ii) Enable an assurance report that is appropriate in the circumstances to be issued.

- (b) Be satisfied that the practitioner will be able to be involved in the work of:
  - (i) A practitioner's expert where the work of that expert is to be used; and (Ref: Para. A70–A71)
  - (ii) Another practitioner, not part of the engagement team, where the assurance work of that practitioner is to be used, (Ref: Para. A72–A73)

to an extent that is sufficient to accept responsibility for the assurance conclusion on the subject matter information.

*Responsibilities of the Engagement Partner*

- 33. The engagement partner shall take responsibility for the overall quality on the engagement. This includes responsibility for:
  - (a) Appropriate procedures being performed regarding the acceptance and continuance of client relationships and engagements;
  - (b) The engagement being planned and performed (including appropriate direction and supervision) to comply with professional standards and applicable legal and regulatory requirements;
  - (c) Reviews being performed in accordance with the firm's review policies and procedures, and reviewing the engagement documentation on or before the date of the assurance report; (Ref: Para. A74)
  - (d) Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with relevant ISAEs and relevant legal and regulatory requirements; and
  - (e) Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.
- 34. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.
- 35. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the assurance engagement.

### *Engagement Quality Control Review*

36. For those engagements, if any, for which a quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required:
- (a) The engagement partner shall take responsibility for discussing significant matters arising during the engagement with the engagement quality control reviewer, and not date the assurance report until completion of that review; and
  - (b) The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve: (Ref: Para. A75)
    - (i) Discussion of significant matters with the engagement partner;
    - (ii) Review of the subject matter information and the proposed assurance report;
    - (iii) Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
    - (iv) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.

### **Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques**

37. The practitioner shall plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that cause the subject matter information to be materiality misstated. (Ref: Para. A76–A80)
38. The practitioner shall exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A81–A85)
39. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.

### **Planning and Performing the Engagement**

#### *Planning*

40. The practitioner shall plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned

procedures that are required to be carried out in order to achieve the objective of the practitioner. (Ref: Para. A86–A89)

41. The practitioner shall determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 24(b)(ii).
42. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner shall discuss the matter with the appropriate party(ies), and shall determine:
  - (a) Whether the matter can be resolved to the practitioner’s satisfaction;
  - (b) Whether it is appropriate to continue with the engagement; and
  - (c) Whether and, if so, how to communicate the matter in the assurance report.
43. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the practitioner shall consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner shall express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances. (Ref: Para. A90–A91)

#### *Materiality*

44. The practitioner shall consider materiality when: (Ref: Para. A92–A100)
  - (a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and
  - (b) Evaluating whether the subject matter information is free from material misstatement.

#### *Understanding the Underlying Subject Matter and Other Engagement Circumstances*

45. The practitioner shall make inquiries of the appropriate party(ies) regarding:
  - (a) Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information; (Ref: Para. A101–A102)
  - (b) Whether the responsible party has an internal audit function and, if so, make further inquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the subject matter information; and
  - (c) Whether the responsible party has used any experts in the preparation of the subject matter information.



Limited Assurance	Reasonable Assurance
<p>46L. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none"> <li>(a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and</li> <li>(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 46L(a) and to obtain limited assurance to support the practitioner’s conclusion. (Ref: Para. A101–A105, A108)</li> </ul> <p>47L. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46L, the practitioner shall consider the process used to prepare the subject matter information. (Ref: Para. A107)</p>	<p>46R. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none"> <li>(a) Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information; and</li> <li>(b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s conclusion. (Ref: Para. A101–A104, A108)</li> </ul> <p>47R. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46R, the practitioner shall obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This includes evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information. (Ref: Para. A106)</p>

## Obtaining Evidence

### *Risk Consideration and Responses to Risks*

<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
<p>48L. Based on the practitioner's understanding (see paragraph 46L), the practitioner shall: (Ref: Para. A109–A113)</p> <p>(a) Identify areas where a material misstatement of the subject matter information is likely to arise; and</p> <p>(b) Design and perform procedures to address the areas identified in paragraph 48L(a) and to obtain limited assurance to support the practitioner's conclusion.</p>	<p>48R. Based on the practitioner's understanding (see paragraph 46R) the practitioner shall: (Ref: Para. A109–A111)</p> <p>(a) Identify and assess the risks of material misstatement in the subject matter information; and</p> <p>(b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion. In addition to any other procedures on the subject matter information that are appropriate in the engagement circumstances, the practitioner's procedures shall include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when:</p> <p>(i) The practitioner's assessment of the risks of material misstatement includes an expectation that controls are operating effectively, or</p> <p>(ii) Procedures other than testing of controls cannot alone provide sufficient appropriate evidence.</p>

Limited Assurance	Reasonable Assurance
<p>Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement</p> <p>49L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para. A113–A118)</p> <ul style="list-style-type: none"> <li>(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or</li> <li>(b) Determine that the matter(s) causes the subject matter information to be materially misstated.</li> </ul>	<p>Revision of Risk Assessment in a Reasonable Assurance Engagement</p> <p>49R. The practitioner’s assessment of the risks of material misstatement in the subject matter information may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence that is inconsistent with the evidence on which the practitioner originally based the assessment of the risks of material misstatement, the practitioner shall revise the assessment and modify the planned procedures accordingly. (Ref: Para. A113)</p>

50. When designing and performing procedures, the practitioner shall consider the relevance and reliability of the information to be used as evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
  - (b) The practitioner has doubts about the reliability of information to be used as evidence,
- the practitioner shall determine what changes or additions to procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the engagement.

51. The practitioner shall accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial. (Ref: Para. A119–A120)

*Work Performed by a Practitioner's Expert*

52. When the work of a practitioner's expert is to be used, the practitioner shall also: (Ref: Para. A121–A125)
- (a) Evaluate whether the practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. In the case of a practitioner's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity; (Ref: Para. A126–A129)
  - (b) Obtain a sufficient understanding of the field of expertise of the practitioner's expert; (Ref: Para. A130–A131)
  - (c) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; and (Ref: Para. A132–A133)
  - (d) Evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes. (Ref: Para. A134–A135)

*Work Performed by Another Practitioner, a Responsible Party's or Measurer's or Evaluator's Expert, or an Internal Auditor* (Ref: Para. A136)

53. When the work of another practitioner is to be used, the practitioner shall evaluate whether that work is adequate for the practitioner's purposes.
54. If information to be used as evidence has been prepared using the work of a responsible party's or a measurer's or evaluator's expert, the practitioner shall, to the extent necessary having regard to the significance of that expert's work for the practitioner's purposes:
- (a) Evaluate the competence, capabilities and objectivity of that expert;
  - (b) Obtain an understanding of the work of that expert; and
  - (c) Evaluate the appropriateness of that expert's work as evidence.
55. If the practitioner plans to use the work of the internal audit function, the practitioner shall evaluate the following:
- (a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
  - (b) The level of competence of the internal audit function;
  - (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control; and

- (d) Whether the work of the internal audit function is adequate for the purposes of the engagement.

*Written Representations*

- 56. The practitioner shall request from the appropriate party(ies) a written representation:
  - (a) That it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement. (Ref: Para. A54–A55 and A137–A139)
  - (b) Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.
- 57. If, in addition to required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the subject matter information, the practitioner shall request such other written representations.
- 58. When written representations relate to matters that are material to the subject matter information, the practitioner shall:
  - (a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
  - (b) Consider whether those making the representations can be expected to be well-informed on the particular matters.
- 59. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.

*Requested Written Representations Not Provided or Not Reliable*

- 60. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall: (Ref: Para. A140)
  - (a) Discuss the matter with the appropriate party(ies);
  - (b) Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
  - (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

### **Subsequent Events**

61. When relevant to the engagement, the practitioner shall consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner's conclusion. However, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report. (Ref: Para. A141–A142)

### **Other Information**

62. When documents containing the subject matter information and the assurance report thereon include other information, the practitioner shall read that other information to identify material inconsistencies, if any, with the subject matter information or the assurance report and, if on reading that other information, the practitioner: (Ref: Para. A143)

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

the practitioner shall discuss the matter with the appropriate party(ies) and take further action as appropriate.

### **Description of Applicable Criteria**

63. The practitioner shall evaluate whether the subject matter information adequately refers to or describes the applicable criteria. (Ref: Para. A144–A146)

### **Forming the Assurance Conclusion**

64. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the practitioner shall consider the implications for the practitioner's conclusion in paragraph 65. (Ref: Para. A147–A153)

65. The practitioner shall form a conclusion about whether the subject matter information is free from material misstatement. In forming that conclusion,

the practitioner shall consider the practitioner's conclusion in paragraph 64 regarding the sufficiency and appropriateness of evidence obtained and an evaluation of whether uncorrected misstatements are material, individually or in the aggregate. (Ref: Para. A3 and A154–A155)

66. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists and the practitioner shall express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate. (Ref: Para. A156–A158)

### **Preparing the Assurance Report**

67. The assurance report shall be in writing and shall contain a clear expression of the practitioner's conclusion about the subject matter information. (Ref: Para. A2, A159–A161)
68. The practitioner's conclusion shall be clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used shall make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A159–A161)

### *Assurance Report Content*

69. The assurance report shall include, at a minimum, the following basic elements:
  - (a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A162)
  - (b) An addressee. (Ref: Para. A163)
  - (c) An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter. When the practitioner's conclusion is phrased in terms of a statement made by the appropriate party(ies), that statement shall accompany the assurance report, be reproduced in the assurance report or be referenced therein to a source that is available to the intended users. (Ref: Para A164)
  - (d) Identification of the applicable criteria. (Ref: Para. A165)
  - (e) Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria. (Ref: Para. A166)
  - (f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject

matter information may not be suitable for another purpose. (Ref: Para. A167–A168)

- (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner’s responsibilities. (Ref: Para. A169)
- (h) A statement that the engagement was performed in accordance with this ISAE or, where there is a subject-matter specific ISAE, that ISAE. (Ref: Para. A170–A171)
- (i) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1. (Ref: Para. A172)
- (j) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. (Ref: Para. A173)
- (k) An informative summary of the work performed as the basis for the practitioner’s conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner’s conclusion. In a limited assurance engagement, the summary of the work performed shall state that:
  - (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
  - (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. (Ref: Para. A6, A174–A178)
- (l) The practitioner’s conclusion: (Ref: Para. A2, A179–A181)
  - (i) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner’s conclusion is to be read. (Ref: Para. A180)
  - (ii) In a reasonable assurance engagement, the conclusion shall be expressed in a positive form. (Ref: Para. A179)



- (iii) In a limited assurance engagement, the conclusion shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the subject matter information is materially misstated. (Ref: Para. A181)
- (iv) The conclusion in (ii) or (iii) shall be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and shall be phrased in terms of: (Ref: Para. A182)
  - a. The underlying subject matter and the applicable criteria;
  - b. The subject matter information and the applicable criteria; or
  - c. A statement made by the appropriate party(ies).
- (v) When the practitioner expresses a modified conclusion, the assurance report shall contain:
  - a. A section that provides a description of the matter(s) giving rise to the modification; and
  - b. A section that contains the practitioner's modified conclusion. (Ref: Para. A183)
- (m) The practitioner's signature. (Ref: Para. A184)
- (n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information. (Ref: Para. A185)
- (o) The location in the jurisdiction where the practitioner practices.

*Reference to the Practitioner's Expert in the Assurance Report*

70. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report shall not imply that the practitioner's responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para. A186–A188)

*Assurance Report Prescribed by Law or Regulation*

71. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report shall refer to this or other ISAEs only if the assurance report includes, at a minimum, each of the elements identified in paragraph 69.

## Unmodified and Modified Conclusions

72. The practitioner shall express an unmodified conclusion when the practitioner concludes:
- (a) In the case of a reasonable assurance engagement, that the subject matter information is prepared, in all material respects, in accordance with the applicable criteria; or
  - (b) In the case of a limited assurance engagement, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.
73. If the practitioner considers it necessary to:
- (a) Draw intended users' attention to a matter presented or disclosed in the subject matter information that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of the subject matter information (an Emphasis of Matter paragraph); or
  - (b) Communicate a matter other than those that are presented or disclosed in the subject matter information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (another Matter paragraph),
- and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter. In the case of an Emphasis of Matter paragraph, such a paragraph shall refer only to information presented or disclosed in the subject matter information.
74. The practitioner shall express a modified conclusion in the following circumstances:
- (a) When, in the practitioner's professional judgment, a scope limitation exists and the effect of the matter could be material (see paragraph 66). In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion.
  - (b) When, in the practitioner's professional judgment, the subject matter information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion. (Ref: Para. A191)
75. The practitioner shall express a qualified conclusion when, in the practitioner's professional judgment, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion shall be expressed as being "except for" the

effects, or possible effects, of the matter to which the qualification relates. (Ref: Para. A189–A190)

76. If the practitioner expresses a modified conclusion because of a scope limitation but is also aware of a matter(s) that causes the subject matter information to be materially misstated, the practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the subject matter information to be materially misstated.
77. When the statement made by the appropriate party(ies) has identified and properly described that the subject matter information is materially misstated, the practitioner shall either:
  - (a) Express a qualified conclusion or adverse conclusion phrased in terms of the underlying subject matter and the applicable criteria; or
  - (b) If specifically required by the terms of the engagement to phrase the conclusion in terms of a statement made by the appropriate party(ies), express an unqualified conclusion but include an Emphasis of Matter paragraph in the assurance report referring to the statement made by the appropriate party(ies) that identifies and properly describes that the subject matter information is materially misstated. (Ref: Para. A192)

### **Other Communication Responsibilities**

78. The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others. (Ref: Para. A193–A199)

### **Documentation**

79. The practitioner shall prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A200–A204)
  - (a) The nature, timing and extent of the procedures performed to comply with relevant ISAE and applicable legal and regulatory requirements;
  - (b) The results of the procedures performed, and the evidence obtained; and
  - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
80. If the practitioner identifies information that is inconsistent with the practitioner's final conclusion regarding a significant matter, the practitioner shall document how the practitioner addressed the inconsistency.

81. The practitioner shall assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. (Ref: Para. A205–A206)
82. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A207)
83. If the practitioner finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the practitioner shall, regardless of the nature of the amendments or additions, document:
  - (a) The specific reasons for making the amendments or additions; and
  - (b) When, and by whom, they were made and reviewed.

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## **Application and Other Explanatory Material**

### **Introduction** (Ref: Para. 6)

- A1. In a consulting engagement, the practitioner applies technical skills, education, observations, experiences, and knowledge. Consulting engagements involve an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results, and sometimes implementation and follow-up. Reports (if issued) are generally written in a narrative (or “long-form”) style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the practitioner and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

### **Objectives**

#### *Engagements with Subject Matter Information Comprising a Number of Aspects* (Ref: Para. 10, 65, 69(1))

- A2. Where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. All such separate conclusions do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this

ISAE to the conclusion in the assurance report include each conclusion when separate conclusions are provided.

## Definitions

*The Nature, Timing and Extent of Procedures in Limited and Reasonable Assurance Engagements* (Ref: Para. 12(a)(i))

A3. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the procedures for a reasonable assurance engagement and a limited assurance engagement include:

- (a) The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on testing of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.
- (b) In a limited assurance engagement the practitioner may:
  - Select less items for examination; or
  - Perform fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and other procedures would be performed).
- (c) In a reasonable assurance engagement, analytical procedures performed in response to the engagement risk involve developing expectations that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.
- (d) Further, when significant fluctuations, relationships or differences are identified, appropriate evidence in a limited assurance engagement may be obtained by making inquiries and considering responses received in the light of known engagement circumstances.
- (e) In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example use data that is more highly aggregated, such as quarterly data rather than monthly data,

or use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

*A Level of Assurance that is Meaningful* (Ref: Para. 12(a)(i)(b), 47L)

- A4. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification, and whether it is meaningful is a matter of professional judgment for the practitioner to determine in the circumstances of the engagement. In a limited assurance engagement, the practitioner performs procedures that are limited compared with those necessary in a reasonable assurance engagement but are, nonetheless, planned to obtain a level of assurance that is meaningful. To be meaningful the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential (see also paragraphs A16–A18).
- A5. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgment within that range that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement.
- A6. Because the level of assurance obtained by the practitioner in limited assurance engagements varies, the practitioner's report contains an informative summary of the procedures performed, recognizing that an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion (see paragraphs 69(k) and A174–A178).
- A7. Some of the factors that may be relevant in determining what constitutes meaningful assurance in a specific engagement include, for example:
- The characteristics of the underlying subject matter and the criteria, and whether there are any relevant subject matter-specific ISAE.
  - Instructions or other indications from the engaging party about the nature of the assurance the engaging party is seeking the practitioner to obtain. For example, the terms of the engagement may stipulate particular procedures that the engaging party considers necessary or particular aspects of the subject matter information on which the engaging party would like the practitioner to focus procedures. However, the practitioner may consider that other procedures are required to obtain sufficient appropriate evidence to obtain meaningful assurance.

- Generally accepted practice, if it exists, with respect to assurance engagements for the particular subject matter information, or similar or related subject matter information.
- The information needs of intended users as a group. Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the subject matter information is materially misstated, the greater the assurance that would be needed in order to be meaningful to them. For example, in some cases, the consequence to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the practitioner to obtain assurance that is meaningful in the circumstances.
- The expectation by intended users that the practitioner will form the limited assurance conclusion on the subject matter information within a short timeframe and at a low cost.

*Examples of Attestation Engagements* (Ref: Para. 12(a)(ii)(a))

A8. Examples of engagements that may be conducted under this ISAE include:

- (a) Sustainability – An engagement on sustainability involves obtaining assurance on a report prepared by management or management’s expert (the measurer or evaluator) on the sustainability performance of the entity.
- (b) Compliance with law or regulation – An engagement on compliance with law or regulation involves obtaining assurance on a statement by another party (the measurer or evaluator) of compliance with the relevant law or regulation.
- (c) Value for money – An engagement on value for money involves obtaining assurance on a measurement or evaluation of value for money by another party (the measurer or evaluator).

*Assurance Skills and Techniques* (Ref: Para. 12(b))

A9. Assurance skills and techniques include:

- Application of professional skepticism and professional judgment;
- Planning and performing an assurance engagement, including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures;

- Applying procedures as appropriate to the engagement (which may include inquiry, inspection, recalculation, reperformance, observation, confirmation, and analytical procedures); and
- Systematic documentation practices and assurance report-writing skills.

*Criteria* (Ref: Para. 12(c), Appendix)

A10. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, a measurer or evaluator might select, as one of the criteria for the underlying subject matter of customer satisfaction, the number of customer complaints resolved to the acknowledged satisfaction of the customer; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. Suitable criteria include, when relevant, criteria for presentation and disclosure.

*Engagement Risk* (Ref: Para. 12(f))

A11. Engagement risk does not refer to, or include, the practitioner's business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular subject matter information.

A12. In general, engagement risk can be represented by the following components, although not all of these components will necessarily be present or significant for all assurance engagements:

- (a) Risks that the practitioner does not directly influence, which in turn consist of:
  - (i) The susceptibility of the subject matter information to a material misstatement before consideration of any related controls applied by the appropriate party(ies) (inherent risk); and
  - (ii) The risk that a material misstatement that occurs in the subject matter information will not be prevented, or detected and corrected, on a timely basis by the appropriate party(ies)'s internal control (control risk); and
- (b) The risk that the practitioner does directly influence, which is the risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk).



A13. The degree to which each of these components is relevant to the engagement is affected by the engagement circumstances, in particular:

- The nature of the underlying subject matter and the subject matter information. For example, the concept of control risk may be more useful when the underlying subject matter relates to the preparation of information about an entity's performance than when it relates to information about the effectiveness of a control or the existence of a physical condition.
- Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance engagements the practitioner may often decide to obtain evidence by means other than testing of controls, in which case consideration of control risk may be less relevant than in a reasonable assurance engagement on the same subject matter information.

The consideration of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

A14. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, "reasonable assurance" is less than absolute assurance, as a result of factors such as the following:

- The use of selective testing.
- The inherent limitations of internal control.
- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the underlying subject matter when evaluated or measured against the criteria.

*The Engaging Party* (Ref: Para. 12(g), Appendix)

A15. The engaging party may be, under different circumstances, management or those charged with governance of the responsible party, a legislature, the intended users, the measurer or evaluator, or a different third party(ies).

*Intended Users* (Ref: Para. 12(m), Appendix)

A16. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people have access to it. In such cases, particularly where possible users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and

common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

- A17. Intended users or their representatives may be directly involved with the practitioner and the responsible party (and the engaging party if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting factual findings based upon procedures agreed with the engaging party and any appropriate third parties, rather than a conclusion):
- (a) The practitioner is responsible for determining the nature, timing and extent of procedures; and
  - (b) The practitioner may need to perform additional procedures if information comes to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based (see paragraphs A116–A118).
- A18. In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 69(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report (see paragraphs A167–A168).

*Subject Matter Information* (Ref: Para. 12(x), Appendix)

- A19. In some cases, the subject matter information may be a statement that evaluates an aspect of a process, or of performance or compliance, in relation to the criteria. For example, “ABC’s internal control operated effectively in terms of XYZ criteria during the period ...” or “ABC’s governance structure conformed with XYZ criteria during the period ...”.

*The Appropriate Party(ies)* (Ref: Para. 13, Appendix)

- A20. The roles played by the responsible party, the measurer or evaluator, and the engaging party can vary (see paragraph A37). Also, management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for ISAEs to specify for all engagements the person(s) with whom the practitioner is to inquire of, request representations from, or otherwise communicate with in all circumstances. In some cases, for example, when the appropriate party(ies) is only part of a complete legal entity, identifying the appropriate management personnel or those charged with governance with whom to communicate will

require the exercise of professional judgment to determine which person(s) have the appropriate responsibilities for, and knowledge of, the matters concerned.

### **Conduct of an Assurance Engagement in Accordance with ISAE**

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

- A21. This ISAE includes requirements that apply to assurance engagements<sup>3</sup> (other than audits or reviews of historical financial information), including engagements in accordance with a subject matter-specific ISAE. In some cases, a subject matter-specific ISAE is also relevant to the engagement. A subject matter-specific ISAE is relevant to the engagement when the ISAE is in effect, the subject matter of the ISAE is relevant to the engagement, and the circumstances addressed by the ISAE exist.
- A22. The ISAs and ISREs have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process generally for practitioners undertaking an assurance engagement in accordance with this ISAE.

*Text of an ISAE* (Ref: Para. 12, 16)

- A23. ISAE contain the objectives of the practitioner in following the ISAE, and requirements designed to enable the practitioner to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISAE, and definitions.
- A24. The objectives in an ISAE provide the context in which the requirements of the ISAE are set, and are intended to assist in:
- (a) Understanding what is to be accomplished; and
  - (b) Deciding whether more needs to be done to achieve the objectives.

The proper application of the requirements of an ISAE by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the circumstances of assurance engagements vary widely and all such circumstances cannot be anticipated in the ISAE, the practitioner is responsible for determining the procedures necessary to fulfill the requirements of relevant ISAE and to achieve the objectives stated therein. In the circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures in addition to those required by relevant ISAE to meet the objectives specified in those ISAE.

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<sup>3</sup> This ISAE contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements. This ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.

- A25. The requirements of ISAE are expressed using “shall.”
- A26. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- (a) Explain more precisely what a requirement means or is intended to cover; and
  - (b) Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISAE. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISAE. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISAE.

- A27. Definitions are provided in the ISAE to assist in the consistent application and interpretation of the ISAE, and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.
- A28. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISAE or within the title and introduction of the appendix itself.

#### Complying with Relevant Requirements (Ref: Para. 17)

- A29. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.

#### **Ethical Requirements** (Ref: Para. 3(a), 20, 22(a))

- A30. The IESBA Code establishes the fundamental principles of ethics, which are:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accounting.

A31. The IESBA Code provides a conceptual framework which a professional accountant is required to apply when addressing threats to compliance with the fundamental principles, including:

- (a) Identify threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:
  - (i) Self-interest;
  - (ii) Self-review;
  - (iii) Advocacy;
  - (iv) Familiarity; and
  - (v) Intimidation;
- (b) Evaluate whether the threats identified are at an acceptable level; and
- (c) If the identified threats to compliance with the fundamental principles are not at an acceptable level, addressing them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

A32. The IESBA Code sets out requirements and application material on various topics, including:

- Conflicts of interest;
- Professional appointments;
- Second opinions;
- Fees and other types of remuneration;
- Inducements, including gifts and hospitality;
- Custody of client assets; and
- Responding to non-compliance with laws and regulations.

A33. The IESBA Code also includes the *International Independence Standards*. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. Matters addressed in the *International Independence Standards* in the IESBA Code include, for example:

- Fees;
- Gifts and hospitality;

- Actual or threatened litigation;
- Financial interests;
- Loans and guarantees;
- Business relationships;
- Family and personal relationships;
- Recent service with an assurance client;
- Serving as a director or officer of an assurance client;
- Employment with an assurance client;
- Long association of personnel with an assurance client;
- Provision of non-assurance services to an assurance client; and
- Reports that include a restriction on use and distribution.

A34. Professional requirements, or requirements imposed by law or regulation, are at least as demanding as the provisions of the IESBA Code related to assurance engagements when they address all the matters referred to in paragraphs A30–A33 and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.

### **Acceptance and Continuance**

#### *Preconditions for the Engagement* (Ref: Para. 24)

- A35. In a public sector environment, some of the preconditions for an assurance engagement may be assumed to be present, for example:
- (a) The roles and responsibilities of public sector audit organizations and the government entities scoped into assurance engagements are assumed to be appropriate because they are generally set out in legislation;
  - (b) Public sector audit organizations' right of access to the information necessary to perform the engagement is often set out in legislation;
  - (c) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is generally required by legislation to be contained in a written report; and
  - (d) A rational purpose is generally present because the engagement is set out in legislation.
- A36. If suitable criteria are not available for all of the underlying subject matter but the practitioner can identify one or more aspects of the underlying subject matter for which those criteria are suitable, then an assurance engagement can be performed with respect to that aspect of the underlying subject matter in its

own right. In such cases, the assurance report may need to clarify that the report does not relate to the original underlying subject matter in its entirety.

Roles and Responsibilities (Ref: Para. 12(m), 12(n), 12(r), 12(v), 13, 24(a), Appendix)

- A37. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. In many attestation engagements, the responsible party may also be the measurer or evaluator, and the engaging party. See the Appendix for a discussion of how each of these roles relate to an assurance engagement.
- A38. Evidence that the appropriate relationship exists with respect to responsibility for the underlying subject matter may be obtained through an acknowledgement provided by the responsible party. Such an acknowledgement also establishes a basis for a common understanding of the responsibilities of the responsible party and the practitioner. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of a written acknowledgement of responsibility, it may still be appropriate for the practitioner to accept the engagement if, for example, other sources, such as legislation or a contract, indicate responsibility. In other cases, it may be appropriate to decline the engagement depending on the circumstances, or to disclose the circumstances in the assurance report.
- A39. The measurer or evaluator is responsible for having a reasonable basis for the subject matter information. What constitutes a reasonable basis will depend on the nature of the underlying subject matter and other engagement circumstances. In some cases, a formal process with extensive internal controls may be needed to provide the measurer or evaluator with a reasonable basis that the subject matter information is free from material misstatement. The fact that the practitioner will report on the subject matter information is not a substitute for the measurer or evaluator's own processes to have a reasonable basis for the subject matter information.

Appropriateness of the Underlying Subject Matter (Ref: Para. 24(b)(i))

- A40. An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
- A41. The appropriateness of an underlying subject matter is not affected by the level of assurance, that is, if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa.

- A42. Different underlying subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and relates to a point in time or covers a period. Such characteristics affect the:
- (a) Precision with which the underlying subject matter can be measured or evaluated against criteria; and
  - (b) The persuasiveness of available evidence.
- A43. Identifying such characteristics and considering their effects assist the practitioner when assessing the appropriateness of the underlying subject matter and also in determining the content of the assurance report (see paragraph A164).
- A44. In some cases, the assurance engagement may relate to only one part of a broader underlying subject matter. For example, the practitioner may be engaged to report on one aspect of an entity's contribution to sustainable development, such as a number of programs run by an entity that have positive environmental outcomes. In determining whether the engagement exhibits the characteristic of having an appropriate underlying subject matter in such cases, it may be appropriate for the practitioner to consider whether information about the aspect on which the practitioner is asked to report is likely to meet the information needs of intended users as a group, and also how the subject matter information will be presented and distributed, for example, whether there are more significant programs with less favorable outcomes that the entity is not reporting upon.

#### Suitability and Availability of the Criteria

Suitability of the criteria (Ref: Para. 24(b)(ii))

- A45. Suitable criteria exhibit the following characteristics:
- (a) **Relevance:** Relevant criteria result in subject matter information that assists decision-making by the intended users.
  - (b) **Completeness:** Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
  - (c) **Reliability:** Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.
  - (d) **Neutrality:** Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.



(e) Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.

A46. Vague descriptions of expectations or judgments of an individual's experiences do not constitute suitable criteria.

A47. The suitability of criteria for a particular engagement depends on whether they reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of professional judgment. Further, criteria may be suitable for a particular set of engagement circumstances, but may not be suitable for a different set of engagement circumstances. For example, reporting to governments or regulators may require the use of a particular set of criteria, but these criteria may not be suitable for a broader group of users.

A48. Criteria can be selected or developed in a variety of ways, for example, they may be:

- Embodied in law or regulation.
- Issued by authorized or recognized bodies of experts that follow a transparent due process.
- Developed collectively by a group that does not follow a transparent due process.
- Published in scholarly journals or books.
- Developed for sale on a proprietary basis.
- Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement.

How criteria are developed may affect the work that the practitioner carries out to assess their suitability.

A49. In some cases, law or regulation prescribes the criteria to be used for the engagement. In the absence of indications to the contrary, such criteria are presumed to be suitable, as are criteria issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs. Such criteria are known as established criteria. Even when established criteria exist for an underlying subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet their specific information needs in relation to, for example, prudential supervision. In such cases, the assurance report:

(a) Alerts readers that the subject matter information is prepared in accordance with special purpose criteria and that, as a result, the subject matter information may not be suitable for another purpose (see paragraph 69(f)); and

- (b) May note, when it is relevant to the circumstances of the engagement, that the criteria are not embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process.

A50. If criteria are specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement, they are not suitable if they result in subject matter information or an assurance report that is misleading to the intended users. It is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement may affect what is to be done to assess the suitability of the criteria, and the information provided about the criteria in the assurance report.

Availability of the criteria (Ref: Para. 24(b)(iii))

A51. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. Criteria are made available to the intended users in one or more of the following ways:

- (a) Publicly.
- (b) Through inclusion in a clear manner in the presentation of the subject matter information.
- (c) Through inclusion in a clear manner in the assurance report (see paragraph A165).
- (d) By general understanding, for example the criterion for measuring time in hours and minutes.

A52. Criteria may also be available only to intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry because they are relevant only to a specific purpose. When this is the case, paragraph 69(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users (see paragraph A167–A168).

Access to Evidence (Ref: Para. 24(b)(iv))

Quantity and quality of available evidence

A53. The quantity or quality of available evidence is affected by:

- (a) The characteristics of the underlying subject matter or the subject matter information. For example, less objective evidence might be expected when the subject matter information is future oriented rather than historical; and

- (b) Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by the responsible party.

Ordinarily, evidence will be persuasive rather than conclusive.

Access to records (Ref: Para. 56)

A54. Seeking the agreement of the appropriate party(ies) that it acknowledges and understands its responsibility to provide the practitioner with the following may assist the practitioner in determining whether the engagement exhibits the characteristic of access to evidence:

- (a) Access to all information of which the appropriate party(ies) is aware that is relevant to the preparation of the subject matter information such as records, documentation and other matters;
- (b) Additional information that the practitioner may request from the appropriate party(ies) for the purpose of the engagement; and
- (c) Unrestricted access to persons from the appropriate party(ies) from whom the practitioner determines it necessary to obtain evidence.

A55. The nature of relationships between the responsible party, the measurer or evaluator, and the engaging party may affect the practitioner's ability to access records, documentation and other information the practitioner may require as evidence to complete the engagement. The nature of such relationships may therefore be a relevant consideration when determining whether or not to accept the engagement. Examples of some circumstances in which the nature of these relationships may be problematic are included in paragraph A140.

A Rational Purpose (Ref: Para. 24(b)(vi))

A56. In determining whether the engagement has a rational purpose, relevant considerations may include the following:

- The intended users of the subject matter information and the assurance report (particularly, when the criteria are designed for a special purpose). A further consideration is the likelihood that the subject matter information and the assurance report will be used or distributed more broadly than to intended users.
- Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.
- The characteristics of the relationships between the responsible party, the measurer or evaluator, and the engaging party, for example, when

the measurer or evaluator is not the responsible party, whether the responsible party consents to the use to be made of the subject matter information and will have the opportunity to review the subject matter information before it is made available to intended users or to distribute comments with the subject matter information.

- Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria.
- Any significant limitations on the scope of the practitioner's work.
- Whether the practitioner believes the engaging party intends to associate the practitioner's name with the underlying subject matter or the subject matter information in an inappropriate manner.

*Agreeing on the Terms of the Engagement* (Ref: Para. 27)

A57. It is in the interests of both the engaging party and the practitioner that the practitioner communicates in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the written agreement or contract will vary with the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party(ies) acknowledges and understands its responsibilities under such law or regulation.

A58. Law or regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access an appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to a minister, the legislature or the public if an appropriate party(ies) attempts to limit the scope of the engagement.

*Acceptance of a Change in the Terms of the Engagement* (Ref: Para. 29)

A59. A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement. An inability to obtain sufficient appropriate evidence to form a reasonable assurance conclusion is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement.

## Quality Control

### *Professional Accountants in Public Practice* (Ref: Para. 20, 31(a)–(b))

A60. This ISAE has been written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by professional accountants in public practice, such as those taken by IFAC member bodies in accordance with IFAC’s Member Body Compliance Program and Statements of Membership Obligations. Such measures include:

- Competency requirements, such as education and experience benchmarks for entry to membership, and ongoing continuing professional development as well as life-long learning requirements.
- Quality control policies and procedures implemented across the firm. ISQC 1 applies to all firms of professional accountants in respect of assurance and related services engagements.
- A comprehensive Code of Ethics, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

### *Firm Level Quality Control* (Ref: Para. 3(b), 31(a))

A61. ISQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for assurance engagements. It sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence. Compliance with ISQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm’s personnel:

- (a) Leadership responsibilities for quality within the firm;
- (b) Relevant ethical requirements;
- (c) Acceptance and continuance of client relationships and specific engagements;
- (d) Human resources;
- (e) Engagement performance; and
- (f) Monitoring.

A62. Other professional requirements, or requirements in law or regulation that deal with the firm’s responsibilities to establish and maintain a system of quality control, are at least as demanding as ISQC 1 when they address all the matters

referred to in the preceding paragraph and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

- A63. The actions of the engagement partner, and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking responsibility for the overall quality on each engagement, emphasize the fact that quality is essential in performing an assurance engagement, and the importance to the quality of the assurance engagement of:
- (a) Performing work that complies with professional standards and regulatory and legal requirements.
  - (b) Complying with the firm's quality control policies and procedures as applicable.
  - (c) Issuing a report for the engagement that is appropriate in the circumstances.
  - (d) The engagement team's ability to raise concerns without fear of reprisals.
- A64. An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.
- A65. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:
- (a) Competence of personnel through their recruitment and formal training.
  - (b) Independence through the accumulation and communication of relevant independence information.
  - (c) Maintenance of client relationships through acceptance and continuance systems.
  - (d) Adherence to regulatory and legal requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the assurance engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.

- A66. A deficiency in the firm's system of quality control does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

*Skills, Knowledge and Experience with Respect to the Underlying Subject Matter and Its Measurement or Evaluation* (Ref: Para. 31(c))

- A67. A practitioner may be requested to perform assurance engagements with respect to a wide range of underlying subject matter and subject matter information. Some may require specialized skills and knowledge beyond those ordinarily possessed by a particular individual.
- A68. The IESBA Code provides requirements and guidance on the self-interest threat to compliance with the principle of professional competence and due care that is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.<sup>4</sup> The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this ISAE, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

*Assignment of the Team*

Collective Competence and Capabilities (Ref: Para. 32)

- A69. ISQC 1 requires the firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so.<sup>5</sup>

Practitioner's Expert (Ref: Para. 32(a), 32(b)(i))

- A70. Some of the assurance work may be performed by a multi-disciplinary team that includes one or more practitioner's expert. For example, a practitioner's expert may be needed to assist the practitioner in obtaining an understanding of the underlying subject matter and other engagement circumstances or in one or more of the matters mentioned in paragraph 46R (in the case of a reasonable assurance engagement) or 46L (in the case of a limited assurance engagement).
- A71. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 52 at the engagement acceptance or continuance stage.

Other Practitioners (Ref: Para. 32(b)(ii))

- A72. The subject matter information may include information upon which another practitioner may have expressed a conclusion. The practitioner, in concluding on the subject matter information, may decide to use the evidence on which

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<sup>4</sup> IESBA Code, paragraph 320.3 A3

<sup>5</sup> ISQC 1, paragraph 26

that other practitioner's conclusion is based to provide evidence regarding the subject matter information.

A73. The work of another practitioner may be used in relation to, for example, an underlying subject matter at a remote location or in a foreign jurisdiction. Such other practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another practitioner may include:

- Whether the other practitioner understands and complies with the ethical requirements that are relevant to the engagement and, in particular, is independent.
- The other practitioner's professional competence.
- The extent of the engagement team's involvement in the work of the other practitioner.
- Whether the other practitioner operates in a regulatory environment that actively oversees that practitioner.

*Review Responsibilities* (Ref: Para. 33(c))

A74. Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that the work of less experienced team members is reviewed by more experienced team members.<sup>6</sup>

*Engagement Quality Control Review* (Ref: Para. 36(b))

A75. Other matters that may be considered in an engagement quality control review include:

- (a) The engagement team's evaluation of the firm's independence in relation to the engagement;
- (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- (c) Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

## **Professional Skepticism and Professional Judgment**

*Professional Skepticism* (Ref: Para. 37)

A76. Professional skepticism is an attitude that includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.

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<sup>6</sup> ISQC 1, paragraph 33



- Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
- Circumstances that suggest the need for procedures in addition to those required by relevant ISAE.
- Conditions that may indicate likely misstatement.

A77. Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneralizing when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature timing, and extent of the procedures, and evaluating the results thereof.

A78. Professional skepticism is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.

A79. Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 50 to consider the reliability of information to be used as evidence.

A80. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

*Professional Judgment* (Ref: Para. 38)

A81. Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and relevant ISAE and the informed decisions required throughout the engagement cannot be made without the application of relevant training, knowledge, and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- Materiality and engagement risk.
- The nature, timing and extent of procedures used to meet the requirements of relevant ISAE and obtain evidence.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ISAE and any relevant subject matter specific ISAE. In particular, in the case of a limited assurance engagement, professional judgment is

required in evaluating whether a meaningful level of assurance has been obtained.

- The appropriate conclusions to draw based on the evidence obtained.

- A82. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.
- A83. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm assist the practitioner in making informed and reasonable judgments, including the extent to which particular items in the subject matter information are affected by judgment of the appropriate party(ies).
- A84. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report.
- A85. Professional judgment needs to be exercised throughout the engagement. It also needs to be appropriately documented. In this regard, paragraph 79 requires the practitioner to prepare documentation sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the engagement. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

## **Planning and Performing the Engagement**

### *Planning* (Ref: Para. 40)

- A86. Planning involves the engagement partner, other key members of the engagement team, and any key practitioner's external experts developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them. Adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner to properly assign work to engagement team members, and facilitates the

direction, supervision, and the review of their work. Further, it assists, where applicable, the coordination of work done by other practitioners and experts. The nature and extent of planning activities will vary with the engagement circumstances, for example the complexity of the underlying subject matter and criteria. Examples of the main matters that may be considered include:

- The characteristics of the engagement that define its scope, including the terms of the engagement and the characteristics of the underlying subject matter and the criteria.
- The expected timing and the nature of the communications required.
- The results of engagement acceptance activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the appropriate party(ies) is relevant.
- The engagement process.
- The practitioner's understanding of the appropriate party(ies) and its environment, including the risks that the subject matter information may be materially misstated.
- Identification of intended users and their information needs, and consideration of materiality and the components of engagement risk.
- The extent to which the risk of fraud is relevant to the engagement.
- The nature, timing and extent of resources necessary to perform the engagement, such as personnel and expertise requirements, including the nature and extent of experts' involvement.
- The impact of the internal audit function on the engagement.

A87. The practitioner may decide to discuss elements of planning with the appropriate party(ies) to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the appropriate party(ies)'s personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the appropriate party(ies) may compromise the effectiveness of the engagement by making the procedures too predictable.

A88. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or evidence obtained, the practitioner may need to revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of procedures.

- A89. In smaller or less complex engagements, the entire engagement may be conducted by a very small engagement team, possibly involving the engagement partner (who may be a sole practitioner) working without any other engagement team members. With a smaller team, co-ordination of, and communication between, team members is easier. Establishing the overall engagement strategy in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, including the underlying subject matter and criteria, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous period, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with appropriate parties, can serve as the documented engagement strategy for the current engagement.
- A90. If in the circumstances described in paragraph 43, the practitioner continues with the engagement:
- (a) When, in the practitioner's professional judgment, the unsuitable applicable criteria or inappropriate underlying subject matter is likely to mislead the intended users, a qualified conclusion or adverse conclusion would be appropriate in the circumstances depending on how material and pervasive the matter is.
  - (b) In other cases, a qualified conclusion or a disclaimer of conclusion would be appropriate depending on, in the practitioner's professional judgment, how material and pervasive the matter is.
- A91. For example, if after accepting the engagement, the practitioner discovers that the application of the applicable criteria leads to biased subject matter information, and the bias of the subject matter information is material and pervasive, then an adverse conclusion would be appropriate in the circumstances.

*Materiality* (Ref: Para. 44)

- A92. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.
- A93. The applicable criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter information and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although applicable criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs A92–A100. If the applicable criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.

A94. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

- (a) Have a reasonable knowledge of the underlying subject matter, and a willingness to study the subject matter information with reasonable diligence;
- (b) Understand that the subject matter information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
- (c) Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and
- (d) Make reasonable decisions on the basis of the subject matter information taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered (see also paragraphs A16–A18).

A95. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment.

A96. Qualitative factors may include such things as:

- The number of persons or entities affected by the subject matter.
- The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.
- The wording chosen with respect to subject matter information that is expressed in narrative form.
- The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.
- The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.

- Whether a misstatement affects compliance with law or regulation.
- In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
- Whether a misstatement is the result of an intentional act or is unintentional.
- Whether a misstatement is significant having regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
- Whether a misstatement relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
- When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
- When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.

A97. Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter information, if any, that are:

- Expressed numerically; or
- Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the subject matter information is a statement that the control is effective).

A98. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks the fact that the aggregate of uncorrected and undetected individually immaterial misstatements may cause the subject matter information to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

A99. Materiality relates to the information covered by the assurance report. Therefore, when the engagement covers some, but not all, aspects of the information

communicated about an underlying subject matter, materiality is considered in relation to only that portion that is covered by the engagement.

A100. Concluding on the materiality of the misstatements identified as a result of the procedures performed requires professional judgment. For example:

- The applicable criteria for a value for money engagement for a hospital's emergency department may include the speed of the services provided, the quality of the services, the number of patients treated during a shift, and benchmarking the cost of the services against other similar hospitals. If three of these applicable criteria are satisfied but one applicable criterion is not satisfied by a small margin, then professional judgment is needed to conclude whether the hospital's emergency department represents value for money as a whole.
- In a compliance engagement, the entity may have complied with nine provisions of the relevant law or regulation, but did not comply with one provision. Professional judgment is needed to conclude whether the entity complied with the relevant law or regulation as a whole. For example, the practitioner may consider the significance of the provision with which the entity did not comply, as well as the relationship of that provision to the remaining provisions of the relevant law or regulation.

*Understanding the Engagement Circumstances* (Ref: Para. 45–47R)

A101. Discussions between the engagement partner and other key members of the engagement team, and any key practitioner's external experts, about the susceptibility of the subject matter information to material misstatement, and the application of the applicable criteria to the facts and circumstances of the engagement, may assist the engagement team in planning and performing the engagement. It is also useful to communicate relevant matters to members of the engagement team, and to any practitioner's external experts not involved in the discussion.

A102. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond the practitioner's responsibilities under this ISAE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor;<sup>7</sup> and

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<sup>7</sup> See, for example, paragraphs R360.31–360.35 A1 of the IESBA Code.

- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner's work in accordance with this and any other ISAE (e.g., regarding the integrity of the responsible party or those charged with governance). Paragraphs A194–A198 further address the practitioner's responsibilities under law, regulation or relevant ethical requirements regarding communicating and reporting identified or suspected non-compliance with laws and regulations.

A103. Obtaining an understanding of the underlying subject matter and other engagement circumstances provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example when:

- Considering the characteristics of the underlying subject matter;
- Assessing the suitability of criteria;
- Considering the factors that, in the practitioner's professional judgment, are significant in directing the engagement team's efforts, including where special consideration may be necessary; for example, the need for specialized skills or the work of an expert;
- Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
- Developing expectations for use when performing analytical procedures;
- Designing and performing procedures; and
- Evaluating evidence, including the reasonableness of the oral and written representations received by the practitioner.

A104. The practitioner ordinarily has a lesser depth of understanding of the underlying subject matter and other engagement circumstances than the responsible party. The practitioner also ordinarily has a lesser depth of understanding of the underlying subject matter and other engagement circumstances for a limited assurance engagement than for a reasonable assurance engagement, for example, while in some limited assurance engagements the practitioner may obtain an understanding of internal control over the preparation of the subject matter information, this is often not the case.

A105. In a limited assurance engagement, identifying the areas where a material misstatement of the subject matter information is likely to arise enables the practitioner to focus procedures on those areas. For example, in an engagement when the subject matter information is a sustainability report, the practitioner may focus on certain areas of the sustainability report. The practitioner may design and perform procedures over the entire subject matter information when



the subject matter information consists of only a single area or when obtaining assurance over all areas of the subject matter information is necessary to obtain meaningful assurance.

- A106. In a reasonable assurance engagement, understanding internal control over the subject matter information assists the practitioner in identifying the types of misstatements and factors that affect the risks of material misstatements in the subject matter information. The practitioner is required to evaluate the design of relevant controls and determines whether they have been implemented, by performing procedures in addition to inquiry of the responsible party. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
- A107. In a limited assurance engagement, considering the process used to prepare the subject matter information assists the practitioner in designing and performing procedures that address the areas where a material misstatement of the subject matter information is likely to arise. In considering the process used, the practitioner uses professional judgment to determine which aspects of the process are relevant to the engagement, and may make inquiries of the appropriate party about those aspects.
- A108. In both a reasonable assurance and a limited assurance engagement, the results of the entity's risk assessment process may also assist the practitioner in obtaining an understanding of the underlying subject matter and other engagement circumstances.

### **Obtaining Evidence**

*The Nature, Timing and Extent of Procedures* (Ref: Para. 48(L)–49(R))

- A109. The practitioner chooses a combination of procedures to obtain reasonable assurance or limited assurance, as appropriate. The procedures listed below may be used, for example, for planning or performing the engagement, depending on the context in which they are applied by the practitioner:
- Inspection;
  - Observation;
  - Confirmation;
  - Recalculation;
  - Reperformance;
  - Analytical procedures; and
  - Inquiry.
- A110. Factors that may affect the practitioner's selection of procedures include the nature of the underlying subject matter; the level of assurance to be obtained; and the information needs of the intended users and the engaging party, including relevant time and cost constraints.

- A111. In some cases, a subject matter-specific ISAE may include requirements that affect the nature, timing and extent of procedures. For example, a subject matter-specific ISAE may describe the nature or extent of particular procedures to be performed or the level of assurance expected to be obtained in a particular type of engagement. Even in such cases, determining the exact nature, timing and extent of procedures is a matter of professional judgment and will vary from one engagement to the next.
- A112. In some engagements, the practitioner may not identify any areas where a material misstatement of the subject matter information is likely to arise. Irrespective of whether any such areas have been identified, the practitioner designs and performs procedures to obtain a meaningful level of assurance.
- A113. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures. Such procedures may include asking the measurer or evaluator to examine the matter identified by the practitioner, and to make adjustments to the subject matter information if appropriate.

*Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement (Ref: Para. 49L)*

- A114. The practitioner may become aware of misstatements that are, after applying professional judgment, clearly not indicative of the existence of material misstatements. The following examples illustrate when additional procedures may not be needed because, in the practitioner's professional judgment, the identified misstatements are clearly not indicative of the existence of material misstatements:
- If materiality is 10,000 units, and the practitioner judges that a potential error of 100 units may exist, then additional procedures would not generally be required, unless there are other qualitative factors that need to be considered, because the risk of a material misstatement is likely to be acceptable in the engagement circumstances.
  - If, in performing a set of procedures over an area where material misstatements are likely, a response to one inquiry among many was not as expected, additional procedures may not be needed if the risk of a material misstatement is, nevertheless, at a level that is acceptable in the circumstances of the engagement in light of the results of other procedures.
- A115. The practitioner may become aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated. The following examples illustrate when additional procedures may be needed as the

identified misstatements indicate that the subject matter information may be materially misstated:

- When performing analytical procedures, the practitioner may identify a fluctuation or relationship that is inconsistent with other relevant information or that differs significantly from expected amounts or ratios.
- The practitioner may become aware of a potential material misstatement from reviewing external sources.
- If the applicable criteria permit a 10% error rate and, based on a particular test, the practitioner discovered a 9% error rate, then additional procedures may be needed because the risk of a material misstatement may not be acceptable in the engagement circumstances.
- If the results of analytical procedures are within expectations but are, nevertheless, close to exceeding the expected value, then additional procedures may be needed because the risk of a material misstatement may not be acceptable in the engagement circumstances.

A116. If, in the case of a limited assurance engagement, a matter(s) comes to the practitioner's attention that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner is required by paragraph 49L to design and perform additional procedures. Additional procedures may include, for example, inquiring of the appropriate party(ies) or performing other procedures as appropriate in the circumstances.

A117. If, having performed the additional procedures required by paragraph 49L, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated or determine that it does cause the subject matter information to be materially misstated, a scope limitation exists and paragraph 66 applies.

A118. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is, for example, guided by:

- Information obtained from the practitioner's evaluation of the results of the procedures already performed;
- The practitioner's updated understanding of the underlying subject matter and other engagement circumstances obtained throughout the course of the engagement; and
- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the subject matter information may be materially misstated.

*Accumulating Uncorrected Misstatements* (Ref: Para. 51, 65)

A119. Uncorrected misstatements are accumulated during the engagement (see paragraph 51) for the purpose of evaluating whether, individually or in aggregate, they are material when forming the practitioner's conclusion.

A120. The practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the subject matter information. "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with paragraph 44, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

*Considerations When a Practitioner's Expert Is Involved on the Engagement*

*Nature, Timing and Extent of Procedures* (Ref: Para. 52)

A121. The following matters are often relevant when determining the nature, timing and extent of procedures with respect to the work of a practitioner's expert when some of the assurance work is performed by one or more practitioner's expert (see paragraph A70):

- (a) The significance of that expert's work in the context of the engagement (see also paragraphs A122–A123);
- (b) The nature of the matter to which that expert's work relates;
- (c) The risks of material misstatement in the matter to which that expert's work relates;
- (d) The practitioner's knowledge of and experience with previous work performed by that expert; and
- (e) Whether that expert is subject to the practitioner's firm's quality control policies and procedures (see also paragraphs A124–A125).

*Integrating the work of a practitioner's expert*

A122. Assurance engagements may be performed on a wide range of underlying subject matters that require specialized skills and knowledge beyond those possessed by the engagement partner and other members of the engagement team and for which the work of a practitioner's expert is used. In some situations, the practitioner's expert will be consulted to provide advice on an individual matter, but the greater the significance of the practitioner's expert's work in the context of the engagement, the more likely it is that expert will

work as part of a multi-disciplinary team comprising subject matter experts and other assurance personnel. The more that expert's work is integrated in nature, timing and extent with the overall work effort, the more important effective two-way communication is between the practitioner's expert and other assurance personnel. Effective two-way communication facilitates the proper integration of the expert's work with the work of others on the engagement.

A123. As noted in paragraph A71, when the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 52 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's expert is to be used in the early stages of the engagement, for example during initial planning and risk assessment.

The practitioner's firm's quality control policies and procedures

A124. A practitioner's internal expert may be a partner or staff, including temporary staff, of the practitioner's firm, and therefore subject to the quality control policies and procedures of that firm in accordance with ISQC 1 or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. Alternatively, a practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the practitioner's firm. A practitioner's external expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with ISQC 1.

A125. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the practitioner's procedures with respect to such matters as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert. Practitioner's internal experts are subject to relevant ethical requirements, including those pertaining to independence.
- The practitioner's evaluation of the adequacy of the practitioner's expert's work. For example, the firm's training programs may provide the practitioner's internal experts with an appropriate understanding of the interrelationship of their expertise with the evidence gathering process. Reliance on such training and other firm processes, such as protocols for scoping the work of the practitioner's internal experts, may affect the nature, timing and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's expert's work.

- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ISAE.

The Competence, Capabilities and Objectivity of the Practitioner's Expert (Ref: Para. 52(a))

A126. Information regarding the competence, capabilities and objectivity of a practitioner's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The firm's quality control policies and procedures (see also paragraphs A124–A125).

A127. While practitioner's experts do not require the same proficiency as the practitioner in performing all aspects of an assurance engagement, a practitioner's expert whose work is used may need a sufficient understanding of relevant ISAE to enable that expert to relate the work assigned to them to the engagement objective.

A128. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's expert and the significance of the expert's work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's expert is an individual who has played a significant role in preparing the subject matter information.

A129. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the practitioner's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether

the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the practitioner's expert include:

- Financial interests.
- Business and personal relationships.
- Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the appropriate party(ies) of which that expert is aware.

#### Obtaining an Understanding of the Field of Expertise of the Practitioner's Expert (Ref: Para. 52(b))

A130. Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

- (a) Agree with the practitioner's expert the nature, scope and objectives of that expert's work for the practitioner's purposes; and
- (b) Evaluate the adequacy of that work for the practitioner's purposes.

A131. Aspects of the practitioner's expert's field relevant to the practitioner's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the engagement.
- Whether any professional or other standards and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement.
- The nature of internal and external data or information the practitioner's expert uses.

#### Agreement with the Practitioner's Expert (Ref: Para. 52(c))

A132. It may be appropriate for the practitioner's agreement with the practitioner's expert to also include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;

- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A133. The matters noted in paragraph A125 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and a practitioner's external expert is often in the form of an engagement letter.

*Evaluating the Adequacy of the Practitioner's Expert's Work (Ref: Para. 52(d))*

A134. The following matters may be relevant when evaluating the adequacy of the practitioner's expert's work for the practitioner's purposes:

- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence;
- (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
- (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

A135. If the practitioner determines that the work of the practitioner's expert is not adequate for the practitioner's purposes, options available to the practitioner include:

- (a) Agreeing with that expert on the nature and extent of further work to be performed by that expert; or
- (b) Performing additional procedures appropriate to the circumstances.

*Work Performed by Another Practitioner, a Responsible Party's or Measurer's or Evaluator's Expert, or an Internal Auditor (Ref: Para. 53–55)*

A136. While paragraphs A121–A135 have been written in the context of using work performed by a practitioner's expert, they may also provide helpful guidance with respect to using work performed by another practitioner, a responsible party's or measurer's or evaluator's expert, or an internal auditor.

*Written Representations (Ref: Para. 56)*

A137. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the appropriate party(ies). The person(s) from whom the practitioner requests written representations will



ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the appropriate party(ies), which may vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.

A138. Other written representations requested may include the following:

- Whether the appropriate party(ies) believes the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the subject matter information. A summary of such items is ordinarily included in or attached to the written representation;
- That significant assumptions used in making any material estimates are reasonable;
- That the appropriate party(ies) has communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial and inconsequential of which the appropriate party(ies) is aware; and
- When the responsible party is different from the measurer or evaluator, that the responsible party acknowledges responsibility for the underlying subject matter.

A139. Representations by the appropriate party(ies) cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.

Requested Written Representations Not Provided or Not Reliable (Ref: Para. 60)

A140. Circumstances in which the practitioner may not be able to obtain requested written representations include, for example, when:

- The responsible party contracts a third party to perform the relevant measurement or evaluation and later engages the practitioner to undertake an assurance engagement on the resultant subject matter information. In some such cases, for example where the responsible party has an ongoing relationship with the measurer or evaluator, the responsible party may be able to arrange for the measurer or evaluator to provide requested written representations, or the responsible party may be in a position to provide such representations if the responsible party has a reasonable basis for doing so, but, in other cases, this may not be so.
- An intended user engages the practitioner to undertake an assurance engagement on publicly available information but does not have a

relationship with the responsible party of the kind necessary to ensure that party responds to the practitioner's request for a written representation.

- The assurance engagement is undertaken against the wishes of the measurer or evaluator. This may be the case when, for example, the engagement is undertaken pursuant to a court order, or a public sector practitioner is required by the legislature or other competent authority to undertake a particular engagement.

In these or similar circumstances, the practitioner may not have access to the evidence needed to support the practitioner's conclusion. If this is the case, paragraph 66 of this ISAE applies.

### **Subsequent Events** (Ref: Para. 61)

A141. Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the underlying subject matter. For example, when the engagement requires a conclusion about the accuracy of a statistical return at a point in time, events occurring between that point in time and the date of the assurance report may not affect the conclusion or require disclosure in the return or the assurance report.

A142. As noted in paragraph 61, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the practitioner's report. However, if, after the date of the practitioner's report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner may need to discuss the matter with the appropriate party(ies) or take other action as appropriate in the circumstances.

### **Other Information** (Ref: Para. 62)

A143. Further actions that may be appropriate if the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact include, for example:

- Requesting the appropriate party(ies) to consult with a qualified third party, such as the appropriate party(ies)'s legal counsel.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (for example, a regulator).
- Withholding the assurance report.
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.
- Describing the material inconsistency in the assurance report.

### **Description of Applicable Criteria (Ref: Para. 63)**

- A144. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.
- A145. A description that the subject matter information is prepared in accordance with particular applicable criteria is appropriate only if the subject matter information complies with all relevant requirements of those applicable criteria that are effective.
- A146. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the subject matter information is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the subject matter information.

### **Forming the Assurance Conclusion**

#### *Sufficiency and Appropriateness of Evidence (Ref: Para. 12(i), 64)*

- A147. Evidence is necessary to support the practitioner’s conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or a firm’s quality control procedures for client acceptance and continuance. Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by an expert employed or engaged by the appropriate party(ies). Evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is used by the practitioner, and therefore, also constitutes evidence. Most of the practitioner’s work in forming the assurance conclusion consists of obtaining and evaluating evidence.
- A148. The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the subject matter information being materially misstated (the higher the risks, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality.
- A149. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the practitioner’s conclusion.

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. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. Even when evidence is obtained from sources external to the appropriate party(ies), circumstances may exist that could affect its reliability. For example, evidence obtained from an external source may not be reliable if the source is not knowledgeable or objective. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

- Evidence is more reliable when it is obtained from sources outside the appropriate party(ies).
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is ordinarily more reliable than a subsequent oral representation of what was discussed).

A150. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining evidence from different sources or of a different nature may indicate that an individual item of evidence is not reliable. For example, corroborating information obtained from a source independent of the appropriate party(ies) may increase the assurance the practitioner obtains from a representation from the appropriate party(ies). Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional procedures are necessary to resolve the inconsistency.

A151. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance about subject matter information covering a period than about subject matter information at a point in time. In addition, conclusions provided on processes ordinarily are limited to the period covered by the engagement; the practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.

A152. Whether sufficient appropriate evidence has been obtained on which to base the practitioner's conclusion is a matter of professional judgment.

A153. In some circumstances, the practitioner may not have obtained the sufficiency or appropriateness of evidence that the practitioner had expected to obtain through

the planned procedures. In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the subject matter information. The practitioner may:

- Extend the work performed; or
- Perform other procedures judged by the practitioner to be necessary in the circumstances.

Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion. This situation may arise even though the practitioner has not become aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated, as addressed in paragraph 49L.

*Evaluating the Sufficiency and Appropriateness of Evidence* (Ref: Para. 65)

A154. An assurance engagement is a cumulative and iterative process. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to change the nature, timing or extent of other planned procedures. Information may come to the practitioner's attention that differs significantly from that expected and upon which planned procedures were based. For example:

- The extent of misstatements that the practitioner identifies may alter the practitioner's professional judgment about the reliability of particular sources of information.
- The practitioner may become aware of discrepancies in relevant information, or inconsistent or missing evidence.
- If analytical procedures were performed towards the end of the engagement, the results of those procedures may indicate a previously unrecognized risk of material misstatement.

In such circumstances, the practitioner may need to reevaluate the planned procedures.

A155. The practitioner's professional judgment as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of its having a material effect, individually or when aggregated with other potential misstatements, on the subject matter information.
- Effectiveness of the appropriate party(ies)'s responses to address the known risk of material misstatement.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.

- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the appropriate party(ies) and its environment.

Scope Limitations (Ref: Para. 26, 66)

A156. A scope limitation may arise from:

- (a) Circumstances beyond the control of the appropriate party(ies). For example, documentation the practitioner considers it necessary to inspect may have been accidentally destroyed;
- (b) Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process the practitioner considers it necessary to observe may have occurred before the practitioner's engagement; or
- (c) Limitations imposed by the responsible party, the measurer or evaluator, or the engaging party on the practitioner that, for example, may prevent the practitioner from performing a procedure the practitioner considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of engagement risk and engagement acceptance and continuance.

A157. An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures.

A158. The procedures performed in a limited assurance engagement are, by definition, limited compared with that necessary in a reasonable assurance engagement. Limitations known to exist prior to accepting a limited assurance engagement are a relevant consideration when establishing whether the preconditions for an assurance engagement are present, in particular, whether the engagement exhibits the characteristics of access to evidence (see paragraph 24(b)(iv)) and a rational purpose (see paragraph 24(b)(vi)). If a further limitation is imposed by the appropriate party(ies) after a limited assurance engagement has been accepted, it may be appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

## **Preparing the Assurance Report**

*Form of Assurance Report* (Ref: Para. 67–68)

A159. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner does not report orally or by use of symbols without also providing a written assurance report

that is readily available whenever the oral report is provided or the symbol is used. For example, a symbol could be hyperlinked to a written assurance report on the Internet.

- A160. This ISAE does not require a standardized format for reporting on all assurance engagements. Instead it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.
- A161. The practitioner may choose a “short-form” or “long-form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports include other information and explanations that are not intended to affect the practitioner’s conclusion. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. The practitioner may find it helpful to consider the significance of providing such information to the information needs of the intended users. As required by paragraph 68, additional information is clearly separated from the practitioner’s conclusion and phrased in such a manner so as make it clear that it is not intended to detract from that conclusion.

### *Assurance Report Content*

Title (Ref: Para. 69(a))

- A162. An appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner.

Addressee (Ref: Para. 69(b))

- A163. An addressee identifies the party or parties to whom the assurance report is directed. The assurance report is ordinarily addressed to the engaging party, but, in some cases, there may be other intended users.

Subject Matter Information and Underlying Subject Matter (Ref: Para. 69(c))

- A164. Identification and description of the subject matter information and, when appropriate, the underlying subject matter may include, for example:
- The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.
  - Where applicable, the name of the responsible party or component of the responsible party to which the underlying subject matter relates.

- An explanation of those characteristics of the underlying subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the underlying subject matter against the applicable criteria, or the persuasiveness of available evidence. For example:
  - The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
  - Changes in the underlying subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.

#### Applicable Criteria (Ref: Para. 69(d))

A165. The assurance report identifies the applicable criteria against which the underlying subject matter was measured or evaluated so the intended users can understand the basis for the practitioner's conclusion. The assurance report may include the applicable criteria, or refer to them if they are included in the subject matter information or if they are otherwise available from a readily accessible source. It may be relevant in the circumstances, to disclose:

- The source of the applicable criteria, and whether or not the applicable criteria are embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the underlying subject matter (and if they are not, a description of why they are considered suitable).
- Measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods.
- Any significant interpretations made in applying the applicable criteria in the engagement circumstances.
- Whether there have been any changes in the measurement or evaluation methods used.

#### Inherent Limitations (Ref: Para. 69(e))

A166. While in some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.



Specific Purpose (Ref: Para. 69(f))

A167. In some cases, the applicable criteria used to measure or evaluate the underlying subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts readers of the assurance report to this fact and that, therefore, the subject matter information may not be suitable for another purpose.

A168. In addition to the alert required by paragraph 69(f), the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Relative Responsibilities (Ref: Para. 69(g))

A169. Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, that the measurer or evaluator is responsible for the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the practitioner's role is to independently express a conclusion about the subject matter information.

Performance of the Engagement in Accordance with ISAE 3000 (Revised) and a Subject Matter Specific ISAE (Ref: Para. 69(h))

A170. Where a subject matter specific ISAE applies to only part of the subject matter information, it may be appropriate to cite both that subject matter specific ISAE and this ISAE.

A171. A statement that contains imprecise qualifying or limiting language (for example "the engagement was performed by reference to ISAE 3000 (Revised)") may mislead users of assurance reports.

Applicable Quality Control Requirements (Ref: Para. 69(i))

A172. The following is an illustration of a statement in the assurance report regarding applicable quality control requirements:

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Compliance with Independence and Other Ethical Requirements (Ref: Para. 69(j))

A173. The following is an illustration of a statement in the assurance report regarding compliance with ethical requirements:

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Summary of the Work Performed (Ref: Para. A6, 69(k))

A174. The summary of the work performed helps the intended users understand the practitioner's conclusion. For many assurance engagements, infinite variations in procedures are possible in theory. In practice, however, these are difficult to communicate clearly and unambiguously. Other authoritative pronouncements issued by the International Auditing and Assurance Standards Board may be useful to practitioners in preparing the summary.

A175. Where no specific ISAE provides guidance on procedures for a particular underlying subject matter, the summary might include a more detailed description of the work performed. It may be appropriate to include in the summary a statement that the work performed included evaluating the suitability of the applicable criteria.

A176. In a limited assurance engagement the summary of the work performed is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing and extent of procedures. This is because an appreciation of the nature, timing and extent of procedures performed is essential to understanding a conclusion expressed in a form that conveys whether, based on the procedures performed, a material matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. It also may be appropriate to indicate in the summary of the work performed certain procedures that were not performed that would ordinarily be expected to be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the practitioner's required understanding and consideration of engagement risk is less than in a reasonable assurance engagement.

A177. Factors to consider in determining the level of detail to be provided in the summary of the work performed may include:

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

A178. It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

The Practitioner's Conclusion (Ref: Para. 12(a)(i)(a), 69(l))

A179. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, "In our opinion, the entity has complied, in all material respects, with XYZ law;"
- When expressed in terms of the subject matter information and the applicable criteria, "In our opinion, the forecast of the entity's financial performance is properly prepared, in all material respects, based on XYZ criteria;" or
- When expressed in terms of a statement made by the appropriate party, "In our opinion, the [appropriate party's] statement that the entity has complied with XYZ law is, in all material respects, fairly stated," or "In our opinion, the [appropriate party's] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated".

A180. It may be appropriate to inform the intended users of the context in which the practitioner's conclusion is to be read when the assurance report includes an explanation of particular characteristics of the underlying subject matter of which the intended users should be aware. The practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."

A181. Examples of conclusions expressed in a form appropriate for a limited assurance engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that [the entity] has not complied, in all material respects, with XYZ law."
- When expressed in terms of the subject matter information and the applicable criteria, "Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the assessment of key performance indicators for them to be in accordance with XYZ criteria."
- When expressed in terms of a statement made by the appropriate party, "Based on the procedures performed and evidence obtained, nothing

has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has complied with XYZ law, is not, in all material respects, fairly stated.”

A182. Forms of expression that may be useful for underlying subject matters include, for example, one, or a combination of, the following:

- For compliance engagements—“in compliance with” or “in accordance with.”
- For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the subject matter information—“properly prepared.”
- For engagements when the principles of fair presentation are embodied in the applicable criteria—“fairly stated.”

A183. Inclusion of a heading above paragraphs containing modified conclusions, and the matter(s) giving rise to the modification, aids the understandability of the practitioner's report. Examples of appropriate heading include “Qualified Conclusion,” “Adverse Conclusion,” “Disclaimer of Conclusion” and “Basis for Qualified Conclusion,” “Basis for Adverse Conclusion,” as appropriate.

The Practitioner's Signature (Ref: Para. 69(m))

A184. The practitioner's signature is either in the name of the practitioner's firm, the personal name of the individual practitioner or both, as appropriate for the particular jurisdiction. In addition to the practitioner's signature, in certain jurisdictions, the practitioner may be required to make a declaration in the practitioner's report about professional designations or recognition by the appropriate licensing authority in that jurisdiction.

Date (Ref: Para. 69(n))

A185. Including the assurance report date informs the intended users that the practitioner has considered the effect on the subject matter information and on the assurance report of events that occurred up to that date.

*Reference to the Practitioner's Expert in the Assurance Report* (Ref: Para. 70)

A186. In some cases, law or regulation may require a reference to the work of a practitioner's expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in other circumstances, for example, to explain the nature of a modification of the practitioner's conclusion, or when the work of an expert is integral to findings included in a long-form report.

A187. Nonetheless, the practitioner has sole responsibility for the conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. It is important therefore that if the assurance

report refers to a practitioner's expert, that the wording of that report does not imply that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of that expert.

A188. A generic reference in a long-form report to the engagement having been conducted by suitably qualified personnel including subject matter experts and assurance specialists is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short-form reports, where minimum contextual information is able to be presented, or when the practitioner's expert is referred to by name. Therefore, additional wording may be needed in such cases to prevent the assurance report implying that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of the expert.

### **Unmodified and Modified Conclusions** (Ref: Para. 74–77, Appendix)

A189. The term 'pervasive' describes the effects on the subject matter information of misstatements or the possible effects on the subject matter information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the subject matter information are those that, in the practitioner's professional judgment:

- (a) Are not confined to specific aspects of the subject matter information;
- (b) If so confined, represent or could represent a substantial proportion of the subject matter information; or
- (c) In relation to disclosures, are fundamental to the intended users' understanding of the subject matter information.

A190. The nature of the matter, and the practitioner's judgment about the pervasiveness of the effects or possible effects on the subject matter information, affects the type of conclusion to be expressed.

A191. Examples of qualified and adverse conclusions and a disclaimer of conclusion are:

- Qualified conclusion (an example for limited assurance engagements with a material misstatement) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [appropriate party's] statement does not present fairly, in all material respects, the entity's compliance with XYZ law.”
- Adverse conclusion (an example for a material and pervasive misstatement for both reasonable assurance and limited assurance engagements) – “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [appropriate

party's] statement does not present fairly the entity's compliance with XYZ law."

- Disclaimer of conclusion (an example for a material and pervasive limitation of scope for both reasonable assurance and limited assurance engagements) – "Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the [appropriate party's] statement. Accordingly, we do not express a conclusion on that statement."

A192. In some cases, the measurer or evaluator may identify and properly describe that the subject matter information is materially misstated. For example, in a compliance engagement the measurer or evaluator may correctly describe the instances of non-compliance. In such circumstances, paragraph 76 requires the practitioner to draw the intended users' attention to the description of the material misstatement, by either expressing a qualified or adverse conclusion or by expressing an unqualified conclusion but emphasizing the matter by specifically referring to it in the assurance report.

#### **Other Communication Responsibilities** (Ref: Para. 78)

A193. Matters that may be appropriate to communicate with the responsible party, the measurer or evaluator, the engaging party or others include fraud or suspected fraud, and bias in the preparation of the subject matter information.

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

A194. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

##### Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity

A195. Law, regulation or relevant ethical requirements may:

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.

- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>8</sup>

A196. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
- (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.

A197. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement but which may not affect the subject matter information. Under this ISAE, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the subject matter information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A198. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>9</sup>

A199. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>10</sup>

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<sup>8</sup> See, for example, paragraphs R360.36–R360.37 of the IESBA Code.

<sup>9</sup> See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the IESBA Code.

<sup>10</sup> See, for example, paragraph 360.39 A1 of the IESBA Code.

**Documentation** (Ref: Para. 79–83)

- A200. Documentation includes a record of the practitioner’s reasoning on all significant matters that require the exercise of professional judgment, and related conclusions. When difficult questions of principle or professional judgment exist, documentation that includes the relevant facts that were known by the practitioner at the time the conclusion was reached may assist in demonstrating the practitioner’s knowledge.
- A201. It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the practitioner to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the engagement file. Similarly, the practitioner need not include in the engagement file superseded drafts of working papers, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.
- A202. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the practitioner may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the engagement) to another practitioner who has no previous experience with the engagement. That other practitioner may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practitioner who prepared the documentation.
- A203. Documentation may include a record of, for example:
- The identifying characteristics of the specific items or matters tested;
  - Who performed the engagement work and the date such work was completed;
  - Who reviewed the engagement work performed and the date and extent of such review; and
  - Discussions of significant matters with the appropriate party(ies) and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- A204. Documentation may include a record of, for example:
- Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
  - Conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions.



- Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements.
- The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

*Assembly of the Final Engagement File*

A205. ISQC 1 (or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQC 1) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files.<sup>11</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>12</sup>

A206. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

A207. ISQC 1 (or national requirements that are at least as demanding as ISQC 1) requires firms to establish policies and procedures for the retention of engagement documentation.<sup>13</sup> The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.<sup>14</sup>

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<sup>11</sup> ISQC 1, paragraph 45

<sup>12</sup> ISQC 1, paragraph A54

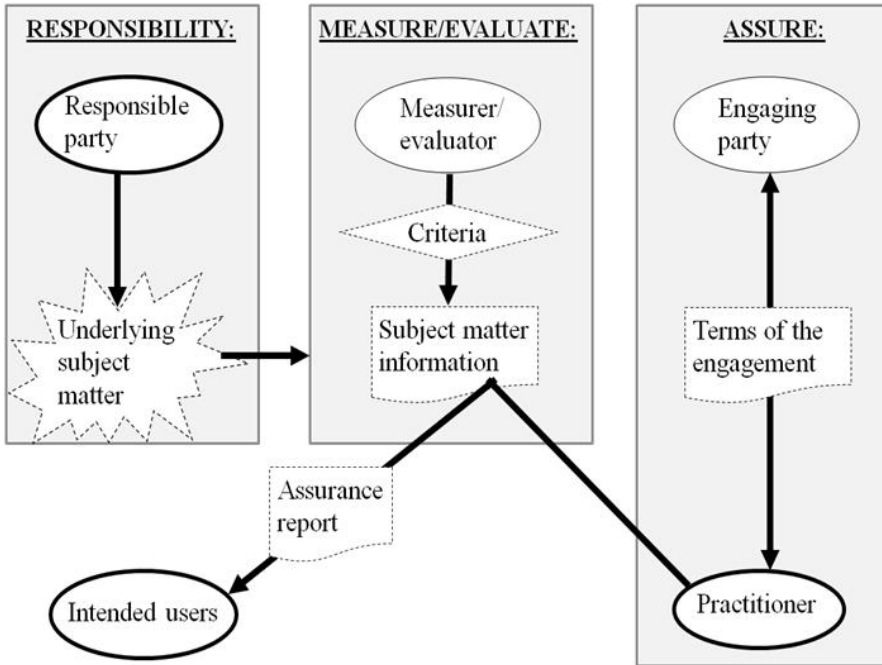
<sup>13</sup> ISQC1, paragraph 47

<sup>14</sup> ISQC1, paragraph A61

## Appendix

(Ref: Para. 2, A8, A11, A16, A36–A38)

### Roles and Responsibilities



1. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party.
2. The above diagram illustrates how the following roles relate to an assurance engagement:
  - (a) The responsible party is responsible for the underlying subject matter.
  - (b) The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.
  - (c) The engaging party agrees the terms of the engagement with the practitioner.
  - (d) The practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information.

- (e) The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report.

3. The following observations can be made about these roles:

- Every assurance engagement has at least a responsible party and intended users, in addition to the practitioner.
- The practitioner cannot be the responsible party, the engaging party or an intended user.
- In a direct engagement, the practitioner is also the measurer or evaluator.
- In an attestation engagement, the responsible party, or someone else, but not the practitioner, can be the measurer or evaluator.
- When the practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the measurement or evaluation, for example, by the responsible party attaching a statement to the subject matter information accepting responsibility for it.
- The responsible party can be the engaging party.
- In many attestation engagements the responsible party may also be the measurer or evaluator, and the engaging party. An example is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the responsible party is different from the measurer or evaluator, is when the practitioner is engaged to perform an assurance engagement regarding a report prepared by a government organization about a private company's sustainability practices.
- In an attestation engagement, the measurer or evaluator ordinarily provides the practitioner with a written representation about the subject matter information. In some cases, the practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
- The responsible party can be one of the intended users, but not the only one.
- The responsible party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party, the measurer or

evaluator, and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage a practitioner to perform an assurance engagement on a particular aspect of the entity's activities that is the immediate responsibility of a lower level of management (the responsible party), but for which senior management is ultimately responsible.

- An engaging party that is not also the responsible party can be the intended user.
4. The practitioner's conclusion may be phrased either in terms of:
- The underlying subject matter and the applicable criteria;
  - The subject matter information and the applicable criteria; or
  - A statement made by the appropriate party.
5. The practitioner and the responsible party may agree to apply the principles of the ISAE to an engagement when there are no intended users other than the responsible party but where all other requirements of the ISAE are met. In such cases, the practitioner's report includes a statement restricting the use of the report to the responsible party.

**INTERNATIONAL STANDARD ON ASSURANCE  
ENGAGEMENTS 3400**

(Previously ISA 810)

**THE EXAMINATION OF PROSPECTIVE  
FINANCIAL INFORMATION**

(This Standard is effective)

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International Standard on Assurance Engagements (ISAE) 3400, *The Examination of Prospective Financial Information*, should be read in the context of the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

## Introduction

1. The purpose of this International Standard on Assurance Engagements (ISAE) is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions. This ISAE does not apply to the examination of prospective financial information expressed in general or narrative terms, such as that found in management’s discussion and analysis in an entity’s annual report, though many of the procedures outlined herein may be suitable for such an examination.
2. **In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:**
  - (a) **Management’s best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;**
  - (b) **The prospective financial information is properly prepared on the basis of the assumptions;**
  - (c) **The prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and**
  - (d) **The prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.**
3. “Prospective financial information” means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection or a combination of both, for example, a one year forecast plus a five year projection.
4. A “forecast” means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).
5. A “projection” means prospective financial information prepared on the basis of:
  - (a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or

- (b) A mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur (a “what-if” scenario).

6. Prospective financial information can include financial statements or one or more elements of financial statements and may be prepared:
- (a) As an internal management tool, for example, to assist in evaluating a possible capital investment; or
- (b) For distribution to third parties in, for example:
- A prospectus to provide potential investors with information about future expectations.
  - An annual report to provide information to shareholders, regulatory bodies and other interested parties.
  - A document for the information of lenders which may include, for example, cash flow forecasts.
7. Management is responsible for the preparation and presentation of the prospective financial information, including the identification and disclosure of the assumptions on which it is based. The auditor may be asked to examine and report on the prospective financial information to enhance its credibility whether it is intended for use by third parties or for internal purposes.

## **The Auditor’s Assurance Regarding Prospective Financial Information**

8. Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit of historical financial information. The auditor is, therefore, not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved.
9. Further, given the types of evidence available in assessing the assumptions on which the prospective financial information is based, it may be difficult for the auditor to obtain a level of satisfaction sufficient to provide a positive expression of opinion that the assumptions are free of material misstatement. Consequently, in this ISAE, when reporting on the reasonableness of management’s assumptions the auditor provides only a moderate level of assurance. However, when in the auditor’s judgment an appropriate level of satisfaction has been obtained, the auditor is not precluded from expressing positive assurance regarding the assumptions.

## Acceptance of Engagement

10. Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:
  - The intended use of the information;
  - Whether the information will be for general or limited distribution;
  - The nature of the assumptions, that is, whether they are best-estimate or hypothetical assumptions;
  - The elements to be included in the information; and
  - The period covered by the information.
11. **The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.**
12. **The auditor and the client should agree on the terms of the engagement.** It is in the interests of both entity and auditor that the auditor sends an engagement letter to help in avoiding misunderstandings regarding the engagement. An engagement letter would address the matters in paragraph 10 and set out management's responsibilities for the assumptions and for providing the auditor with all relevant information and source data used in developing the assumptions.

## Knowledge of the Business

13. **The auditor should obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified.** The auditor would also need to become familiar with the entity's process for preparing prospective financial information, for example, by considering the following:
  - The internal controls over the system used to prepare prospective financial information and the expertise and experience of those persons preparing the prospective financial information.
  - The nature of the documentation prepared by the entity supporting management's assumptions.
  - The extent to which statistical, mathematical and computer-assisted techniques are used.
  - The methods used to develop and apply assumptions.v
  - The accuracy of prospective financial information prepared in prior periods and the reasons for significant variances.



14. **The auditor should consider the extent to which reliance on the entity's historical financial information is justified.** The auditor requires a knowledge of the entity's historical financial information to assess whether the prospective financial information has been prepared on a basis consistent with the historical financial information and to provide a historical yardstick for considering management's assumptions. The auditor will need to establish, for example, whether relevant historical information was audited or reviewed and whether acceptable accounting principles were used in its preparation.
15. If the audit or review report on prior period historical financial information was other than unmodified or if the entity is in a start-up phase, the auditor would consider the surrounding facts and the effect on the examination of the prospective financial information.

### Period Covered

16. **The auditor should consider the period of time covered by the prospective financial information.** Since assumptions become more speculative as the length of the period covered increases, as that period lengthens, the ability of management to make best-estimate assumptions decreases. The period would not extend beyond the time for which management has a reasonable basis for the assumptions. The following are some of the factors that are relevant to the auditor's consideration of the period of time covered by the prospective financial information:
- Operating cycle, for example, in the case of a major construction project the time required to complete the project may dictate the period covered.
  - The degree of reliability of assumptions, for example, if the entity is introducing a new product the prospective period covered could be short and broken into small segments, such as weeks or months. Alternatively, if the entity's sole business is owning a property under long-term lease, a relatively long prospective period might be reasonable.
  - The needs of users, for example, prospective financial information may be prepared in connection with an application for a loan for the period of time required to generate sufficient funds for repayment. Alternatively, the information may be prepared for investors in connection with the sale of debentures to illustrate the intended use of the proceeds in the subsequent period.

### Examination Procedures

17. **When determining the nature, timing and extent of examination procedures, the auditor's considerations should include:**
- (a) **The likelihood of material misstatement;**
  - (b) **The knowledge obtained during any previous engagements;**

- (c) **Management’s competence regarding the preparation of prospective financial information;**
  - (d) **The extent to which the prospective financial information is affected by the management’s judgment; and**
  - (e) **The adequacy and reliability of the underlying data.**
18. The auditor would assess the source and reliability of the evidence supporting management’s best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity’s capacity.
  19. The auditor would consider whether, when hypothetical assumptions are used, all significant implications of such assumptions have been taken into consideration. For example, if sales are assumed to grow beyond the entity’s current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as subcontracting production.
  20. Although evidence supporting hypothetical assumptions need not be obtained, the auditor would need to be satisfied that they are consistent with the purpose of the prospective financial information and that there is no reason to believe they are clearly unrealistic.
  21. The auditor will need to be satisfied that the prospective financial information is properly prepared from management’s assumptions by, for example, making clerical checks such as recomputation and reviewing internal consistency, that is, the actions management intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables such as interest rates.
  22. The auditor would focus on the extent to which those areas that are particularly sensitive to variation will have a material effect on the results shown in the prospective financial information. This will influence the extent to which the auditor will seek appropriate evidence. It will also influence the auditor’s evaluation of the appropriateness and adequacy of disclosure.
  23. When engaged to examine one or more elements of prospective financial information, such as an individual financial statement, it is important that the auditor consider the interrelationship of other components in the financial statements.
  24. When any elapsed portion of the current period is included in the prospective financial information, the auditor would consider the extent to which procedures need to be applied to the historical information. Procedures will vary depending

on the circumstances, for example, how much of the prospective period has elapsed.

25. **The auditor should obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the prospective financial information.**

## Presentation and Disclosure

26. When assessing the presentation and disclosure of the prospective financial information, in addition to the specific requirements of any relevant statutes, regulations or professional standards, the auditor will need to consider whether:
- (a) The presentation of prospective financial information is informative and not misleading;
  - (b) The accounting policies are clearly disclosed in the notes to the prospective financial information;
  - (c) The assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;
  - (d) The date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;
  - (e) The basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and
  - (f) Any change in accounting policy since the most recent historical financial statements is disclosed, along with the reason for the change and its effect on the prospective financial information.

## Report on Examination of Prospective Financial Information

27. **The report by an auditor on an examination of prospective financial information should contain the following:**
- (a) **Title;**
  - (b) **Addressee;**
  - (c) **Identification of the prospective financial information;**

- (d) **A reference to the ISAE or relevant national standards or practices applicable to the examination of prospective financial information;**
- (e) **A statement that management is responsible for the prospective financial information including the assumptions on which it is based;**
- (f) **When applicable, a reference to the purpose and/or restricted distribution of the prospective financial information;**
- (g) **A statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information;**
- (h) **An opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework;**
- (i) **Appropriate caveats concerning the achievability of the results indicated by the prospective financial information;**
- (j) **Date of the report which should be the date procedures have been completed;**
- (k) **Auditor’s address; and**
- (l) **Signature.**
- (m) **Such a report would:**
  - State whether, based on the examination of the evidence supporting the assumptions, anything has come to the auditor’s attention which causes the auditor to believe that the assumptions do not provide a reasonable basis for the prospective financial information.
  - Express an opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.
  - State that:
    - Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Likewise, when the prospective financial information is expressed as a range, it would be stated that there can be no assurance that actual results will fall within the range; and
    - In the case of a projection, the prospective financial information has been prepared for (state purpose), using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not

necessarily expected to occur. Consequently, readers are cautioned that the prospective financial information is not used for purposes other than that described.

28. The following is an example of an extract from an unmodified report on a forecast:

We have examined the forecast<sup>1</sup> in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. Management is responsible for the forecast including the assumptions set out in Note X on which it is based.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions and is presented in accordance with ....<sup>2</sup>

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

29. The following is an example of an extract from an unmodified report on a projection:

We have examined the projection<sup>3</sup> in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. Management is responsible for the projection including the assumptions set out in Note X on which it is based.

This projection has been prepared for (describe purpose). As the entity is in a start-up phase the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that (state or refer to the hypothetical assumptions). Further, in our opinion the projection is properly prepared on the basis of the assumptions and is presented in accordance with ....<sup>4</sup>

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<sup>1</sup> Include name of the entity, the period covered by the forecast and provide suitable identification, such as by reference to page numbers or by identifying the individual statements.

<sup>2</sup> Indicate the relevant financial reporting framework.

<sup>3</sup> Include name of the entity, the period covered by the projection and provide suitable identification, such as by reference to page numbers or by identifying the individual statements.

<sup>4</sup> See footnote 2.

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

30. **When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on the prospective financial information, or withdraw from the engagement as appropriate. An example would be where financial information fails to disclose adequately the consequences of any assumptions which are highly sensitive.**
31. **When the auditor believes that one or more significant assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for the prospective financial information given the hypothetical assumptions, the auditor should either express an adverse opinion in the report on the prospective financial information, or withdraw from the engagement.**
32. **When the examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, the auditor should either withdraw from the engagement or disclaim the opinion and describe the scope limitation in the report on the prospective financial information.**

**INTERNATIONAL STANDARD ON ASSURANCE  
ENGAGEMENTS (ISAE) 3402**

**ASSURANCE REPORTS ON CONTROLS AT  
A SERVICE ORGANIZATION**

(Effective for service auditors' assurance reports covering periods  
ending on or after June 15, 2011)

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International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*, should be read in conjunction with the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, which sets out the authority of ISAE.



## Introduction

### Scope of this ISAE

1. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements undertaken by a practitioner<sup>1</sup> to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting. It complements ISA 402,<sup>2</sup> in that reports prepared in accordance with this ISAE are capable of providing appropriate evidence under ISA 402. (Ref: Para. A1)
2. The *International Framework for Assurance Engagements* (the Assurance Framework) states that an assurance engagement may be a "reasonable assurance" engagement or a "limited assurance" engagement and that an assurance engagement may be either an attestation engagement or a "direct" engagement.<sup>3</sup> This ISAE only deals with reasonable assurance attestation engagements.<sup>4</sup>
3. This ISAE applies only when the service organization is responsible for, or otherwise able to make a statement about, the suitable design of controls. This ISAE does not deal with assurance engagements:
  - (a) To report only on whether controls at a service organization operated as described, or
  - (b) To report on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting (for example, controls that affect user entities' production or quality control).

This ISAE, however, provides some guidance for such engagements carried out under ISAE 3000 (Revised). (Ref: Para. A2)

4. In addition to issuing an assurance report on controls, a service auditor may also be engaged to provide reports such as the following, which are not dealt with in this ISAE:
  - (a) A report on a user entity's transactions or balances maintained by a service organization; or
  - (b) An agreed-upon procedures report on controls at a service organization.

<sup>1</sup> ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, paragraph 12(r)

<sup>2</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>3</sup> ISAE 3000 (Revised), paragraph 12

<sup>4</sup> Paragraphs 13 and 53(k) of this ISAE

*Relationship with ISAE 3000 (Revised), Other Professional Pronouncements and Other Requirements*

5. The service auditor is required to comply with ISAE 3000 (Revised) and this ISAE when performing assurance engagements on controls at a service organization. This ISAE supplements, but does not replace, ISAE 3000 (Revised), and expands on how ISAE 3000 (Revised) is to be applied in a reasonable assurance engagement to report on controls at a service organization.
6. Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by law and regulation, that are at least as demanding.<sup>5</sup> It also requires the engagement partner to be a member of a firm that applies ISQC 1,<sup>6</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1.

### Effective Date

7. This ISAE is effective for service auditors' assurance reports covering periods ending on or after June 15, 2011.

### Objectives

8. The objectives of the service auditor are:
  - (a) To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:
    - (i) The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date);
    - (ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date);
    - (iii) Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period.
  - (b) To report on the matters in (a) above in accordance with the service auditor's findings.

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<sup>5</sup> ISAE 3000 (Revised), paragraphs 3(a), 20 and 34

<sup>6</sup> ISAE 3000 (Revised), paragraphs 3(b) and 31(a). International Standard on Quality Control (ISQC) 1, *Quality Control For Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

## Definitions

9. For purposes of this ISAE, the following terms have the meanings attributed below:
- (a) **Carve-out method** – Method of dealing with the services provided by a subservice organization, whereby the service organization’s description of its system includes the nature of the services provided by a subservice organization, but that subservice organization’s relevant control objectives and related controls are excluded from the service organization’s description of its system and from the scope of the service auditor’s engagement. The service organization’s description of its system and the scope of the service auditor’s engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization’s review of an assurance report on controls at the subservice organization.
  - (b) **Complementary user entity controls** – Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives stated in the service organization’s description of its system, are identified in that description.
  - (c) **Control objective** – The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate.
  - (d) **Controls at the service organization** – Controls over the achievement of a control objective that is covered by the service auditor’s assurance report. (Ref: Para. A3)
  - (e) **Controls at a subservice organization** – Controls at a subservice organization to provide reasonable assurance about the achievement of a control objective.
  - (f) **Criteria** – Benchmarks used to evaluate or measure the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.
  - (g) **Inclusive method** – Method of dealing with the services provided by a subservice organization, whereby the service organization’s description of its system includes the nature of the services provided by a subservice organization, and that subservice organization’s relevant control objectives and related controls are included in the service organization’s description of its system and in the scope of the service auditor’s engagement. (Ref: Para. A4)
  - (h) **Internal audit function** – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control process.

- (i) Internal auditors – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.
- (j) Report on the description and design of controls at a service organization (referred to in this ISAE as a “type 1 report”) – A report that comprises:
  - (i) The service organization’s description of its system;
  - (ii) A written statement by the service organization that, in all material respects, and based on suitable criteria:
    - a. The description fairly presents the service organization’s system as designed and implemented as at the specified date;
    - b. The controls related to the control objectives stated in the service organization’s description of its system were suitably designed as at the specified date; and
  - (iii) A service auditor’s assurance report that conveys a reasonable assurance conclusion about the matters in (ii)a.–b. above.
- (k) Report on the description, design and operating effectiveness of controls at a service organization (referred to in this ISAE as a “type 2 report”) – A report that comprises:
  - (i) The service organization’s description of its system;
  - (ii) A written statement by the service organization that, in all material respects, and based on suitable criteria:
    - a. The description fairly presents the service organization’s system as designed and implemented throughout the specified period;
    - b. The controls related to the control objectives stated in the service organization’s description of its system were suitably designed throughout the specified period; and
    - c. The controls related to the control objectives stated in the service organization’s description of its system operated effectively throughout the specified period; and
  - (iii) A service auditor’s assurance report that:
    - a. Conveys a reasonable assurance conclusion about the matters in (ii)a.–c. above; and
    - b. Includes a description of the tests of controls and the results thereof.

- (l) Service auditor – A practitioner who, at the request of the service organization, provides an assurance report on controls at a service organization.
- (m) Service organization – A third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities’ internal control as it relates to financial reporting.
- (n) Service organization’s statement – The written statement about the matters referred to in paragraph 9(k)(ii) (or paragraph 9(j)(ii) in the case of a type 1 report).
- (o) Service organization’s system (or the system) – The policies and procedures designed and implemented by the service organization to provide user entities with the services covered by the service auditor’s assurance report. The service organization’s description of its system includes identification of: the services covered; the period, or in the case of a type 1 report, the date, to which the description relates; control objectives; and related controls.
- (p) Subservice organization – A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to user entities’ internal control as it relates to financial reporting.
- (q) Test of controls – A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the service organization’s description of its system.
- (r) User auditor – An auditor who audits and reports on the financial statements of a user entity.<sup>7</sup>
- (s) User entity – An entity that uses a service organization.

## Requirements

### ISAE 3000 (Revised)

10. The service auditor shall not represent compliance with this ISAE unless the service auditor has complied with the requirements of this ISAE and ISAE 3000 (Revised).

### Ethical Requirements

11. The service auditor shall comply with the provisions of the IESBA Code relating to assurance engagements or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A5)

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<sup>7</sup> In the case of a subservice organization, the service auditor of a service organization that uses the services of the subservice organization is also a user auditor.

## Management and Those Charged with Governance

12. Where this ISAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This shall include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned. (Ref: Para. A6)

## Acceptance and Continuance

13. Before agreeing to accept, or continue, an engagement the service auditor shall:
- (a) Determine whether:
    - (i) The service auditor has the capabilities and competence to perform the engagement; (Ref: Para. A7)
    - (ii) The criteria the practitioner expects to be applied by the service organization to prepare the description of its system are suitable and will be available to user entities and their auditors; and
    - (iii) The scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.
  - (b) Obtain the agreement of the service organization that it acknowledges and understands its responsibility:
    - (i) For the preparation of the description of its system, and accompanying service organization's statement, including the completeness, accuracy and method of presentation of that description and statement; (Ref: Para. A8)
    - (ii) To have a reasonable basis for the service organization's statement accompanying the description of its system; (Ref: Para. A9)
    - (iii) For stating in the service organization's statement the criteria it used to prepare the description of its system;
    - (iv) For stating in the description of its system:
      - a. The control objectives; and
      - b. Where they are specified by law or regulation, or another party (for example, a user group or a professional body), the party who specified them;
    - (v) For identifying the risks that threaten achievement of the control objectives stated in the description of its system, and designing and implementing controls to provide reasonable assurance that those risks will not prevent achievement of the control objectives

stated in the description of its system, and therefore that the stated control objectives will be achieved; and (Ref: Para. A10)

- (vi) To provide the service auditor with:
  - a. Access to all information, such as records, documentation and other matters, including service level agreements, of which the service organization is aware that is relevant to the description of the service organization's system and the accompanying service organization's statement;
  - b. Additional information that the service auditor may request from the service organization for the purpose of the assurance engagement; and
  - c. Unrestricted access to persons within the service organization from whom the service auditor determines it necessary to obtain evidence.

#### *Acceptance of a Change in the Terms of the Engagement*

- 14. If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change. (Ref: Para. A11–A12)

### **Determining the Suitability of the Criteria**

- 15. The service auditor shall determine whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively.
- 16. In determining the suitability of the criteria to evaluate the service organization's description of its system, the service auditor shall determine if the criteria encompass, at a minimum:
  - (a) Whether the description presents how the service organization's system was designed and implemented, including, as appropriate:
    - (i) The types of services provided, including, as appropriate, classes of transactions processed;
    - (ii) The procedures, within both information technology and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities;
    - (iii) The related records and supporting information, including, as appropriate, accounting records, supporting information and specific accounts that are used to initiate, record, process and

report transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities;

- (iv) How the service organization’s system deals with significant events and conditions, other than transactions;
  - (v) The process used to prepare reports and other information for user entities;
  - (vi) The specified control objectives and controls designed to achieve those objectives;
  - (vii) Complementary user entity controls contemplated in the design of the controls; and
  - (viii) Other aspects of the service organization’s control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that are relevant to the services provided.
- (b) In the case of a type 2 report, whether the description includes relevant details of changes to the service organization’s system during the period covered by the description.
- (c) Whether the description omits or distorts information relevant to the scope of the service organization’s system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities and their auditors and may not, therefore, include every aspect of the service organization’s system that each individual user entity and its auditor may consider important in its particular environment.
17. In determining the suitability of the criteria to evaluate the design of controls, the service auditor shall determine if the criteria encompass, at a minimum, whether:
- (a) The service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system; and
  - (b) The controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.
18. In determining the suitability of the criteria to evaluate the operating effectiveness of controls in providing reasonable assurance that the stated control objectives identified in the description will be achieved, the service auditor shall determine if the criteria encompass, at a minimum, whether the controls were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority. (Ref: Para. A13–A15)



**Materiality**

19. When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls. (Ref: Para. A16–A18)

**Obtaining an Understanding of the Service Organization’s System**

20. The service auditor shall obtain an understanding of the service organization’s system, including controls that are included in the scope of the engagement. (Ref: Para. A19–A20)

**Obtaining Evidence Regarding the Description**

21. The service auditor shall obtain and read the service organization’s description of its system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented, including whether: (Ref: Para. A21–A22)
- (a) Control objectives stated in the service organization’s description of its system are reasonable in the circumstances; (Ref: Para. A23)
  - (b) Controls identified in that description were implemented;
  - (c) Complementary user entity controls, if any, are adequately described; and
  - (d) Services performed by a subservice organization, if any, are adequately described, including whether the inclusive method or the carve-out method has been used in relation to them.
22. The service auditor shall determine, through other procedures in combination with inquiries, whether the service organization’s system has been implemented. Those other procedures shall include observation, and inspection of records and other documentation, of the manner in which the service organization’s system operates and controls are applied. (Ref: Para. A24)

**Obtaining Evidence Regarding Design of Controls**

23. The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization’s description of its system, and shall assess whether those controls were suitably designed. This determination shall include: (Ref: Para. A25–A27)
- (a) Identifying the risks that threaten the achievement of the control objectives stated in the service organization’s description of its system; and
  - (b) Evaluating the linkage of controls identified in the service organization’s description of its system with those risks.

**Obtaining Evidence Regarding Operating Effectiveness of Controls**

24. When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization's description of its system, and assess their operating effectiveness throughout the period. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period. (Ref: Para. A28–A32)
25. When designing and performing tests of controls, the service auditor shall:
- (a) Perform other procedures in combination with inquiry to obtain evidence about:
    - (i) How the control was applied;
    - (ii) The consistency with which the control was applied; and
    - (iii) By whom or by what means the control was applied;
  - (b) Determine whether controls to be tested depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those indirect controls; and (Ref: Para. A33–A34)
  - (c) Determine means of selecting items for testing that are effective in meeting the objectives of the procedure. (Ref: Para. A35–A36)
26. When determining the extent of tests of controls, the service auditor shall consider matters including the characteristics of the population to be tested, which includes the nature of controls, the frequency of their application (for example, monthly, daily, a number of times per day), and the expected rate of deviation.

*Sampling*

27. When the service auditor uses sampling, the service auditor shall: (Ref: Para. A35–A36)
- (a) Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn when designing the sample;
  - (b) Determine a sample size sufficient to reduce sampling risk to an appropriately low level;
  - (c) Select items for the sample in such a way that each sampling unit in the population has a chance of selection;
  - (d) If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item; and

- (e) If unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

#### *Nature and Cause of Deviations*

28. The service auditor shall investigate the nature and cause of any deviations identified and shall determine whether:
- (a) Identified deviations are within the expected rate of deviation and are acceptable; therefore, the testing that has been performed provides an appropriate basis for concluding that the control is operating effectively throughout the specified period;
  - (b) Additional testing of the control or of other controls is necessary to reach a conclusion on whether the controls relative to a particular control objective are operating effectively throughout the specified period; or (Ref: Para. A25)
  - (c) The testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.
29. In the extremely rare circumstances when the service auditor considers a deviation discovered in a sample to be an anomaly and no other controls have been identified that allow the service auditor to conclude that the relevant control objective is operating effectively throughout the specified period, the service auditor shall obtain a high degree of certainty that such deviation is not representative of the population. The service auditor shall obtain this degree of certainty by performing additional procedures to obtain sufficient appropriate evidence that the deviation does not affect the remainder of the population.

#### **The Work of an Internal Audit Function<sup>8</sup>**

##### *Obtaining an Understanding of the Internal Audit Function*

30. If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement. (Ref: Para. A37)

##### *Determining Whether and to What Extent to Use the Work of the Internal Auditors*

31. The service auditor shall determine:
- (a) Whether the work of the internal auditors is likely to be adequate for purposes of the engagement; and

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<sup>8</sup> This ISAE does not deal with instances when individual internal auditors provide direct assistance to the service auditor in carrying out audit procedures.

- (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor’s procedures.
32. In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the service auditor shall evaluate:
- (a) The objectivity of the internal audit function;
  - (b) The technical competence of the internal auditors;
  - (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
  - (d) Whether there is likely to be effective communication between the internal auditors and the service auditor.
33. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor’s procedures, the service auditor shall consider: (Ref: Para. A38)
- (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
  - (b) The significance of that work to the service auditor’s conclusions; and
  - (c) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.

*Using the Work of the Internal Audit Function*

34. In order for the service auditor to use specific work of the internal auditors, the service auditor shall evaluate and perform procedures on that work to determine its adequacy for the service auditor’s purposes. (Ref: Para. A39)
35. To determine the adequacy of specific work performed by the internal auditors for the service auditor’s purposes, the service auditor shall evaluate whether:
- (a) The work was performed by internal auditors having adequate technical training and proficiency;
  - (b) The work was properly supervised, reviewed and documented;
  - (c) Adequate evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
  - (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
  - (e) Exceptions relevant to the engagement or unusual matters disclosed by the internal auditors are properly resolved.

*Effect on the Service Auditor's Assurance Report*

36. If the work of the internal audit function has been used, the service auditor shall make no reference to that work in the section of the service auditor's assurance report that contains the service auditor's opinion. (Ref: Para. A40)
37. In the case of a type 2 report, if the work of the internal audit function has been used in performing tests of controls, that part of the service auditor's assurance report that describes the service auditor's tests of controls and the results thereof shall include a description of the internal auditor's work and of the service auditor's procedures with respect to that work. (Ref: Para. A41)

**Written Representations**

38. The service auditor shall request the service organization to provide written representations: (Ref: Para. A42)
- (a) That reaffirm the statement accompanying the description of the system;
  - (b) That it has provided the service auditor with all relevant information and access agreed to;<sup>9</sup> and
  - (c) That it has disclosed to the service auditor any of the following of which it is aware:
    - (i) Non-compliance with law and regulations, fraud, or uncorrected deviations attributable to the service organization that may affect one or more user entities;
    - (ii) Design deficiencies in controls;
    - (iii) Instances where controls have not operated as described; and
    - (iv) Any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report.
39. The written representations shall be in the form of a representation letter addressed to the service auditor. The date of the written representations shall be as near as practicable to, but not after, the date of the service auditor's assurance report.
40. If, having discussed the matter with the service auditor, the service organization does not provide one or more of the written representations requested in accordance with paragraph 38(a) and (b) of this ISAE, the service auditor shall disclaim an opinion. (Ref: Para. A43)

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<sup>9</sup> Paragraph 13(b)(v) of this ISAE

**Other Information**

41. The service auditor shall read the other information, if any, included in a document containing the service organization's description of its system and the service auditor's assurance report, to identify material inconsistencies, if any, with that description. While reading the other information for the purpose of identifying material inconsistencies, the service auditor may become aware of an apparent misstatement of fact in that other information.
42. If the service auditor identifies a material inconsistency or becomes aware of an apparent misstatement of fact in the other information, the service auditor shall discuss the matter with the service organization. If the service auditor concludes that there is a material inconsistency or a misstatement of fact in the other information that the service organization refuses to correct, the service auditor shall take further appropriate action. (Ref: Para. A44–A45)

**Subsequent Events**

43. The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that may have caused the service auditor to amend the assurance report. If the service auditor is aware of such an event, and information about that event is not disclosed by the service organization, the service auditor shall disclose it in the service auditor's assurance report.
44. The service auditor has no obligation to perform any procedures regarding the description of the service organization's system, or the suitability of design or operating effectiveness of controls, after the date of the service auditor's assurance report.

**Documentation**

45. The service auditor shall prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced service auditor, having no previous connection with the engagement, to understand:
  - (a) The nature, timing and extent of the procedures performed to comply with this ISAE and applicable legal and regulatory requirements;
  - (b) The results of the procedures performed, and the evidence obtained; and
  - (c) Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions.
46. In documenting the nature, timing and extent of procedures performed, the service auditor shall record:

- (a) The identifying characteristics of the specific items or matters being tested;
  - (b) Who performed the work and the date such work was completed; and
  - (c) Who reviewed the work performed and the date and extent of such review.
47. If the service auditor uses specific work of the internal auditors, the service auditor shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the procedures performed by the service auditor on that work.
48. The service auditor shall document discussions of significant matters with the service organization and others including the nature of the significant matters discussed and when and with whom the discussions took place.
49. If the service auditor has identified information that is inconsistent with the service auditor's final conclusion regarding a significant matter, the service auditor shall document how the service auditor addressed the inconsistency.
50. The service auditor shall assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor's assurance report.<sup>10</sup>
51. After the assembly of the final engagement file has been completed, the service auditor shall not delete or discard documentation before the end of its retention period. (Ref: Para. A46)
52. If the service auditor finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final engagement file has been completed and that documentation does not affect the service auditor's report, the service auditor shall, regardless of the nature of the modifications or additions, document:
- (a) The specific reasons for making them; and
  - (b) When and by whom they were made and reviewed.

## Preparing the Service Auditor's Assurance Report

### *Content of the Service Auditor's Assurance Report*

53. The service auditor's assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A47)
- (a) A title that clearly indicates the report is an independent service auditor's assurance report.

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<sup>10</sup> Paragraphs A54–A55 of ISQC 1 provide further guidance.

- (b) An addressee.
- (c) Identification of:
  - (i) The service organization's description of its system, and the service organization's statement, which includes the matters described in paragraph 9(k)(ii) for a type 2 report, or paragraph 9(j)(ii) for a type 1 report.
  - (ii) Those parts of the service organization's description of its system, if any, that are not covered by the service auditor's opinion.
  - (iii) If the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the service organization's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organization.
  - (iv) If services are performed by a subservice organization, the nature of activities performed by the subservice organization as described in the service organization's description of its system and whether the inclusive method or the carve-out method has been used in relation to them. Where the carve-out method has been used, a statement that the service organization's description of its system excludes the control objectives and related controls at relevant subservice organizations, and that the service auditor's procedures do not extend to controls at the subservice organization. Where the inclusive method has been used, a statement that the service organization's description of its system includes control objectives and related controls at the subservice organization, and that the service auditor's procedures extended to controls at the subservice organization.
- (d) Identification of the applicable criteria, and the party specifying the control objectives.
- (e) A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. (Ref: Para. A48)
- (f) A statement that the service organization is responsible for:
  - (i) Preparing the description of its system, and the accompanying statement, including the completeness, accuracy and method of presentation of that description and that statement;



- (ii) Providing the services covered by the service organization's description of its system;
  - (iii) Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body); and
  - (iv) Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.
- (g) A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- (h) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1.
- (i) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.
- (j) A statement that the engagement was performed in accordance with ISAE 3402, *Assurance Reports on Controls at a Service Organization*, which requires that the service auditor plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service organization's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.
- (k) A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a type 1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.

- (l) A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
- (m) The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
  - (i) In the case of a type 2 report:
    - a. The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
    - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
    - c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
  - (ii) In the case of a type 1 report:
    - a. The description fairly presents the service organization's system that had been designed and implemented as at the specified date; and
    - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.
- (n) The date of the service auditor's assurance report, which shall be no earlier than the date on which the service auditor has obtained the evidence on which the service auditor's opinion is based.
- (o) The name of the service auditor, and the location in the jurisdiction where the service auditor practices.

54. In the case of a type 2 report, the service auditor's assurance report shall include a separate section after the opinion, or an attachment, that describes the tests of controls that were performed and the results of those tests. In describing the tests of controls, the service auditor shall clearly state which controls were tested, identify whether the items tested represent all or a selection of the items in the population, and indicate the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments. If deviations have been identified, the service auditor shall include the extent of testing performed that led to identification of the deviations (including the sample size where sampling has been used), and the number and nature of the deviations noted. The service auditor shall report deviations even if, on

the basis of tests performed, the service auditor has concluded that the related control objective was achieved. (Ref: Para. A18 and A49)

### *Modified Opinions*

55. If the service auditor concludes that: (Ref: Para. A50–A52)
- (a) The service organization’s description does not fairly present, in all material respects, the system as designed and implemented;
  - (b) The controls related to the control objectives stated in the description were not suitably designed, in all material respects;
  - (c) In the case of a type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the service organization’s description of its system were achieved, did not operate effectively, in all material respects; or
  - (d) The service auditor is unable to obtain sufficient appropriate evidence,
- the service auditor’s opinion shall be modified, and the service auditor’s assurance report shall include a section with a clear description of all the reasons for the modification.

### **Other Communication Responsibilities**

56. If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organization that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organization is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. A53)

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## **Application and Other Explanatory Material**

### **Scope of this ISAE (Ref: Para. 1, 3)**

- A1. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives related to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Controls related to a service organization’s operations and compliance objectives may be relevant to a user entity’s internal control as it relates to financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions or disclosures, or may pertain to evidence that the user auditor evaluates or uses in applying auditing procedures. For example, a payroll processing service

organization's controls related to the timely remittance of payroll deductions to government authorities may be relevant to a user entity as late remittances could incur interest and penalties that would result in a liability for the user entity. Similarly, a service organization's controls over the acceptability of investment transactions from a regulatory perspective may be considered relevant to a user entity's presentation and disclosure of transactions and account balances in its financial statements. The determination of whether controls at a service organization related to operations and compliance are likely to be relevant to user entities' internal control as it relates to financial reporting is a matter of professional judgment, having regard to the control objectives set by the service organization and the suitability of the criteria.

- A2. The service organization may not be able to assert that the system is suitably designed when, for example, the service organization is operating a system that has been designed by a user entity or is stipulated in a contract between a user entity and the service organization. Because of the inextricable link between the suitable design of controls and their operating effectiveness, the absence of a statement with respect to the suitability of design will likely preclude the service auditor from concluding that the controls provide reasonable assurance that the control objectives have been met and thus from opining on the operating effectiveness of controls. As an alternative, the practitioner may choose to accept an agreed-upon procedures engagement to perform tests of controls, or an assurance engagement under ISAE 3000 (Revised) to conclude on whether, based on tests of controls, the controls have operated as described.

**Definitions** (Ref: Para. 9(d), 9(g))

- A3. The definition of "controls at the service organization" includes aspects of user entities' information systems maintained by the service organization, and may also include aspects of one or more of the other components of internal control at a service organization. For example, it may include aspects of a service organization's control environment, monitoring, and control activities when they relate to the services provided. It does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in the service organization's description of its system, for example, controls related to the preparation of the service organization's own financial statements.
- A4. When the inclusive method is used, the requirements in this ISAE also apply to the services provided by the subservice organization, including obtaining agreement regarding the matters in paragraph 13(b)(i)–(v) as applied to the subservice organization rather than the service organization. Performing procedures at the subservice organization entails coordination and communication between the service organization, the subservice organization, and the service auditor. The inclusive method generally is feasible only if the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for its use.

**Ethical Requirements** (Ref: Para. 11)

- A5. The service auditor is subject to relevant independence requirements, which ordinarily comprise the *International Independence Standards* of the IESBA Code together with national requirements that are more restrictive. In performing an engagement in accordance with this ISAE, the IESBA Code does not require the service auditor to be independent from each user entity.

**Management and Those Charged with Governance** (Ref: Para. 12)

- A6. Management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for this ISAE to specify for all engagements the person(s) with whom the service auditor is to interact regarding particular matters. For example, the service organization may be a segment of a third-party organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

**Acceptance and Continuance***Capabilities and Competence to Perform the Engagement* (Ref: Para. 13(a)(i))

- A7. Relevant capabilities and competence to perform the engagement include matters such as the following:
- Knowledge of the relevant industry;
  - An understanding of information technology and systems;
  - Experience in evaluating risks as they relate to the suitable design of controls; and
  - Experience in the design and execution of tests of controls and the evaluation of the results.

*Service Organization's Statement* (Ref: Para. 13(b)(i))

- A8. Refusal, by a service organization, to provide a written statement, subsequent to an agreement by the service auditor to accept, or continue, an engagement, represents a scope limitation that causes the service auditor to withdraw from the engagement. If law or regulation does not allow the service auditor to withdraw from the engagement, the service auditor disclaims an opinion.

*Reasonable Basis for Service Organization's Statement* (Ref: Para. 13(b)(ii))

- A9. In the case of a type 2 report, the service organization's statement includes a statement that the controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period. This statement may be based on the service organization's monitoring

activities. Monitoring of controls is a process to assess the effectiveness of controls over time. It involves assessing the effectiveness of controls on a timely basis, identifying and reporting deficiencies to appropriate individuals within the service organization, and taking necessary corrective actions. The service organization accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of both. The greater the degree and effectiveness of ongoing monitoring activities, the less need for separate evaluations. Ongoing monitoring activities are often built into the normal recurring activities of a service organization and include regular management and supervisory activities. Internal auditors or personnel performing similar functions may contribute to the monitoring of a service organization's activities. Monitoring activities may also include using information communicated by external parties, such as customer complaints and regulator comments, which may indicate problems or highlight areas in need of improvement. The fact that the service auditor will report on the operating effectiveness of controls is not a substitute for the service organization's own processes to provide a reasonable basis for its statement.

*Identification of Risks* (Ref: Para. 13(b)(iv))

- A10. As noted in paragraph 9(c), control objectives relate to risks that controls seek to mitigate. For example, the risk that a transaction is recorded at the wrong amount or in the wrong period can be expressed as a control objective that transactions are recorded at the correct amount and in the correct period. The service organization is responsible for identifying the risks that threaten achievement of the control objectives stated in the description of its system. The service organization may have a formal or informal process for identifying relevant risks. A formal process may include estimating the significance of identified risks, assessing the likelihood of their occurrence, and deciding about actions to address them. However, since control objectives relate to risks that controls seek to mitigate, thoughtful identification of control objectives when designing and implementing the service organization's system may itself comprise an informal process for identifying relevant risks.

*Acceptance of a Change in the Terms of the Engagement* (Ref: Para. 14)

- A11. A request to change the scope of the engagement may not have a reasonable justification when, for example, the request is made to exclude certain control objectives from the scope of the engagement because of the likelihood that the service auditor's opinion would be modified; or the service organization will not provide the service auditor with a written statement and the request is made to perform the engagement under ISAE 3000 (Revised).
- A12. A request to change the scope of the engagement may have a reasonable justification when, for example, the request is made to exclude from the engagement a subservice organization when the service organization cannot arrange for access by the service auditor, and the method used for dealing with the services provided by that subservice organization is changed from the inclusive method to the carve-out method.

**Assessing the Suitability of the Criteria** (Ref: Para. 15–18)

- A13. Criteria need to be available to the intended users to allow them to understand the basis for the service organization’s statement about the fair presentation of its description of the system, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of the controls related to the control objectives.
- A14. ISAE 3000 (Revised) requires the service auditor, among other things, to determine whether the criteria to be used are suitable, and to determine the appropriateness of the underlying subject matter.<sup>11</sup> The underlying subject matter is the underlying condition of interest to intended users of an assurance report. The following table identifies the subject matter and minimum criteria for each of the opinions in type 2 and type 1 reports.

	<b>Subject matter</b>	<b>Criteria</b>	<b>Comment</b>
<i>Opinion about the fair presentation of the description of the service organization’s system (type 1 and type 2 reports)</i>	The service organization’s system that is likely to be relevant to user entities’ internal control as it relates to financial reporting and is covered by the service auditor’s assurance report.	The description is fairly presented if it: <ul style="list-style-type: none"> <li>(a) presents how the service organization’s system was designed and implemented including, as appropriate, the matters identified in paragraph 16(a)(i)–(viii);</li> <li>(b) in the case of a type 2 report, includes relevant details of changes to the service organization’s system during the period covered by the description; and</li> <li>(c) does not omit or distort information relevant to the scope of the service organization’s system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities and may not, therefore, include every aspect of the service organization’s system that each individual user entity may consider important in its own particular environment.</li> </ul>	The specific wording of the criteria for this opinion may need to be tailored to be consistent with criteria established by, for example, law or regulation, user groups, or a professional body. Examples of criteria for this opinion are provided in the illustrative service organization’s statement in Appendix I. Paragraphs A21–A24 offer further guidance on determining whether these criteria are met. (In terms of the requirements of ISAE 3000 (Revised), the subject matter information <sup>12</sup> for this opinion is the service organization’s description of its system and the service organization’s statement that the description is fairly presented.)

<sup>11</sup> ISAE 3000 (Revised), paragraphs 24(b) and 41

<sup>12</sup> The “subject matter information” is the outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.



ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANIZATION

	Subject matter	Criteria	Comment	
<i>Opinion about suitability of design, and operating effectiveness (type 2 reports)</i>	The suitability of the design and operating effectiveness of those controls that are necessary to achieve the control objectives stated in the service organization's description of its system.	<p>The controls are suitably designed and operating effectively if:</p> <p>(a) the service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system;</p> <p>(b) the controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved; and</p> <p>(c) the controls were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority.</p>	When the criteria for this opinion are met, controls will have provided reasonable assurance that the related control objectives were achieved throughout the specified period. (In terms of the requirements of ISAE 3000 (Revised), the subject matter information for this opinion is the service organization's statement that controls are suitably designed and that they are operating effectively.)	The control objectives, which are stated in the service organization's description of its system, are part of the criteria for these opinions. The stated control objectives will differ from engagement to engagement. If, as part of forming the opinion on the description, the service auditor concludes the stated control objectives are not fairly presented then those control objectives would not be suitable as part of the criteria for forming an opinion on either the design or operating effectiveness of controls.
<i>Opinion about suitability of design (type 1 reports)</i>	The suitability of the design of those controls that are necessary to achieve the control objectives stated in the service organization's description of its system.	<p>The controls are suitably designed if:</p> <p>(a) the service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system; and</p> <p>(b) the controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.</p>	Meeting these criteria does not, of itself, provide any assurance that the related control objectives were achieved because no assurance has been obtained about the operation of controls. (In terms of the requirements of ISAE 3000 (Revised), the subject matter information for this opinion is the service organization's statement that controls are suitably designed.)	



- A15. Paragraph 16(a) identifies a number of elements that are included in the service organization's description of its system as appropriate. These elements may not be appropriate if the system being described is not a system that processes transactions, for example, if the system relates to general controls over the hosting of an IT application but not the controls embedded in the application itself.

### **Materiality** (Ref: Para. 19, 54)

- A16. In an engagement to report on controls at a service organization, the concept of materiality relates to the system being reported on, not the financial statements of user entities. The service auditor plans and performs procedures to determine whether the service organization's description of its system is fairly presented in all material respects, whether controls at the service organization are suitably designed in all material respects and, in the case of a type 2 report, whether controls at the service organization are operating effectively in all material respects. The concept of materiality takes into account that the service auditor's assurance report provides information about the service organization's system to meet the common information needs of a broad range of user entities and their auditors who have an understanding of the manner in which that system has been used.
- A17. Materiality with respect to the fair presentation of the service organization's description of its system, and with respect to the design of controls, includes primarily the consideration of qualitative factors, for example: whether the description includes the significant aspects of processing significant transactions; whether the description omits or distorts relevant information; and the ability of controls, as designed, to provide reasonable assurance that control objectives would be achieved. Materiality with respect to the service auditor's opinion on the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, for example, the tolerable rate and observed rate of deviation (a quantitative matter), and the nature and cause of any observed deviation (a qualitative matter).
- A18. The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests where deviations have been identified. This is because, in the particular circumstances of a specific user entity or user auditor, a deviation may have significance beyond whether or not, in the opinion of the service auditor, it prevents a control from operating effectively. For example, the control to which the deviation relates may be particularly significant in preventing a certain type of error that may be material in the particular circumstances of a user entity's financial statements.

### **Obtaining an Understanding of the Service Organization's System** (Ref: Para. 20)

- A19. Obtaining an understanding of the service organization's system, including controls, included in the scope of the engagement, assists the service auditor in:

- Identifying the boundaries of that system, and how it interfaces with other systems.
- Assessing whether the service organization’s description fairly presents the system that has been designed and implemented.
- Obtaining an understanding of internal control over the preparation of the service organization’s statement.
- Determining which controls are necessary to achieve the control objectives stated in the service organization’s description of its system.
- Assessing whether controls were suitably designed.
- Assessing, in the case of a type 2 report, whether controls were operating effectively.

A20. The service auditor’s procedures to obtain this understanding may include:

- Inquiring of those within the service organization who, in the service auditor’s judgment, may have relevant information.
- Observing operations and inspecting documents, reports, printed and electronic records of transaction processing.
- Inspecting a selection of agreements between the service organization and user entities to identify their common terms.
- Reperforming control procedures.

**Obtaining Evidence Regarding the Description (Ref: Para. 21–22)**

A21. Considering the following questions may assist the service auditor in determining whether those aspects of the description included in the scope of the engagement are fairly presented in all material respects:

- Does the description address the major aspects of the service provided (within the scope of the engagement) that could reasonably be expected to be relevant to the common needs of a broad range of user auditors in planning their audits of user entities’ financial statements?
- Is the description prepared at a level of detail that could reasonably be expected to provide a broad range of user auditors with sufficient information to obtain an understanding of internal control in accordance with ISA 315 (Revised)?<sup>13</sup> The description need not address every aspect of the service organization’s processing or the services provided to user entities, and need not be so detailed as to potentially allow a reader to compromise security or other controls at the service organization.

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<sup>13</sup> ISA 315 (Revised), *Identifying and Assessing Risks of Material Misstatement through Understanding the Entity and Its Environment*

- Is the description prepared in a manner that does not omit or distort information that may affect the common needs of a broad range of user auditors' decisions, for example, does the description contain any significant omissions or inaccuracies in processing of which the service auditor is aware?
- Where some of the control objectives stated in the service organization's description of its system have been excluded from the scope of the engagement, does the description clearly identify the excluded objectives?
- Have the controls identified in the description been implemented?
- Are complementary user entity controls, if any, described adequately? In most cases, the description of control objectives is worded such that the control objectives are capable of being achieved through effective operation of controls implemented by the service organization alone. In some cases, however, the control objectives stated in the service organization's description of its system cannot be achieved by the service organization alone because their achievement requires particular controls to be implemented by user entities. This may be the case where, for example, the control objectives are specified by a regulatory authority. When the description does include complementary user entity controls, the description separately identifies those controls along with the specific control objectives that cannot be achieved by the service organization alone.
- If the inclusive method has been used, does the description separately identify controls at the service organization and controls at the subservice organization? If the carve-out method is used, does the description identify the functions that are performed by the subservice organization? When the carve-out method is used, the description need not describe the detailed processing or controls at the subservice organization.

A22. The service auditor's procedures to evaluate the fair presentation of the description may include:

- Considering the nature of user entities and how the services provided by the service organization are likely to affect them, for example, whether user entities are from a particular industry and whether they are regulated by government agencies.
- Reading standard contracts, or standard terms of contracts, (if applicable) with user entities to gain an understanding of the service organization's contractual obligations.
- Observing procedures performed by service organization personnel.
- Reviewing the service organization's policy and procedure manuals and other systems documentation, for example, flowcharts and narratives.

A23. Paragraph 21(a) requires the service auditor to evaluate whether the control objectives stated in the service organization's description of its system are reasonable in the circumstances. Considering the following questions may assist the service auditor in this evaluation:

- Have the stated control objectives been designated by the service organization or by outside parties such as a regulatory authority, a user group, or a professional body that follows a transparent due process?
- Where the stated control objectives have been specified by the service organization, do they relate to the types of assertions commonly embodied in the broad range of user entities' financial statements to which controls at the service organization could reasonably be expected to relate? Although the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements, the service auditor's understanding of the nature of the service organization's system, including controls, and services being provided is used to identify the types of assertions to which those controls are likely to relate.
- Where the stated control objectives have been specified by the service organization, are they complete? A complete set of control objectives can provide a broad range of user auditors with a framework to assess the effect of controls at the service organization on the assertions commonly embodied in user entities' financial statements.

A24. The service auditor's procedures to determine whether the service organization's system has been implemented may be similar to, and performed in conjunction with, procedures to obtain an understanding of that system. They may also include tracing items through the service organization's system and, in the case of a type 2 report, specific inquiries about changes in controls that were implemented during the period. Changes that are significant to user entities or their auditors are included in the description of the service organization's system.

#### **Obtaining Evidence Regarding Design of Controls (Ref: Para. 23, 28(b))**

A25. From the viewpoint of a *user entity* or a *user auditor*, a control is suitably designed if, individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that material misstatements are prevented, or detected and corrected. A *service organization* or a *service auditor*, however, is not aware of the circumstances at individual user entities that would determine whether or not a misstatement resulting from a control deviation is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is suitably designed if, individually or in combination with other controls, it would, when complied with satisfactorily,

provide reasonable assurance that control objectives stated in the service organization's description of its system are achieved.

- A26. A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.
- A27. Controls may consist of a number of activities directed at the achievement of a control objective. Consequently, if the service auditor evaluates certain activities as being ineffective in achieving a particular control objective, the existence of other activities may allow the service auditor to conclude that controls related to the control objective are suitably designed.

## Obtaining Evidence Regarding Operating Effectiveness of Controls

### *Assessing Operating Effectiveness* (Ref: Para. 24)

- A28. From the viewpoint of a *user entity* or a *user auditor*, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that material misstatements, whether due to fraud or error, are prevented, or detected and corrected. A *service organization* or a *service auditor*, however, is not aware of the circumstances at individual user entities that would determine whether a misstatement resulting from a control deviation had occurred and, if so, whether it is material. Therefore, from the viewpoint of a service auditor, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that control objectives stated in the service organization's description of its system are achieved. Similarly, a service organization or a service auditor is not in a position to determine whether any observed control deviation would result in a material misstatement from the viewpoint of an individual user entity.
- A29. Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated control, and whether it has been implemented, may serve as evidence of that control's operating effectiveness, depending on the service auditor's assessment and testing of other controls, such as those over program changes.
- A30. To be useful to user auditors, a type 2 report ordinarily covers a minimum period of six months. If the period is less than six months, the service auditor may consider it appropriate to describe the reasons for the shorter period in the service auditor's assurance report. Circumstances that may result in a report covering a period of less than six months include when (a) the service auditor

is engaged close to the date by which the report on controls is to be issued; (b) the service organization (or a particular system or application) has been in operation for less than six months; or (c) significant changes have been made to the controls and it is not practicable either to wait six months before issuing a report or to issue a report covering the system both before and after the changes.

- A31. Certain control procedures may not leave evidence of their operation that can be tested at a later date and, accordingly, the service auditor may find it necessary to test the operating effectiveness of such control procedures at various times throughout the reporting period.
- A32. The service auditor provides an opinion on the operating effectiveness of controls throughout each period, therefore, sufficient appropriate evidence about the operation of controls during the current period is required for the service auditor to express that opinion. Knowledge of deviations observed in prior engagements may, however, lead the service auditor to increase the extent of testing during the current period.

***Testing of Indirect Controls*** (Ref: Para. 25(b))

- A33. In some circumstances, it may be necessary to obtain evidence supporting the effective operation of indirect controls. For example, when the service auditor decides to test the effectiveness of a review of exception reports detailing sales in excess of authorized credit limits, the review and related follow up is the control that is directly of relevance to the service auditor. Controls over the accuracy of the information in the reports (for example, the general IT controls) are described as “indirect” controls.
- A34. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the service organization’s general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness.

***Means of Selecting Items for Testing*** (Ref: Para. 25(c), 27)

- A35. The means of selecting items for testing available to the service auditor are:
- (a) Selecting all items (100% examination). This may be appropriate for testing controls that are applied infrequently, for example, quarterly, or when evidence regarding application of the control makes 100% examination efficient;
  - (b) Selecting specific items. This may be appropriate where 100% examination would not be efficient and sampling would not be effective, such as testing controls that are not applied sufficiently frequently to render a large population for sampling, for example, controls that are applied monthly or weekly; and

- (c) Sampling. This may be appropriate for testing controls that are applied frequently in a uniform manner and which leave documentary evidence of their application.

A36. While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute sampling. The results of procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide evidence concerning the remainder of the population. Sampling, on the other hand, is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

### **The Work of an Internal Audit Function**

#### *Obtaining an Understanding of the Internal Audit Function (Ref: Para. 30)*

A37. An internal audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to management and those charged with governance. An internal audit function at a service organization may perform activities related to the service organization's own system of internal control, or activities related to the services and systems, including controls, that the service organization is providing to user entities.

#### *Determining Whether and to What Extent to Use the Work of the Internal Auditors (Ref: Para. 33)*

A38. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures, the following factors may suggest the need for different or less extensive procedures than would otherwise be the case:

- The nature and scope of specific work performed, or to be performed, by the internal auditors is quite limited.
- The work of the internal auditors relates to controls that are less significant to the service auditor's conclusions.
- The work performed, or to be performed, by the internal auditors does not require subjective or complex judgments.

#### *Using the Work of the Internal Audit Function (Ref: Para. 34)*

A39. The nature, timing and extent of the service auditor's procedures on specific work of the internal auditors will depend on the service auditor's assessment of the significance of that work to the service auditor's conclusions (for example, the significance of the risks that the controls tested seek to mitigate), the evaluation of the internal audit function and the evaluation of the specific work of the internal auditors. Such procedures may include:

- Examination of items already examined by the internal auditors;

- Examination of other similar items; and
- Observation of procedures performed by the internal auditors.

*Effect on the Service Auditor's Assurance Report* (Ref: Para. 36–37)

- A40. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the service organization as is required of the service auditor when performing the engagement. The service auditor has sole responsibility for the opinion expressed in the service auditor's assurance report, and that responsibility is not reduced by the service auditor's use of the work of the internal auditors.
- A41. The service auditor's description of work performed by the internal audit function may be presented in a number of ways, for example:
- By including introductory material to the description of tests of controls indicating that certain work of the internal audit function was used in performing tests of controls.
  - Attribution of individual tests to internal audit.

**Written Representations** (Ref: Para. 38, 40)

- A42. The written representations required by paragraph 38 are separate from, and in addition to, the service organization's statement, as defined at paragraph 9(o).
- A43. If the service organization does not provide the written representations requested in accordance with paragraph 38(c) of this ISAE, it may be appropriate for the service auditor's opinion to be modified in accordance with paragraph 55(d) of this ISAE.

**Other Information** (Ref: Para. 42)

- A44. The IESBA Code requires that a service auditor not be associated with information where the service auditor believes that the information:
- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information provided recklessly; or
  - (c) Omits or obscures required information where such omission or obscurity would be misleading.<sup>14</sup>

If other information included in a document containing the service organization's description of its system and the service auditor's assurance report contains future-oriented information such as recovery or contingency plans, or plans for modifications to the system that will address deviations identified in the service auditor's assurance report, or claims of a promotional nature that cannot be reasonably substantiated, the service auditor may request that information be removed or restated.

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<sup>14</sup> IESBA Code, paragraph R111.2



A45. If the service organization refuses to remove or restate the other information, further actions that may be appropriate include, for example:

- Requesting the service organization to consult with its legal counsel as to the appropriate course of action.
- Describing the material inconsistency or material misstatement of fact in the assurance report.
- Withholding the assurance report until the matter is resolved.
- Withdrawing from the engagement.

#### **Documentation** (Ref: Para. 51)

A46. ISQC 1 (or professional requirements, or requirements in law or regulation that are at least as demanding as ISQC 1) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files.<sup>15</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the service auditor's report.<sup>16</sup>

#### **Preparing the Service Auditor's Assurance Report**

##### *Content of the Service Auditor's Assurance Report* (Ref: Para. 53)

A47. Illustrative examples of service auditors' assurance reports and related service organizations' statements are contained in Appendices 1 and 2.

##### *Intended Users and Purposes of the Service Auditor's Assurance Report* (Ref: Para. 53(e))

A48. The criteria used for engagements to report on controls at a service organization are relevant only for the purposes of providing information about the service organization's system, including controls, to those who have an understanding of how the system has been used for financial reporting by user entities. Accordingly this is stated in the service auditor's assurance report. In addition, the service auditor may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.

##### *Description of the Tests of Controls* (Ref: Para. 54)

A49. In describing the nature of the tests of controls for a type 2 report, it assists readers of the service auditor's assurance report if the service auditor includes:

- The results of all tests where deviations have been identified, even if other controls have been identified that allow the service auditor to conclude

<sup>15</sup> ISQC 1, paragraph 45

<sup>16</sup> ISQC 1, paragraph A54

that the relevant control objective has been achieved or the control tested has subsequently been removed from the service organization's description of its system.

- Information about causative factors for identified deviations, to the extent the service auditor has identified such factors.

#### *Modified Opinions* (Ref: Para. 55)

- A50. Illustrative examples of elements of modified service auditor's assurance reports are contained in Appendix 3.
- A51. Even if the service auditor has expressed an adverse opinion or disclaimed an opinion, it may be appropriate to describe in the basis for modification paragraph the reasons for any other matters of which the service auditor is aware that would have required a modification to the opinion, and the effects thereof.
- A52. When expressing a disclaimer of opinion because of a scope limitation, it is not ordinarily appropriate to identify the procedures that were performed nor include statements describing the characteristics of a service auditor's engagement; to do so might overshadow the disclaimer of opinion.

#### **Other Communication Responsibilities** (Ref: Para. 56)

- A53. Appropriate actions to respond to the circumstances identified in paragraph 56, unless prohibited by law or regulation, may include:
- Obtaining legal advice about the consequences of different courses of action.
  - Communicating with those charged with governance of the service organization.
  - Determining whether to communicate with third parties (e.g., law, regulation or relevant ethical requirements may require the service auditor to report to an appropriate authority outside the entity or the external auditor of the service organization,<sup>17</sup> or establish responsibilities under which such reporting may be appropriate in the circumstances).
  - Modifying the service auditor's opinion, or adding an Other Matter paragraph.
  - Withdrawing from the engagement.

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<sup>17</sup> See, for example, paragraphs R360.31-R360.35 A1 of the IESBA Code.

## Appendix 1

(Ref. Para. A47)

### Example Service Organization's Statements

The following examples of service organization's statements are for guidance only and are not intended to be exhaustive or applicable to all situations.

#### Example 1: Type 2 Service Organization's Statement

Statement by the Service Organization

The accompanying description has been prepared for customers who have used *[the type or name of]* system and their auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial statements. *[Entity's name]* confirms that:

- (a) The accompanying description at pages *[bb–cc]* fairly presents *[the type or name of]* system for processing customers' transactions throughout the period *[date]* to *[date]*. The criteria used in making this statement were that the accompanying description:
  - (i) Presents how the system was designed and implemented, including:
    - The types of services provided, including, as appropriate, classes of transactions processed.
    - The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.
    - The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information was transferred to the reports prepared for customers.
    - How the system dealt with significant events and conditions, other than transactions.
    - The process used to prepare reports for customers.
    - Relevant control objectives and controls designed to achieve those objectives.
    - Controls that we assumed, in the design of the system, would be implemented by user entities, and which, if necessary to achieve control objectives stated in the accompanying description,

are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.

- Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting customers' transactions.
- (ii) Includes relevant details of changes to the service organization's system during the period *[date]* to *[date]*.
- (iii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period *[date]* to *[date]*. The criteria used in making this statement were that:
- (i) The risks that threatened achievement of the control objectives stated in the description were identified;
  - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and
  - (iii) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period *[date]* to *[date]*.

### Example 2: Type 1 Service Organization's Statement

The accompanying description has been prepared for customers who have used *[the type or name of]* system and their auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by customers themselves, when obtaining an understanding of customers' information systems relevant to financial reporting. *[Entity's name]* confirms that:

- (a) The accompanying description at pages *[bb–cc]* fairly presents *[the type or name of]* system for processing customers' transactions as at *[date]*. The criteria used in making this statement were that the accompanying description:
- (i) Presents how the system was designed and implemented, including:
    - The types of services provided, including, as appropriate, classes of transactions processed.
    - The procedures, within both information technology and manual

systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.

- The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared customers.
  - How the system dealt with significant events and conditions, other than transactions.
  - The process used to prepare reports for customers.
  - Relevant control objectives and controls designed to achieve those objectives.
  - Controls that we assumed, in the design of the system, would be implemented by user entities, and which, if necessary to achieve control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.
  - Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting customers' transactions.
- (ii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the accompanying description were suitably designed as at *[date]*. The criteria used in making this statement were that:
- (i) The risks that threatened achievement of the control objectives stated in the description were identified; and
  - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved.

**Appendix 2**

(Ref. Para. A47)

**Illustrations of Service Auditor's Assurance Reports**

The following illustrations of reports are for guidance only and are not intended to be exhaustive or applicable to all situations.

**Illustration 1: Type 2 Service Auditor's Assurance Report****Independent Service Auditor's Assurance Report on the Description of Controls, their Design and Operating Effectiveness**

To: XYZ Service Organization

*Scope*

We have been engaged to report on XYZ Service Organization's description at pages [bb–cc] of its [type or name of] system for processing customers' transactions throughout the period [date] to [date] (the description), and on the design and operation of controls related to the control objectives stated in the description.<sup>1</sup>

*XYZ Service Organization's Responsibilities*

XYZ Service Organization is responsible for: preparing the description and accompanying statement at page [aa], including the completeness, accuracy and method of presentation of the description and statement; providing the services covered by the description; stating the control objectives; and designing, implementing and effectively operating controls to achieve the stated control objectives.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control<sup>2</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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<sup>1</sup> If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

<sup>2</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

### *Service Auditor's Responsibilities*

Our responsibility is to express an opinion on XYZ Service Organization's description and on the design and operation of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Service Organization*, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively.

An assurance engagement to report on the description, design and operating effectiveness of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the service organization's description of its system, and the design and operating effectiveness of controls. The procedures selected depend on the service auditor's judgment, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the service organization and described at page [aa].

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

### *Limitations of Controls at a Service Organization*

XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, because of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions. Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that controls at a service organization may become inadequate or fail.

### *Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

- (a) The description fairly presents the [the type or name of] system as designed and implemented throughout the period from [date] to [date];
- (b) The controls related to the control objectives stated in the description were suitably designed throughout the period from [date] to [date]; and

- (c) The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from *[date]* to *[date]*.

#### *Description of Tests of Controls*

The specific controls tested and the nature, timing and results of those tests are listed on pages *[yy–zz]*.

#### *Intended Users and Purpose*

This report and the description of tests of controls on pages *[yy–zz]* are intended only for customers who have used XYZ Service Organization's *[type or name of]* system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial statements.

*[Service auditor's signature]*

*[Date of the service auditor's assurance report]*

*[Service auditor's address]*

### **Illustration 2: Type 1 Service Auditor's Assurance Report**

#### **Independent Service Auditor's Assurance Report on the Description of Controls and their Design**

To: XYZ Service Organization

#### *Scope*

We have been engaged to report on XYZ Service Organization's description at pages *[bb–cc]* of its *[type or name of]* system for processing customers' transactions as at *[date]* (the description), and on the design of controls related to the control objectives stated in the description.<sup>3</sup>

We did not perform any procedures regarding the operating effectiveness of controls included in the description and, accordingly, do not express an opinion thereon.

#### *XYZ Service Organization's Responsibilities*

XYZ Service Organization is responsible for: preparing the description and accompanying statement at page *[aa]*, including the completeness, accuracy and method of presentation of the description and the statement; providing the services covered by the description; stating the control objectives; and designing, implementing and effectively operating controls to achieve the stated control objectives.

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<sup>3</sup> If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.



### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1<sup>4</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### *Service Auditor's Responsibilities*

Our responsibility is to express an opinion on XYZ Service Organization's description and on the design of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Service Organization*, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed in all material respects.

An assurance engagement to report on the description and design of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the service organization's description of its system, and the design of controls. The procedures selected depend on the service auditor's judgment, including the assessment that the description is not fairly presented, and that controls are not suitably designed. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page [aa].

As noted above, we did not perform any procedures regarding the operating effectiveness of controls included in the description and, accordingly, do not express an opinion thereon.

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

### *Limitations of Controls at a Service Organization*

XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, because of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions.

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<sup>4</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

*Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

- (a) The description fairly presents the [the type or name of] system as designed and implemented as at [date]; and
- (b) The controls related to the control objectives stated in the description were suitably designed as at [date].

*Intended Users and Purpose*

This report is intended only for customers who have used XYZ Service Organization's [type or name of] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when obtaining an understanding of customers' information systems relevant to financial reporting.

[Service auditor's signature]

[Date of the service auditor's assurance report]

[Service auditor's address]

**Appendix 3**

(Ref. Para. A50)

**Illustrations of Modified Service Auditor's Assurance Reports**

The following illustrations of modified reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the illustrations of reports in Appendix 2.

**Illustration 1: Qualified opinion – the service organization's description of the system is not fairly presented in all material respects**

...

*Service Auditor's Responsibilities*

...

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

*Basis for Qualified Opinion*

The accompanying description states at page [mn] that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on our procedures, which included inquiries of staff personnel and observation of activities, we have determined that operator identification numbers and passwords are employed in Applications A and B but not in Applications C and D.

*Qualified Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's statement at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

**Illustration 2: Qualified opinion – the controls are not suitably designed to provide reasonable assurance that the control objectives stated in the service organization's description of its system will be achieved if the controls operate effectively**

...

*Service Auditor's Responsibilities*

...

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

*Basis for Qualified Opinion*

As discussed at page [mn] of the accompanying description, from time to time XYZ Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes and in implementing them, do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.

*Qualified Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's statement at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

**Illustration 3: Qualified opinion – the controls did not operate effectively throughout the specified period (type 2 report only)**

...

*Service Auditor's Responsibilities*

...

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

*Basis for Qualified Opinion*

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, as noted at page [mn] of the description, this control was not operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy due to a programming error. This resulted in the non-achievement of the control objective "Controls provide reasonable assurance that loan payments received are properly recorded" during the period from

*dd/mm/yyyy to dd/mm/yyyy. XYZ implemented a change to the program performing the calculation as of [date], and our tests indicate that it was operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy.*

### *Qualified Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization’s statement at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

...

#### **Illustration 4: Qualified opinion – the service auditor is unable to obtain sufficient appropriate evidence**

...

### *Service Auditor’s Responsibilities*

...

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

### *Basis for Qualified Opinion*

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, electronic records of the performance of this reconciliation for the period from *dd/mm/yyyy to dd/mm/yyyy* were deleted as a result of a computer processing error, and we were therefore unable to test the operation of this control for that period. Consequently, we were unable to determine whether the control objective “Controls provide reasonable assurance that loan payments received are properly recorded” operated effectively during the period from *dd/mm/yyyy to dd/mm/yyyy*.

### *Qualified Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization’s statement at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

**INTERNATIONAL STANDARD ON ASSURANCE  
ENGAGEMENTS 3410**

**ASSURANCE ENGAGEMENTS ON GREENHOUSE GAS  
STATEMENTS**

(Effective for assurance reports covering periods  
ending on or after September 30, 2013)

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International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*, should be read in conjunction with the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

## Introduction

1. Given the link between greenhouse gas (GHG) emissions and climate change, many entities are quantifying their GHG emissions for internal management purposes, and many are also preparing a GHG statement:
  - (a) As part of a regulatory disclosure regime;
  - (b) As part of an emissions trading scheme; or
  - (c) To inform investors and others on a voluntary basis. Voluntary disclosures may be, for example, published as a stand-alone document; included as part of a broader sustainability report or in an entity's annual report; or made to support inclusion in a "carbon register."

## Scope of this ISAE

2. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements to report on an entity's GHG statement.
3. The practitioner's conclusion in an assurance engagement may cover information in addition to a GHG statement, for example, when the practitioner is engaged to report on a sustainability report of which a GHG statement is only one part. In such cases: (Ref: Para. A1–A2)
  - (a) This ISAE applies to assurance procedures performed with respect to the GHG statement other than when the GHG statement is a relatively minor part of the overall information subject to assurance; and
  - (b) ISAE 3000 (Revised)<sup>1</sup> (or another ISAE dealing with a specific underlying subject matter) applies to assurance procedures performed with respect to the remainder of the information covered by the practitioner's conclusion.
4. This ISAE does not deal with, or provide specific guidance for, assurance engagements to report on the following:
  - (a) Statements of emissions other than GHG emissions, for example, nitrogen oxides (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>). This ISAE may nonetheless provide guidance for such engagements;<sup>2</sup>
  - (b) Other GHG-related information, such as product lifecycle "footprints," hypothetical "baseline" information, and key performance indicators based on emissions data; or (Ref: Para. A3)

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<sup>1</sup> ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*.

<sup>2</sup> NO<sub>x</sub> (i.e., NO and NO<sub>2</sub>, which differ from the GHG nitrous oxide, N<sub>2</sub>O) and SO<sub>2</sub> are associated with "acid rain" rather than climate change.



- (c) Instruments, processes or mechanisms, such as offset projects, used by other entities as emissions deductions. However, where an entity's GHG statement includes emissions deductions that are subject to assurance, the requirements of this ISAE apply in relation to those emissions deductions as appropriate (see paragraph 76(f)).

#### *Attestation and Direct Engagements*

5. The *International Framework for Assurance Engagements* (the Assurance Framework) notes that an assurance engagement may be either an attestation engagement or a direct engagement. This ISAE deals only with attestation engagements.<sup>3</sup>

#### *Procedures for Reasonable Assurance and Limited Assurance Engagements*

6. ISAE 3000 (Revised) notes that an assurance engagement may be either a reasonable assurance engagement or a limited assurance engagement.<sup>4</sup> This ISAE deals with both reasonable and limited assurance engagements.
7. In both reasonable assurance and limited assurance engagements on a GHG statement, the practitioner chooses a combination of assurance procedures, which can include: inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and inquiry. Determining the assurance procedures to be performed on a particular engagement is a matter of professional judgment. Because GHG statements cover a wide range of circumstances, the nature, timing and extent of procedures are likely to vary considerably from engagement to engagement.
8. Unless otherwise stated, each requirement of this ISAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.<sup>5</sup> Requirements that apply to only one or the other type of engagement have been presented in a columnar format with the letter "L" (limited assurance) or "R" (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements (see also paragraph A90, which outlines the primary differences between the practitioner's further procedures for a reasonable assurance engagement and a limited assurance engagement on a GHG statement). (Ref: Para. A4, A90)

<sup>3</sup> ISAE 3000 (Revised), paragraph 12(a)(ii)

<sup>4</sup> ISAE 3000 (Revised), paragraph 12(a)(i)(b)

<sup>5</sup> ISAE 3000 (Revised), paragraph 12(a)(iii)

*Relationship with ISAE 3000 (Revised), Other Professional Pronouncements, and Other Requirements*

9. The practitioner is required to comply with ISAE 3000 (Revised) and this ISAE when performing an assurance engagement to report on an entity's GHG statement. This ISAE supplements, but does not replace, ISAE 3000 (Revised), and expands on how ISAE 3000 (Revised) is to be applied in an assurance engagement to report on an entity's GHG statement. (Ref: Para. A17)
10. Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>6</sup> It also requires the engagement partner to be a member of a firm that applies ISQC 1,<sup>7</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. (Ref: Para. A5–A6)
11. Where the engagement is subject to local laws or regulations or the provisions of an emissions trading scheme, this ISAE does not override that law, regulation or provision. In the event that local laws or regulations or the provisions of an emissions trading scheme differ from this ISAE, an engagement conducted in accordance with local laws or regulations or the provisions of a particular scheme will not automatically comply with this ISAE. The practitioner is entitled to represent compliance with this ISAE in addition to compliance with local laws or regulations or the provisions of the emissions trading scheme only when all applicable requirements of this ISAE have been met. (Ref: Para. A7)

### **Effective Date**

12. This ISAE is effective for assurance reports covering periods ending on or after September 30, 2013.

### **Objectives**

13. The objectives of the practitioner are:
  - (a) To obtain either reasonable assurance or limited assurance, as appropriate, about whether the GHG statement is free from material misstatement, whether due to fraud or error, thereby enabling the practitioner to express a reasonable assurance or limited assurance conclusion;
  - (b) To report, in accordance with the practitioner's findings, about whether:

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<sup>6</sup> ISAE 3000 (Revised), paragraphs 3(a), 20 and 34

<sup>7</sup> ISAE 3000 (Revised), paragraphs 3(b) and 31(a). International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- (i) In the case of a reasonable assurance engagement, the GHG statement is prepared, in all material respects, in accordance with the applicable criteria; or
  - (ii) In the case of a limited assurance engagement, anything has come to the practitioner's attention that causes the practitioner to believe, on the basis of the procedures performed and evidence obtained, that the GHG statement is not prepared, in all material respects, in accordance with the applicable criteria; and
- (c) To communicate as otherwise required by this ISAE, in accordance with the practitioner's findings.

## Definitions

14. For purposes of this ISAE, the following terms have the meanings attributed below:<sup>8</sup>
- (a) **Applicable criteria** – The criteria used by the entity to quantify and report its emissions in the GHG statement.
  - (b) **Assertions** – Representations by the entity, explicit or otherwise, that are embodied in the GHG statement, as used by the practitioner to consider the different types of potential misstatements that may occur.
  - (c) **Base year** – A specific year or an average over multiple years against which an entity's emissions are compared over time.
  - (d) **Cap and trade** – A system that sets overall emissions limits, allocates emissions allowances to participants, and allows them to trade allowances and emission credits with each other.
  - (e) **Comparative information** – The amounts and disclosures included in the GHG statement in respect of one or more prior periods.
  - (f) **Emissions** – The GHGs that, during the relevant period, have been emitted to the atmosphere or would have been emitted to the atmosphere had they not been captured and channeled to a sink. Emissions can be categorized as:
    - **Direct emissions** (also known as Scope 1 emissions), which are emissions from sources that are owned or controlled by the entity. (Ref: Para. A8)
    - **Indirect emissions**, which are emissions that are a consequence of the activities of the entity, but which occur at sources that are owned or controlled by another entity. Indirect emissions can be further categorized as:

<sup>8</sup> The definitions in ISAE 3000 (Revised) also apply to this ISAE.

- Scope 2 emissions, which are emissions associated with energy that is transferred to and consumed by the entity. (Ref: Para. A9)
  - Scope 3 emissions, which are all other indirect emissions. (Ref: Para. A10)
- (g) Emissions deduction – Any item included in the entity’s GHG statement that is deducted from the total reported emissions, but which is not a removal; it commonly includes purchased offsets, but can also include a variety of other instruments or mechanisms such as performance credits and allowances that are recognized by a regulatory or other scheme of which the entity is a part. (Ref: Para. A11–A12)
- (h) Emissions factor – A mathematical factor or ratio for converting the measure of an activity (for example, liters of fuel consumed, kilometers travelled, the number of animals in husbandry, or tonnes of product produced) into an estimate of the quantity of GHGs associated with that activity.
- (i) Emissions trading scheme – A market-based approach used to control greenhouse gases by providing economic incentives for achieving reductions in the emissions of such gases.
- (j) Entity – The legal entity, economic entity, or the identifiable portion of a legal or economic entity (for example, a single factory or other form of facility, such as a land fill site), or combination of legal or other entities or portions of those entities (for example, a joint venture) to which the emissions in the GHG statement relate.
- (k) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- (l) Further procedures – Procedures performed in response to assessed risks of material misstatement, including tests of controls (if any), tests of details and analytical procedures.
- (m) GHG statement – A statement setting out constituent elements and quantifying an entity’s GHG emissions for a period (sometimes known as an emissions inventory) and, where applicable, comparative information and explanatory notes including a summary of significant quantification and reporting policies. An entity’s GHG statement may also include a categorized listing of removals or emissions deductions. Where the engagement does not cover the entire GHG statement, the term “GHG statement” is to be read as that portion that is covered by the engagement. The GHG statement is the “subject matter information” of the engagement.<sup>9</sup>

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<sup>9</sup> ISAE 3000 (Revised), paragraph 12(x)

- (n) Greenhouse gases (GHGs) – Carbon dioxide (CO<sub>2</sub>) and any other gases required by the applicable criteria to be included in the GHG statement, such as: methane; nitrous oxide; sulfur hexafluoride; hydrofluorocarbons; perfluorocarbons; and chlorofluorocarbons. Gases other than carbon dioxide are often expressed in terms of carbon dioxide equivalents (CO<sub>2</sub>-e).
- (o) Organizational boundary – The boundary that determines which operations to include in the entity’s GHG statement.
- (p) Performance materiality – The amount or amounts set by the practitioner at less than materiality for the GHG statement to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the GHG statement. If applicable, performance materiality also refers to the amount or amounts set by the practitioner at less than the materiality level or levels for particular types of emissions or disclosures.
- (q) Purchased offset – An emissions deduction in which the entity pays for the lowering of another entity’s emissions (emissions reductions) or the increasing of another entity’s removals (removal enhancements), compared to a hypothetical baseline. (Ref: Para. A13)
- (r) Quantification – The process of determining the quantity of GHGs that relate to the entity, either directly or indirectly, as emitted (or removed) by particular sources (or sinks).
- (s) Removal – The GHGs that the entity has, during the period, removed from the atmosphere, or that would have been emitted to the atmosphere had they not been captured and channeled to a sink. (Ref: Para. A14)
- (t) Significant facility – A facility that is of individual significance due to the size of its emissions relative to the aggregate emissions included in the GHG statement or its specific nature or circumstances which give rise to particular risks of material misstatement. (Ref: Para. A15–A16)
- (u) Sink – A physical unit or process that removes GHGs from the atmosphere.
- (v) Source – A physical unit or process that releases GHGs into the atmosphere.
- (w) Type of emission – A grouping of emissions based on, for example, source of emission, type of gas, region, or facility.

## Requirements

### ISAE 3000 (Revised)

15. The practitioner shall not represent compliance with this ISAE unless the practitioner has complied with the requirements of both this ISAE and ISAE 3000 (Revised). (Ref: Para. A5–A6, A17, A21–A22, A37, A127)

## Acceptance and Continuance of the Engagement

### *Skills, Knowledge and Experience*

16. The engagement partner shall:
- (a) Have competence in assurance skills and techniques developed through extensive training and practical application, and sufficient competence in the quantification and reporting of emissions, to accept responsibility for the assurance conclusion; and
  - (b) Be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including in the quantification and reporting of emissions and in assurance, to perform the assurance engagement in accordance with this ISAE. (Ref: Para. A18–A19)

### *Preconditions for the Engagement*

17. In order to establish whether the preconditions for the engagement are present:
- (a) The engagement partner shall determine that both the GHG statement and the engagement have sufficient scope to be useful to intended users, considering, in particular: (Ref: Para. A20)
    - (i) If the GHG statement is to exclude significant emissions that have been, or could readily be, quantified, whether such exclusions are reasonable in the circumstances;
    - (ii) If the engagement is to exclude assurance with respect to significant emissions that are reported by the entity, whether such exclusions are reasonable in the circumstances; and
    - (iii) If the engagement is to include assurance with respect to emissions deductions, whether the nature of the assurance the practitioner will obtain with respect to the deductions and the intended content of the assurance report with respect to them are clear, reasonable in the circumstances, and understood by the engaging party. (Ref: Para. A11–A12)
  - (b) When determining the suitability of the applicable criteria, as required by ISAE 3000 (Revised),<sup>10</sup> the practitioner shall determine whether the criteria encompass at a minimum: (Ref: Para. A23–A26)
    - (i) The method for determining the entity’s organizational boundary; (Ref: Para. A27–A28)
    - (ii) The GHGs to be accounted for;

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<sup>10</sup> ISAE 3000 (Revised), paragraphs 24(b)(ii) and 41

- (iii) Acceptable quantification methods, including methods for making adjustments to the base year (if applicable); and
  - (iv) Adequate disclosures such that intended users can understand the significant judgments made in preparing the GHG statement. (Ref: Para. A29–A34)
- (c) The practitioner shall obtain the agreement of the entity that it acknowledges and understands its responsibility:
- (i) For designing, implementing and maintaining such internal control as the entity determines is necessary to enable the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error;
  - (ii) For the preparation of its GHG statement in accordance with the applicable criteria; and (Ref: Para. A35)
  - (iii) For referring to or describing in its GHG statement the applicable criteria it has used and, when it is not readily apparent from the engagement circumstances, who developed them. (Ref: Para. A36)

#### *Agreement on the Terms of the Engagement*

18. The terms of the engagement required to be agreed by ISAE 3000 (Revised)<sup>11</sup> shall include: (Ref: Para. A37)
- (a) The objective and scope of the engagement;
  - (b) The responsibilities of the practitioner;
  - (c) The responsibilities of the entity, including those described in paragraph 17(c);
  - (d) Identification of the applicable criteria for the preparation of the GHG statement;
  - (e) Reference to the expected form and content of any reports to be issued by the practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content; and
  - (f) An acknowledgement that the entity agrees to provide written representations at the conclusion of the engagement.

#### **Planning**

19. When planning the engagement as required by ISAE 3000 (Revised),<sup>12</sup> the practitioner shall: (Ref: Para. A38–A41)

<sup>11</sup> ISAE 3000 (Revised), paragraph 27

<sup>12</sup> ISAE 3000 (Revised), paragraph 40

- (a) Identify the characteristics of the engagement that define its scope;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;
- (c) Consider the factors that, in the practitioner’s professional judgment, are significant in directing the engagement team’s efforts;
- (d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant;
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement, including the involvement of experts and of other practitioners; and (Ref: Para. A42–A43)
- (f) Determine the impact of the entity’s internal audit function, if any, on the engagement.

### **Materiality in Planning and Performing the Engagement**

#### *Determining Materiality and Performance Materiality When Planning the Engagement*

- 20. When establishing the overall engagement strategy, the practitioner shall determine materiality for the GHG statement. (Ref: Para. A44–A50)
- 21. The practitioner shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further procedures.

#### *Revision as the Engagement Progresses*

- 22. The practitioner shall revise materiality for the GHG statement in the event of becoming aware of information during the engagement that would have caused the practitioner to have determined a different amount initially. (Ref: Para. A51)

### **Understanding the Entity and Its Environment, Including the Entity’s Internal Control, and Identifying and Assessing Risks of Material Misstatement**

#### *Obtaining an Understanding of the Entity and Its Environment*

- 23. The practitioner shall obtain an understanding of the following: (Ref: Para. A52–A53)
  - (a) Relevant industry, regulatory, and other external factors including the applicable criteria.
  - (b) The nature of the entity, including:
    - (i) The nature of the operations included in the entity’s organizational boundary, including: (Ref: Para. A27–A28)



- a. The sources and completeness of emissions and, if any, sinks and emissions deductions;
  - b. The contribution of each to the entity's overall emissions; and
  - c. The uncertainties associated with the quantities reported in the GHG statement. (Ref: Para. A54–A59)
- (ii) Changes from the prior period in the nature or extent of operations, including whether there have been any mergers, acquisitions, or sales of emissions sources, or outsourcing of functions with significant emissions; and
  - (iii) The frequency and nature of interruptions to operations. (Ref: Para. A60)
- (c) The entity's selection and application of quantification methods and reporting policies, including the reasons for changes thereto and the potential for double-counting of emissions in the GHG statement.
  - (d) The requirements of the applicable criteria relevant to estimates, including related disclosures.
  - (e) The entity's climate change objective and strategy, if any, and associated economic, regulatory, physical and reputational risks. (Ref: Para. A61)
  - (f) The oversight of, and responsibility for, emissions information within the entity.
  - (g) Whether the entity has an internal audit function and, if so, its activities and main findings with respect to emissions.

*Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement*

24. The procedures to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement shall include the following: (Ref: Para. A52–A53, A62)
- (a) Inquiries of those within the entity who, in the practitioner's judgment, have information that is likely to assist in identifying and assessing risks of material misstatement due to fraud or error.
  - (b) Analytical procedures. (Ref: Para. A63–A65)
  - (c) Observation and inspection. (Ref: Para. A66–A68)

*Obtaining an Understanding of the Entity’s Internal Control*

<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
<p>25L. For internal control relevant to emissions quantification and reporting, as the basis for identifying and assessing the risks of material misstatement, the practitioner shall obtain an understanding, through inquiries, about: (Ref: Para. A52–A53, A69–A70)</p> <ul style="list-style-type: none"> <li>(a) The control environment;</li> <li>(b) The information system, including the related business processes, and communication of emissions reporting roles and responsibilities and significant matters relating to emissions reporting; and</li> <li>(c) The results of the entity’s risk assessment process.</li> </ul>	<p>25R. The practitioner shall obtain an understanding of the following components of the entity’s internal control relevant to emissions quantification and reporting as the basis for identifying and assessing risks of material misstatement: (Ref: Para. A52–A53, A70)</p> <ul style="list-style-type: none"> <li>(a) The control environment;</li> <li>(b) The information system, including the related business processes, and communication of emissions reporting roles and responsibilities and significant matters relating to emissions reporting;</li> <li>(c) The entity’s risk assessment process;</li> <li>(d) Control activities relevant to the engagement, being those the practitioner judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risks. An assurance engagement does not require an understanding of all the control activities related to each significant type of emission and disclosure in the GHG statement or to every assertion relevant to them; and (Ref: Para. A71–A72)</li> <li>(e) Monitoring of controls.</li> </ul>

Limited Assurance	Reasonable Assurance
	26R. When obtaining the understanding required by paragraph 25R, the practitioner shall evaluate the design of controls and determine whether they have been implemented by performing procedures in addition to inquiry of the entity's personnel responsible for the GHG statement. (Ref: Para. A52–A53)

*Other Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement*

27. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying and assessing risks of material misstatement. (Ref: Para. A73)
28. The practitioner shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud or non-compliance with law or regulation affecting the GHG statement. (Ref: Para. A84–A86)
29. The engagement partner and other key members of the engagement team, and any key practitioner's external experts, shall discuss the susceptibility of the entity's GHG statement to material misstatement whether due to fraud or error, and the application of the applicable criteria to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to members of the engagement team, and to any practitioner's external experts not involved in the discussion.
30. The practitioner shall evaluate whether the entity's quantification methods and reporting policies, including the determination of the entity's organizational boundary, are appropriate for its operations, and are consistent with the applicable criteria and quantification and reporting policies used in the relevant industry and in prior periods.

*Performing Procedures on Location at the Entity's Facilities*

31. The practitioner shall determine whether it is necessary in the circumstances of the engagement to perform procedures on location at significant facilities. (Ref: Para. A15–A16, A74–A77)

*Internal Audit*

32. Where the entity has an internal audit function that is relevant to the engagement, the practitioner shall: (Ref: Para. A78)

- (a) Determine whether, and to what extent, to use specific work of the internal audit function; and
- (b) If using the specific work of the internal audit function, determine whether that work is adequate for the purposes of the engagement.

*Identifying and Assessing Risks of Material Misstatement*

<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
<p>33L. The practitioner shall identify and assess risks of material misstatement:</p> <ul style="list-style-type: none"> <li>(a) At the GHG statement level; and (Ref: Para. A79–A80)</li> <li>(b) For material types of emissions and disclosures, (Ref: Para. A81)</li> </ul> <p>as the basis for designing and performing procedures whose nature, timing and extent:</p> <ul style="list-style-type: none"> <li>(c) Are responsive to assessed risks of material misstatement; and</li> <li>(d) Allow the practitioner to obtain limited assurance about whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria.</li> </ul>	<p>33R. The practitioner shall identify and assess risks of material misstatement:</p> <ul style="list-style-type: none"> <li>(a) At the GHG statement level; and (Ref: Para. A79–A80)</li> <li>(b) At the assertion level for material types of emissions and disclosures, (Ref: Para. A81–A82)</li> </ul> <p>as the basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A83)</p> <ul style="list-style-type: none"> <li>(c) Are responsive to assessed risks of material misstatement; and</li> <li>(d) Allow the practitioner to obtain reasonable assurance about whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria.</li> </ul>

**Causes of Risks of Material Misstatement**

34. When performing the procedures required by paragraphs 33L or 33R, the practitioner shall consider at least the following factors: (Ref: Para. A84–A89)
- (a) The likelihood of intentional misstatement in the GHG statement; (Ref: Para. A84–A86)
  - (b) The likelihood of non-compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the content of the GHG statement; (Ref: Para. A87)

- (c) The likelihood of omission of a potentially significant emission; (Ref: Para. A88(a))
- (d) Significant economic or regulatory changes; (Ref: Para. A88(b))
- (e) The nature of operations; (Ref: Para. A88(c))
- (f) The nature of quantification methods; (Ref: Para. A88(d))
- (g) The degree of complexity in determining the organizational boundary and whether related parties are involved; (Ref: Para. A27–A28)
- (h) Whether there are significant emissions that are outside the normal course of business for the entity, or that otherwise appear to be unusual; (Ref: Para. A88(e))
- (i) The degree of subjectivity in the quantification of emissions; (Ref: Para. A88(e))
- (j) Whether Scope 3 emissions are included in the GHG statement; and (Ref: Para. A88(f))
- (k) How the entity makes significant estimates and the data on which they are based. (Ref: Para. A88(g))

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

- 35. The practitioner shall design and implement overall responses to address the assessed risks of material misstatement at the GHG statement level. (Ref: Para. A90–A93)
- 36. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, having regard to the level of assurance, reasonable or limited, as appropriate. (Ref: Para. A90)

<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
<p>37L. In designing and performing the further procedures in accordance with paragraph 36, the practitioner shall: (Ref: Para. A90, A94)</p> <ul style="list-style-type: none"> <li>(a) Consider the reasons for the assessment given to the risks of material misstatement for material types of emissions and disclosures; and (Ref: Para. A95)</li> <li>(b) Obtain more persuasive evidence the higher the practitioner’s assessment of risk. (Ref: Para. A97)</li> </ul>	<p>37R. In designing and performing the further procedures in accordance with paragraph 36, the practitioner shall: (Ref: Para. A90, A94)</p> <ul style="list-style-type: none"> <li>(a) Consider the reasons for the assessment given to the risks of material misstatement at the assertion level for material types of emissions and disclosures, including: (Ref: Para. A95) <ul style="list-style-type: none"> <li>(i) The likelihood of material misstatement due to the particular characteristics of the relevant type of emission or disclosure (that is, the inherent risk); and</li> <li>(ii) Whether the practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and (Ref: Para. A96)</li> </ul> </li> <li>(b) Obtain more persuasive evidence the higher the practitioner’s assessment of risk. (Ref: Para. A97)</li> </ul>

Limited Assurance	Reasonable Assurance
	<p data-bbox="614 187 797 217"><i>Tests of Controls</i></p> <p data-bbox="614 239 1027 425">38R. The practitioner shall design and perform tests of controls to obtain sufficient appropriate evidence as to the operating effectiveness of relevant controls if: (Ref: Para. A90(a))</p> <ul style="list-style-type: none"> <li data-bbox="665 447 1004 668">(a) The practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures; or (Ref: Para. A96)</li> <li data-bbox="665 690 1038 841">(b) Procedures other than tests of controls cannot alone provide sufficient appropriate evidence at the assertion level. (Ref: Para. A98)</li> </ul> <p data-bbox="614 864 1038 1119">39R. If deviations from controls upon which the practitioner intends to rely are detected, the practitioner shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether: (Ref: Para. A90)</p> <ul style="list-style-type: none"> <li data-bbox="665 1142 1038 1258">(a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;</li> <li data-bbox="665 1281 1015 1345">(b) Additional tests of controls are necessary; or</li> <li data-bbox="665 1367 1015 1484">(c) The potential risks of material misstatement need to be addressed using other procedures.</li> </ul>

Limited Assurance	Reasonable Assurance
	<p><i>Procedures Other than Tests of Controls</i></p> <p>40R. Irrespective of the assessed risks of material misstatement, the practitioner shall design and perform tests of details or analytical procedures in addition to tests of controls, if any, for each material type of emission and disclosure. (Ref: Para. A90, A94)</p> <p>41R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para.A90, A99)</p>
<p><i>Analytical Procedures Performed in Response to Assessed Risks of Material Misstatement</i></p> <p>42L. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A90(c), A100–A102)</p> <ul style="list-style-type: none"> <li>(a) Determine the suitability of particular analytical procedures, taking account of the assessed risks of material misstatement and tests of details, if any;</li> <li>(b) Evaluate the reliability of data from which the practitioner’s expectation of recorded quantities or ratios is developed, taking account of the source, comparability, and nature and relevance of information available, and controls over preparation; and</li> </ul>	<p><i>Analytical Procedures Performed in Response to Assessed Risks of Material Misstatement</i></p> <p>42R. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A90(c), A100–A102)</p> <ul style="list-style-type: none"> <li>(a) Determine the suitability of particular analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;</li> <li>(b) Evaluate the reliability of data from which the practitioner’s expectation of recorded quantities or ratios is developed, taking account of the source, comparability, and nature and relevance of information available, and controls over preparation; and</li> </ul>



<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
<p>(c) Develop an expectation with respect to recorded quantities or ratios.</p> <p>43L. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall make inquiries of the entity about such differences. The practitioner shall consider the responses to these inquiries to determine whether other procedures are necessary in the circumstances. (Ref: Para. A90(c))</p>	<p>(c) Develop an expectation of recorded quantities or ratios which is sufficiently precise to identify possible material misstatements.</p> <p>43R. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall investigate such differences by: (Ref: Para. A90(c))</p> <p>(a) Inquiring of the entity and obtaining additional evidence relevant to the entity's responses; and</p> <p>(b) Performing other procedures as necessary in the circumstances.</p>
<p><i>Procedures Regarding Estimates</i></p> <p>44L. Based on the assessed risks of material misstatement, the practitioner shall: (Ref: Para. A103–A104)</p> <p>(a) Evaluate whether:</p> <p>(i) The entity has appropriately applied the requirements of the applicable criteria relevant to estimates; and</p> <p>(ii) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances; and</p> <p>(b) Consider whether other procedures are necessary in the circumstances.</p>	<p><i>Procedures Regarding Estimates</i></p> <p>44R. Based on the assessed risks of material misstatement, the practitioner shall evaluate whether: (Ref: Para. A103)</p> <p>(a) The entity has appropriately applied the requirements of the applicable criteria relevant to estimates; and</p> <p>(b) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances.</p>

Limited Assurance	Reasonable Assurance
	<p>45R. In responding to an assessed risk of material misstatement, the practitioner shall undertake one or more of the following, taking account of the nature of estimates: (Ref: Para. A103)</p> <ul style="list-style-type: none"> <li>(a) Test how the entity made the estimate and the data on which it is based. In doing so, the practitioner shall evaluate whether: <ul style="list-style-type: none"> <li>(i) The method of quantification used is appropriate in the circumstances; and</li> <li>(ii) The assumptions used by the entity are reasonable.</li> </ul> </li> <li>(b) Test the operating effectiveness of the controls over how the entity made the estimate, together with other appropriate procedures.</li> <li>(c) Develop a point estimate or a range to evaluate the entity's estimate. For this purpose: <ul style="list-style-type: none"> <li>(i) If the practitioner uses assumptions or methods that differ from the entity's, the practitioner shall obtain an understanding of the entity's assumptions or methods sufficient to establish that the practitioner's point estimate or range takes into account relevant variables and to evaluate any significant differences from the entity's point estimate.</li> </ul> </li> </ul>

Limited Assurance	Reasonable Assurance
	<p>(ii) If the practitioner concludes that it is appropriate to use a range, the practitioner shall narrow the range, based on evidence available, until all outcomes within the range are considered reasonable.</p>

*Sampling*

46. If sampling is used, the practitioner shall, when designing the sample, consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A90(b), A105)

*Fraud, Law and Regulation*

47. The practitioner shall respond appropriately to fraud or suspected fraud and non-compliance or suspected non-compliance with law or regulation identified during the engagement. (Ref: Para. A106–A107)

Limited Assurance	Reasonable Assurance
<p><i>Procedures Regarding the GHG Statement Aggregation Process</i></p> <p>48L. The practitioner’s procedures shall include the following procedures related to the GHG statement aggregation process: (Ref: Para. A108)</p> <ul style="list-style-type: none"> <li>(a) Agreeing or reconciling the GHG statement with the underlying records; and</li> <li>(b) Obtaining, through inquiry of the entity, an understanding of material adjustments made during the course of preparing the GHG statement and considering whether other procedures are necessary in the circumstances.</li> </ul>	<p><i>Procedures Regarding the GHG Statement Aggregation Process</i></p> <p>48R. The practitioner’s procedures shall include the following procedures related to the GHG statement aggregation process: (Ref: Para. A108)</p> <ul style="list-style-type: none"> <li>(a) Agreeing or reconciling the GHG statement with the underlying records; and</li> <li>(b) Examining material adjustments made during the course of preparing the GHG statement.</li> </ul>



Limited Assurance	Reasonable Assurance
<p data-bbox="104 192 525 284"><i>Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement</i></p> <p data-bbox="104 305 525 591">49L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the GHG statement may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para. A109–A110)</p> <p data-bbox="158 612 525 734">(a) Conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated; or</p> <p data-bbox="158 755 525 876">(b) Determine that the matter(s) causes the GHG statement to be materially misstated. (Ref: Para. A111)</p>	<p data-bbox="562 192 950 253"><i>Revision of Risk Assessment in a Reasonable Assurance Engagement</i></p> <p data-bbox="562 274 994 722">49R. The practitioner’s assessment of the risks of material misstatement at the assertion level may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence which is inconsistent with the evidence on which the practitioner originally based the assessment, the practitioner shall revise the assessment and modify the planned procedures accordingly. (Ref: Para. A109)</p>

*Accumulation of Identified Misstatements*

50. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A112)

*Consideration of Identified Misstatements as the Engagement Progresses*

51. The practitioner shall determine whether the overall engagement strategy and engagement plan need to be revised if:

- (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the engagement, could be material; or
- (b) The aggregate of misstatements accumulated during the engagement approaches materiality determined in accordance with paragraphs 20–22 of this ISAE.

52. If, at the practitioner’s request, the entity has examined a type of emission or disclosure and corrected misstatements that were detected, the practitioner shall perform procedures with respect to the work performed by the entity to determine whether material misstatements remain.

*Communication and Correction of Misstatements*

53. The practitioner shall communicate on a timely basis all misstatements accumulated during the engagement with the appropriate level within the entity and shall request the entity to correct those misstatements.
54. If the entity refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of the entity's reasons for not making the corrections and shall take that understanding into account when forming the practitioner's conclusion.

*Evaluating the Effect of Uncorrected Misstatements*

55. Prior to evaluating the effect of uncorrected misstatements, the practitioner shall reassess materiality determined in accordance with paragraphs 20–22 of this ISAE to confirm whether it remains appropriate in the context of the entity's actual emissions.
56. The practitioner shall determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence, in relation to particular types of emissions or disclosures and the GHG statement (see paragraph 72).

**Using the Work of Another Practitioner**

57. When the practitioner intends to use the work of another practitioner, the practitioner shall:
  - (a) Communicate clearly with the other practitioners about the scope and timing of the work and findings of the other practitioner; and (Ref: Para. A113–A114)
  - (b) Evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the GHG statement. (Ref: Para. A115)

**Written Representations**

58. The practitioner shall request written representations from a person(s) within the entity with appropriate responsibilities for, and knowledge of, the matters concerned: (Ref: Para. A116)
  - (a) That they have fulfilled their responsibility for the preparation of the GHG statement, including comparative information where appropriate, in accordance with the applicable criteria, as set out in the terms of the engagement;
  - (b) That they have provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the GHG statement;

- (c) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the GHG statement. A summary of such items shall be included in, or attached to, the written representation;
  - (d) Whether they believe that significant assumptions used in making estimates are reasonable;
  - (e) That they have communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial of which they are aware; and
  - (f) Whether they have disclosed to the practitioner their knowledge of actual, suspected or alleged fraud or non-compliance with law or regulation where the fraud or non-compliance could have a material effect on the GHG statement.
59. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.
60. The practitioner shall disclaim a conclusion on the GHG statement or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, if:
- (a) The practitioner concludes that there is sufficient doubt about the integrity of the person(s) providing the written representations required by paragraphs 58(a) and (b) that written representations in these regards are not reliable; or
  - (b) The entity does not provide the written representations required by paragraphs 58(a) and (b).

### **Subsequent Events**

61. The practitioner shall: (Ref: Para. A117)

Consider whether events occurring between the date of the GHG statement and the date of the assurance report require adjustment of, or disclosure in, the GHG statement, and evaluate the sufficiency and appropriateness of evidence obtained about whether such events are appropriately reflected in that GHG statement in accordance with the applicable criteria; and

Respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report.

### **Comparative Information**

62. When comparative information is presented with the current emissions information and some or all of that comparative information is covered by the practitioner's conclusion, the practitioner's procedures with respect to the comparative information shall include evaluating whether: (Ref: Para. A118–A121)

- (a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, has been properly restated and that restatement has been adequately disclosed; and (Ref Para. A121)
  - (b) The quantification policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.
63. Irrespective of whether the practitioner's conclusion covers the comparative information, if the practitioner becomes aware that there may be a material misstatement in the comparative information presented the practitioner shall:
- (a) Discuss the matter with those person(s) within the entity with appropriate responsibilities for, and knowledge of, the matters concerned and perform procedures appropriate in the circumstances; and (Ref: Para. A122–A123)
  - (b) Consider the effect on the assurance report. If the comparative information presented contains a material misstatement, and the comparative information has not been restated:
    - (i) Where the practitioner's conclusion covers the comparative information, the practitioner shall express a qualified conclusion or an adverse conclusion in the assurance report; or
    - (ii) Where the practitioner's conclusion does not cover the comparative information, the practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting the comparative information.

### Other Information

64. The practitioner shall read other information included in documents containing the GHG statement and the assurance report thereon to identify material inconsistencies, if any, with the GHG statement or the assurance report and, if on reading that other information, the practitioner: (Ref: Para. A139)
- (a) Identifies a material inconsistency between that other information and the GHG statement or the assurance report; or
  - (b) Becomes aware of a material misstatement of fact in that other information that is unrelated to matters appearing in the GHG statement or the assurance report,

the practitioner shall discuss the matter with the entity and take further action as appropriate. (Ref: Para. A124–A126)

**Documentation**

65. In documenting the nature, timing and extent of procedures performed, the practitioner shall record: (Ref: Para. A127)
- (a) The identifying characteristics of the specific items or matters tested;
  - (b) Who performed the engagement work and the date such work was completed; and
  - (c) Who reviewed the engagement work performed and the date and extent of such review.
66. The practitioner shall document discussions of significant matters with the entity and others, including the nature of the significant matters discussed, and when and with whom the discussions took place. (Ref: Para. A127)

*Quality Control*

67. The practitioner shall include in the engagement documentation:
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
  - (b) Conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;
  - (c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements; and
  - (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

*Matters Arising after the Date of the Assurance Report*

68. If, in exceptional circumstances, the practitioner performs new or additional procedures or draws new conclusions after the date of the assurance report, the practitioner shall document: (Ref: Para. A128)
- (a) The circumstances encountered;
  - (b) The new or additional procedures performed, evidence obtained, and conclusions reached, and their effect on the assurance report; and
  - (c) When and by whom the resulting changes to engagement documentation were made and reviewed.

*Assembly of the Final Engagement File*

69. The practitioner shall assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final



engagement file on a timely basis after the date of the assurance report. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A129)

70. In circumstances other than those envisaged in paragraph 68 where the practitioner finds it necessary to modify existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the practitioner shall, regardless of the nature of the modifications or additions, document:
- (a) The specific reasons for making them; and
  - (b) When and by whom they were made and reviewed.

### **Engagement Quality Control Review**

71. For those engagements, if any, for which a quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve: (Ref: Para. A130)
- (a) Discussion of significant matters with the engagement partner, including the engagement team's professional competencies with respect to the quantification and reporting of emissions and assurance;
  - (b) Review of the GHG statement and the proposed assurance report;
  - (c) Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
  - (d) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.

### **Forming the Assurance Conclusion**

72. The practitioner shall form a conclusion about whether the practitioner has obtained reasonable or limited assurance, as appropriate, about the GHG statement. That conclusion shall take into account the requirements of paragraphs 56 and 73–75 of this ISAE.

Limited Assurance	Reasonable Assurance
73L. The practitioner shall evaluate whether anything has come to the practitioner's attention that causes the practitioner to believe that the GHG statement is not prepared, in all material respects, in accordance with the applicable criteria.	73R. The practitioner shall evaluate whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria.

74. This evaluation shall include consideration of the qualitative aspects of the entity's quantification methods and reporting practices, including indicators of possible bias in judgments and decisions in the making of estimates and in preparing the GHG statement,<sup>13</sup> and whether, in view of the applicable criteria:

- (a) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;
- (b) Estimates made in preparing the GHG statement are reasonable;
- (c) The information presented in the GHG statement is relevant, reliable, complete, comparable and understandable;
- (d) The GHG statement provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgments made in its preparation; and (Ref: Para. A29, A131–A133)
- (e) The terminology used in the GHG statement is appropriate.

75. The evaluation required by paragraph 73 shall also include consideration of:

- (a) The overall presentation, structure and content of the GHG statement; and
- (b) When appropriate in the context of the criteria, the wording of the assurance conclusion, or other engagement circumstances, whether the GHG statement represents the underlying emissions in a manner that achieves fair presentation.

### Assurance Report Content

76. The assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A134)

- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee.

<sup>13</sup> Indicators of possible bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual estimates.

- (c) An identification or description of the level of assurance, either reasonable or limited, obtained by the practitioner.
- (d) Identification of the GHG statement, including the period(s) it covers, and, if any information in that statement is not covered by the practitioner's conclusion, clear identification of the information subject to assurance as well as the excluded information, together with a statement that the practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed. (Ref: Para. A120, A135)
- (e) A description of the entity's responsibilities. (Ref: Para. A35)
- (f) A statement that GHG quantification is subject to inherent uncertainty. (Ref: Para. A54–A59)
- (g) If the GHG statement includes emissions deductions that are covered by the practitioner's conclusion, identification of those emissions deductions, and a statement of the practitioner's responsibility with respect to them. (Ref: Para. A136–A139)
- (h) Identification of the applicable criteria;
  - (i) Identification of how those criteria can be accessed;
  - (ii) If those criteria are available only to specific intended users, or are relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the GHG statement may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose; and (Ref: Para. A140–A141)
  - (iii) If established criteria need to be supplemented by disclosures in the explanatory notes to the GHG statement for those criteria to be suitable, identification of the relevant note(s). (Ref: Para. A131)
- (i) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1.
- (j) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least

as demanding as the provisions of the IESBA Code related to assurance engagements.

- (k) A description of the practitioner's responsibility, including:
- (i) A statement that the engagement was performed in accordance with ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*; and
  - (ii) An informative summary of the work performed as a basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. In a limited assurance engagement, the summary of the work performed shall state that:
    - The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
    - Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. (Ref: Para. A142–A144)
- (l) The practitioner's conclusion:
- (i) In a reasonable assurance engagement, the conclusion shall be expressed in a positive form; or
  - (ii) In a limited assurance engagement, the conclusion shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the GHG statement is not prepared, in all material respects, in accordance with the applicable criteria.
  - (iii) When the practitioner expresses a modified conclusion, the assurance report shall contain:
    - a. A section that provides a description of the matter(s) giving rise to the modification; and
    - b. A section that contains the practitioner's modified conclusion.
- (m) The practitioner's signature. (Ref: Para. A145)
- (n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the practitioner has obtained the evidence

on which the practitioner's conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the GHG statement.

- (o) The location in the jurisdiction where the practitioner practices.

### *Emphasis of Matter Paragraphs and Other Matter Paragraphs*

77. If the practitioner considers it necessary to: (Ref: Para. A146–A152)

- (a) Draw intended users' attention to a matter presented or disclosed in the GHG statement that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of the GHG statement (an Emphasis of Matter paragraph); or
- (b) Communicate a matter other than those that are presented or disclosed in the GHG statement that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph),

and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter.

### **Other Communication Requirements**

78. The practitioner shall communicate, unless prohibited by law or regulation, with those person(s) with oversight responsibilities for the GHG statement the following matters that come to the practitioner's attention during the course of the engagement, and shall determine whether there is a responsibility to report them to another party within or outside the entity:

- (a) Deficiencies in internal control that, in the practitioner's professional judgment, are of sufficient importance to merit attention;
- (b) Identified or suspected fraud; and
- (c) Matters involving identified or suspected non-compliance with laws and regulations, other than when the matters are clearly trivial. (Ref: Para. A87)

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## **Application and Other Explanatory Material**

### **Introduction**

*Assurance Engagements Covering Information in Addition to the GHG Statement*  
(Ref: Para. 3)

A1. In some cases, the practitioner may perform an assurance engagement on a report that includes GHG information, but that GHG information does not

comprise a GHG statement as defined in paragraph 14(m). In such cases, this ISAE may provide guidance for such an engagement.

- A2. Where a GHG statement is a relatively minor part of the overall information that is covered by the practitioner's conclusion, the extent to which this ISAE is relevant is a matter for the practitioner's professional judgment in the circumstances of the engagement.

*Key Performance Indicators Based on GHG Data* (Ref: Para. 4(b))

- A3. An example of a key performance indicator based on GHG data is the weighted average of emissions per kilometer of vehicles manufactured by an entity during a period, which is required to be calculated and disclosed by law or regulation in some jurisdictions.

*Procedures for Reasonable Assurance and Limited Assurance Engagements* (Ref: Para. 8)

- A4. Some procedures that are required only for reasonable assurance engagements may nonetheless be appropriate in some limited assurance engagements. For example, although obtaining an understanding of control activities is not required for limited assurance engagements, in some cases, such as when information is recorded, processed, or reported only in electronic form, the practitioner may nonetheless decide that testing controls, and therefore obtaining an understanding of relevant control activities, is necessary for a limited assurance engagement (see also paragraph A90).

*Independence* (Ref: Para. 10, 15)

- A5. The IESBA Code sets out *International Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to these engagements. Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- Self-interest, for example, undue dependence on total fees from the entity.
- Self-review, for example, performing another service for the entity that directly affects the GHG statement, such as involvement in the quantification of the entity's emissions.
- Advocacy, for example, acting as an advocate on behalf of the entity with respect to the interpretation of the applicable criteria.
- Familiarity, for example, a member of the engagement team having a long association, or close or immediate family relationship, with an employee of the entity who is in a position to exert direct and significant influence over the preparation of the GHG statement.
- Intimidation, for example, being pressured to reduce inappropriately the extent of work performed in order to lower fees, or being threatened with

withdrawal of the practitioner's registration by a registering authority that is associated with the entity's industry group.

- A6. In cases when identified threats are not at an acceptable level, the IESBA Code requires that the threats be addressed by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

*Local Law or Regulation and the Provisions of an Emissions Trading Scheme*  
(Ref: Para. 11)

- A7. Local law or regulation or the provisions of an emissions trading scheme may: include requirements in addition to the requirements of this ISAE; require that specific procedures be undertaken on all engagements; or require that procedures be undertaken in a particular way. For example, local law or regulation or the provisions of an emissions trading scheme may require the practitioner to report in a format that is not in compliance with this ISAE. When the law or regulation prescribes the layout or wording of the assurance report in a form or in terms that are significantly different from this ISAE, and the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, the practitioner may consider including a statement in the report that the engagement is not conducted in accordance with this ISAE.

## Definitions

*Emissions* (Ref: Para. 14(f), Appendix 1)

- A8. Scope 1 emissions may include stationary combustion (from fuel burned in the entity's stationary equipment, such as boilers, incinerators, engines, and flares), mobile combustion (from fuel burned in the entity's transport devices, such as trucks, trains, airplanes and boats), process emissions (from physical or chemical processes, such as cement manufacturing, petrochemical processing, and aluminum smelting), and fugitive emissions (intentional and unintentional releases, such as equipment leaks from joints and seals and emissions from wastewater treatment, pits, and cooling towers).
- A9. Almost all entities purchase energy in a form such as electricity, heat or steam; therefore, almost all entities have Scope 2 emissions. Scope 2 emissions are indirect because the emissions associated with, for example, electricity that the entity purchases occur at the power station, which is outside the entity's organizational boundary.
- A10. Scope 3 emissions may include emissions associated with, for example: employee business travel; outsourced activities; consumption of fossil fuel or electricity required to use the entity's products; extraction and production of materials purchased as inputs to the entity's processes; and transportation of purchased fuels. Scope 3 emissions are further discussed in paragraphs A31–A34.

*Emissions Deductions* (Ref: Para. 14(g), 17(a)(iii), Appendix 1)

- A11. In some cases, emissions deductions include jurisdiction-specific credits and allowances for which there is no established link between the quantity of emissions allowed by the criteria to be deducted, and any lowering of emissions that may occur as a result of money paid or other action taken by the entity in order for it to claim the emissions deduction.
- A12. Where an entity's GHG statement includes emissions deductions that are within the scope of the engagement, the requirements of this ISAE apply in relation to emissions deductions as appropriate (see also paragraphs A136-A139).

*Purchased Offset* (Ref: Para. 14(q), Appendix 1)

- A13. When the entity purchases an offset from another entity, that other entity may spend the money it receives from the sale on emissions reduction projects (such as replacing energy generation using fossil fuels with renewable energy sources, or implementing energy efficiency measures), or on removing emissions from the atmosphere (for example, by planting and maintaining trees that would otherwise not have been planted or maintained), or the money may be compensation for not undertaking an action that would otherwise be undertaken (such as deforestation or forest degradation). In some jurisdictions, offsets can only be purchased if the emissions reduction or removal enhancement has already occurred.

*Removal* (Ref: Para. 14(s), Appendix 1)

- A14. Removal may be achieved by storing GHGs in geological sinks (for example, underground) or biological sinks (for example, trees). Where the GHG statement includes the removal of GHGs that the entity would have otherwise emitted to the atmosphere, they are commonly reported in the GHG statement on a gross basis, that is, both the source and the sink are quantified in the GHG statement. Where removals are covered by the practitioner's conclusion, the requirements of this ISAE apply in relation to those removals as appropriate.

*Significant Facility* (Ref: Para. 14(t), 31)

- A15. As the individual contribution of a facility to the aggregate emissions reported in the GHG statement increases, the risks of material misstatement to the GHG statement ordinarily increase. The practitioner may apply a percentage to a chosen benchmark as an aid to identify facilities that are of individual significance due to the size of their emissions relative to the aggregate emissions included in the GHG statement. Identifying a benchmark and determining a percentage to be applied to it involve the exercise of professional judgment. For example, the practitioner may consider that facilities exceeding 15% of total production volume are significant facilities. A higher or lower percentage may, however, be determined to be appropriate in the circumstances in the practitioner's professional judgment. This may be the case when, for example:



there is a small number of facilities, none of which is less than 15% of total production volume, but in the practitioner's professional judgment not all the facilities are significant; or when there are a number of facilities that are marginally below 15% of total production volume which in the practitioner's professional judgment are significant.

A16. The practitioner may also identify a facility as significant due to its specific nature or circumstances which give rise to particular risks of material misstatement. For example, a facility could be using different data gathering processes or quantification techniques from other facilities, require the use of particularly complex or specialized calculations, or involve particularly complex or specialized chemical or physical processes.

### **ISAE 3000 (Revised)** (Ref: Para. 9, 15)

A17. ISAE 3000 (Revised) includes requirements that apply to assurance engagements (other than audits or reviews of historical financial information), including engagements in accordance with this ISAE. In some cases, this ISAE may include additional requirements or application material in relation to those topics.

### **Acceptance and Continuance of the Engagement**

#### *Competency* (Ref: Para. 16(b))

A18. GHG competencies may include:

- General understanding of climate science, including the scientific processes that relate GHGs to climate change.
- Understanding who the intended users of the information in the entity's GHG statement are, and how they are likely to use that information (see paragraph A47).
- Understanding emissions trading schemes and related market mechanisms, when relevant.
- Knowledge of applicable laws and regulations, if any, that affect how the entity should report its emissions, and may also, for example, impose a limit on the entity's emissions.
- GHG quantification and measurement methodologies, including the associated scientific and estimation uncertainties, and alternative methodologies available.
- Knowledge of the applicable criteria, including, for example:
  - Identifying appropriate emissions factors.
  - Identifying those aspects of the criteria that call for significant or sensitive estimates to be made, or for the application of considerable judgment.

- Methods used for determining organizational boundaries, i.e., the entities whose emissions are to be included in the GHG statement.
- Which emissions deductions are permitted to be included in the entity's GHG statement.

A19. The complexity of assurance engagements with respect to a GHG statement varies. In some cases, the engagement may be relatively straightforward, for instance, when an entity has no Scope 1 emissions and is reporting only Scope 2 emissions using an emissions factor specified in regulation, applied to electricity consumption at a single location. In this case, the engagement may focus largely on the system used to record and process electricity consumption figures identified on invoices, and arithmetical application of the specified emissions factor. When, however, the engagement is relatively complex, it is likely to require specialist competence in the quantification and reporting of emissions. Particular areas of expertise that may be relevant in such cases include:

Information systems expertise

- Understanding how emissions information is generated, including how data is initiated, recorded, processed, corrected as necessary, collated and reported in a GHG statement.

Scientific and engineering expertise

- Mapping the flow of materials through a production process, and the accompanying processes that create emissions, including identifying the relevant points at which source data is gathered. This may be particularly important in considering whether the entity's identification of emissions sources is complete.
- Analyzing chemical and physical relationships between inputs, processes and outputs, and relationships between emissions and other variables. The capacity to understand and analyze these relationships will often be important in designing analytical procedures.
- Identifying the effect of uncertainty on the GHG statement.
- Knowledge of the quality control policies and procedures implemented at testing laboratories, whether internal or external.
- Experience with specific industries and related emissions creation and removal processes. Procedures for Scope 1 emissions quantification vary greatly depending on the industries and processes involved, for example, the nature of electrolytic processes in aluminum production; combustion processes in the production of electricity using fossil fuels; and chemical processes in cement production are all different.
- The operation of physical sensors and other quantification methods, and the selection of appropriate emissions factors.

*Scope of the GHG Statement and the Engagement (Ref: Para. 17(a))*

A20. Examples of circumstances where the reasons for excluding known emissions sources from the GHG statement, or excluding disclosed emissions sources from the engagement, may not be reasonable in the circumstances include where:

- The entity has significant Scope 1 emissions but only includes Scope 2 emissions in the GHG statement.
- The entity is a part of a larger legal entity that has significant emissions that are not being reported on because of the way the organizational boundary has been determined when this is likely to mislead intended users.
- The emissions that the practitioner is reporting on are only a small proportion of the total emissions included in the GHG statement.

*Determining the Appropriateness of the Subject Matter (Ref: Para. 15)*

A21. ISAE 3000 (Revised) requires the practitioner to determine whether the underlying subject matter is appropriate.<sup>14</sup> In the case of a GHG statement, the entity's emissions (and removals and emissions deductions if applicable) are the underlying subject matter of the engagement. That underlying subject matter will be appropriate if, among other things, the entity's emissions are capable of consistent quantification using suitable criteria.<sup>15</sup>

A22. GHG sources may be quantified by:

- (a) Direct measurement (or direct monitoring) of GHG concentration and flow rates using continuous emissions monitoring or periodic sampling; or
- (b) Measuring a surrogate activity, such as fuel consumption, and calculating emissions using, for example, mass balance equations,<sup>16</sup> entity-specific emissions factors, or average emissions factors for a region, source, industry or process.

*Determining the Suitability of the Criteria**Specifically Developed and Established Criteria (Ref: Para. 17(b))*

A23. Suitable criteria exhibit the following characteristics: relevance, completeness, reliability, neutrality, and understandability. Criteria may be "specifically developed" or they may be "established," for example, embodied in law or

<sup>14</sup> ISAE 3000 (Revised), paragraph 24(b)(i)

<sup>15</sup> ISAE 3000 (Revised), paragraph 24(b)(ii)

<sup>16</sup> That is, equating the amount of a substance entering and exiting a defined boundary, for example, the amount of carbon in a hydrocarbon-based fuel entering a combustion device equals the amount of carbon exiting the device in the form of carbon dioxide.

regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process.<sup>17</sup> Although criteria established by a regulator can be presumed to be relevant when that regulator is the intended user, some established criteria may be developed for a special purpose and be unsuitable for application in other circumstances. For example, criteria developed by a regulator that include emissions factors for a particular region may render misleading information if used for emissions in another region; or criteria that are designed to report only on particular regulatory aspects of emissions may be unsuitable for reporting to intended users other than the regulator that established the criteria.

- A24. Specifically developed criteria may be appropriate when, for example, the entity has very specialized machinery or is aggregating emissions information from different jurisdictions where the established criteria used in those jurisdictions differ. Special care may be necessary when assessing the neutrality and other characteristics of specifically developed criteria, particularly if they are not substantially based on established criteria generally used in the entity's industry or region, or are inconsistent with such criteria.
- A25. The criteria may comprise established criteria supplemented by disclosures, in the explanatory notes to the GHG statement, of specific boundaries, methods, assumptions, emissions factors, etc. In some cases, established criteria may not be suitable, even when supplemented by disclosures in the explanatory notes to the GHG statement, for example, when they do not encompass the matters noted in paragraph 17(b).
- A26. It should be noted that the suitability of the criteria is not affected by the level of assurance, that is, if they are not suitable for a reasonable assurance engagement, they are also not suitable for a limited assurance engagement, and vice versa.

*Operations Included in the Entity's Organizational Boundary* (Ref: Para. 17(b)(i), 23(b)(i), 34(g))

- A27. Determining which operations owned or controlled by the entity to include in the entity's GHG statement is known as determining the entity's organizational boundary. In some cases, law or regulation define the boundaries of the entity for reporting GHG emissions for regulatory purposes. In other cases, the applicable criteria may allow a choice between different methods for determining the entity's organizational boundary, for example, the criteria may allow a choice between an approach that aligns the entity's GHG statement with its financial statements and another approach that treats, for example, joint ventures or associates differently. Determining the entity's organizational boundary may require the analysis of complex organizational structures such as joint ventures, partnerships, and trusts, and complex or unusual contractual relationships.

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<sup>17</sup> ISAE 3000 (Revised), paragraphs A45–A48

For example, a facility may be owned by one party, operated by another, and process materials solely for another party.

- A28. Determining the entity’s organizational boundary is different from what some criteria describe as determining the entity’s “operational boundary.” The operational boundary relates to which categories of Scope 1, 2 and 3 emissions will be included in the GHG statement, and is determined after setting the organizational boundary.

*Adequate Disclosures* (Ref: Para. 17(b)(iv), 74(d))

- A29. In regulatory disclosure regimes, disclosures specified in the relevant law or regulation are adequate for reporting to the regulator. Disclosure in the GHG statement of such matters as the following may be necessary in voluntary reporting situations for intended users to understand the significant judgments made in preparing the GHG statement:
- (a) Which operations are included in the entity’s organizational boundary, and the method used for determining that boundary if the applicable criteria allow a choice between different methods (see paragraphs A27–A28);
  - (b) Significant quantification methods and reporting policies selected, including:
    - (i) The method used to determine which Scope 1 and Scope 2 emissions have been included in the GHG statement (see paragraph A30);
    - (ii) Any significant interpretations made in applying the applicable criteria in the entity’s circumstances, including data sources and, when choices between different methods are allowed, or entity-specific methods are used, disclosure of the method used and the rationale for doing so; and
    - (iii) How the entity determines whether previously reported emissions should be restated.
  - (c) The categorization of emissions in the GHG statement. As noted in paragraph A14, where the GHG statement includes the removal of GHGs that the entity would have otherwise emitted to the atmosphere, both emissions and removals are commonly reported in the GHG statement on a gross basis, that is, both the source and the sink are quantified in the GHG statement;
  - (d) A statement regarding the uncertainties relevant to the entity’s quantification of its emissions, including: their causes; how they have been addressed; their effects on the GHG statement; and, where the GHG statement includes Scope 3 emissions, an explanation of: (see paragraphs A31–A34)

- (i) The nature of Scope 3 emissions, including that it is not practicable for an entity to include all Scope 3 emissions in its GHG statement; and
  - (ii) The basis for selecting those Scope 3 emissions sources that have been included; and
- (e) Changes, if any, in the matters mentioned in this paragraph or in other matters that materially affect the comparability of the GHG statement with a prior period(s) or base year.

### Scope 1 and Scope 2 Emissions

A30. Criteria commonly call for all material Scope 1, Scope 2, or both Scope 1 and Scope 2 emissions to be included in the GHG statement. Where some Scope 1 or Scope 2 emissions have been excluded, it is important that the explanatory notes to the GHG statement disclose the basis for determining which emissions are included and which are excluded, particularly if those that are included are not likely to be the largest for which the entity is responsible.

### Scope 3 Emissions

A31. While some criteria require the reporting of specific Scope 3 emissions, more commonly the inclusion of Scope 3 emissions is optional because it would be impracticable for nearly any entity to attempt to quantify the full extent of its indirect emissions as this includes all sources both up and down the entity's supply chain. For some entities, reporting particular categories of Scope 3 emissions provides important information for intended users, for example, where an entity's Scope 3 emissions are considerably larger than its Scope 1 and Scope 2 emissions, as may be the case with many service sector entities. In these cases, the practitioner may consider it inappropriate to undertake an assurance engagement if significant Scope 3 emissions are not included in the GHG statement.

A32. Where some Scope 3 emissions sources have been included in the GHG statement, it is important that the basis for selecting which sources to include is reasonable, particularly if those included are not likely to be the largest sources for which the entity is responsible.

A33. In some cases, the source data used to quantify Scope 3 emissions may be maintained by the entity. For example, the entity may keep detailed records as the basis for quantifying emissions associated with employee air travel. In some other cases, the source data used to quantify Scope 3 emissions may be maintained in a well-controlled and accessible source outside the entity. Where this is not the case, however, it may be unlikely that the practitioner will be able to obtain sufficient appropriate evidence with respect to such Scope 3 emissions. In such cases, it may be appropriate to exclude those Scope 3 emissions sources from the engagement.

- A34. It may also be appropriate to exclude Scope 3 emissions from the engagement where the quantification methods in use are heavily dependent on estimation and lead to a high degree of uncertainty in reported emissions. For example, various quantification methods for estimating the emissions associated with air travel can give widely varying quantifications even when identical source data is used. If such Scope 3 emissions sources are included in the engagement, it is important that the quantification methods used are selected objectively and that they are fully described along with the uncertainties associated with their use.

*The Entity's Responsibility for the Preparation of the GHG Statement* (Ref: Para. 17(c)(ii), 76(d))

- A35. As noted in paragraph A70, for some engagements concerns about the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the GHG statement. This may occur when the entity has little experience with the preparation of GHG statements. In such circumstances, it may be more appropriate for the quantification and reporting of emissions to be subject to an agreed-upon procedures engagement or a consulting engagement in preparation for an assurance engagement in a later period.

*Who Developed the Criteria* (Ref: Para. 17(c)(iii))

- A36. When the GHG statement has been prepared for a regulatory disclosure regime or emissions trading scheme where the applicable criteria and form of reporting are prescribed, it is likely to be apparent from the engagement circumstances that it is the regulator or body in charge of the scheme that developed the criteria. In voluntary reporting situations, however, it may not be clear who developed the criteria unless it is stated in the explanatory notes to the GHG statement.

*Changing the Terms of the Engagement* (Ref: Para. 15, 18)

- A37. ISAE 3000 (Revised) requires that the practitioner not agree to a change in the terms of the engagement where there is no reasonable justification for doing so.<sup>18</sup> A request to change the scope of the engagement may not have a reasonable justification when, for example, the request is made to exclude certain emissions sources from the scope of the engagement because of the likelihood that the practitioner's conclusion would be modified.

**Planning** (Ref: Para. 19)

- A38. When establishing the overall engagement strategy, it may be relevant to consider the emphasis given to different aspects of the design and implementation of the GHG information system. For example, in some cases the entity may have been particularly conscious of the need for adequate

<sup>18</sup> ISAE 3000 (Revised), paragraph 29

internal control to ensure the reliability of reported information, while in other cases the entity may have focused more on accurately determining the scientific, operational or technical characteristics of the information to be gathered.

- A39. Smaller engagements or more straightforward engagements (see paragraph A19) may be conducted by a very small engagement team. With a smaller team, coordination of, and communication between, team members is easier. Establishing the overall engagement strategy for a smaller engagement, or for a more straightforward engagement, need not be a complex or time-consuming exercise. For example, a brief memorandum, based on discussions with the entity, may serve as the documented engagement strategy if it covers the matters noted in paragraph 19.
- A40. The practitioner may decide to discuss elements of planning with the entity when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.
- A41. The performance of an assurance engagement is an iterative process. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to modify the nature, timing or extent of other planned procedures. In some cases, information may come to the practitioner's attention that differs significantly from that expected at an earlier stage of the engagement. For example, systematic errors discovered when performing procedures on location at selected facilities may indicate that it is necessary to visit additional facilities.

*Planning to Use a Practitioner's Expert or Another Practitioner (Ref: Para. 19(e))*

- A42. The engagement may be performed by a multidisciplinary team that includes one or more experts, particularly on relatively complex engagements when specialist competence in the quantification and reporting of emissions is likely to be required (see paragraph A19). ISAE 3000 (Revised) contains a number of requirements with respect to using the work of an expert that may need to be considered at the planning stage when ascertaining the nature, timing and extent of resources necessary to perform the engagement.<sup>19</sup>

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<sup>19</sup> ISAE 3000 (Revised), paragraphs 45(c), 52 and 54



A43. The work of another practitioner may be used in relation to, for example, a factory or other form of facility at a remote location; a subsidiary, division or branch in a foreign jurisdiction; or a joint venture or associate. Relevant considerations when the engagement team plans to request another practitioner to perform work on information to be included in the GHG statement may include:

- Whether the other practitioner understands and complies with the ethical requirements that are relevant to the engagement and, in particular, is independent.
- The other practitioner's professional competence.
- The extent of the engagement team's involvement in the work of the other practitioner.
- Whether the other practitioner operates in a regulatory environment that actively oversees that practitioner.

### **Materiality in Planning and Performing the Engagement**

*Determining Materiality When Planning the Engagement* (Ref: Para. 20–21)

A44. The criteria may discuss the concept of materiality in the context of the preparation and presentation of the GHG statement. Although criteria may discuss materiality in different terms, the concept of materiality generally includes that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the GHG statement;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to intended users of the GHG statement are based on a consideration of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

A45. Such a discussion, if present in the applicable criteria, provides a frame of reference to the practitioner in determining materiality for the engagement. If the applicable criteria do not include a discussion of the concept of materiality, the characteristics referred to above provide the practitioner with such a frame of reference.

A46. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common

information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

- (a) Have a reasonable knowledge of GHG related activities, and a willingness to study the information in the GHG statement with reasonable diligence;
- (b) Understand that the GHG statement is prepared and assured to levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
- (c) Understand that the quantification of emissions involves uncertainties (see paragraphs A54–A59); and
- (d) Make reasonable decisions on the basis of the information in the GHG statement.

A47. Intended users and their information needs may include, for example:

- Investors and other stakeholders such as suppliers, customers, employees, and the broader community in the case of voluntary disclosures. Their information needs may relate to decisions to buy or sell equity in the entity; lend to, trade with, or be employed by the entity; or make representations to the entity or others, for example, politicians.
- Market participants in the case of an emissions trading scheme, whose information needs may relate to decisions to trade negotiable instruments (such as permits, credits or allowances) created by the scheme, or impose fines or other penalties on the basis of excess emissions.
- Regulators and policy makers in the case of a regulatory disclosure regime. Their information needs may relate to monitoring compliance with the disclosure regime, and a broad range of government policy decisions related to climate change mitigation and adaptation, usually based on aggregated information.
- Management and those charged with governance of the entity who use information about emissions for strategic and operational decisions, such as choosing between alternative technologies and investment and divestment decisions, perhaps in anticipation of a regulatory disclosure regime or entering an emissions trading scheme.

The practitioner may not be able to identify all those who will read the assurance report, particularly where there are a large number of people who have access to it. In such cases, particularly where possible users are likely to have a broad range of interests with respect to emissions, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the engaging party, or by law or regulation.

- A48. Judgments about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. It should be noted, however, that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement.
- A49. A percentage is often applied to a chosen benchmark as a starting point in determining materiality. Factors that may affect the identification of an appropriate benchmark and percentage include:
- The elements included in the GHG statement (for example, Scope 1, Scope 2 and Scope 3 emissions, emissions deductions, and removals). A benchmark that may be appropriate, depending on the circumstances, is gross reported emissions, that is, the aggregate of reported Scope 1, Scope 2 and Scope 3 emissions before subtracting any emissions deductions or removals. Materiality relates to the emissions covered by the practitioner's conclusion. Therefore, when the practitioner's conclusion does not cover the entire GHG statement, materiality is set in relation to only that portion of the GHG statement that is covered by the practitioner's conclusion as if it were the GHG statement.
  - The quantity of a particular type of emission or the nature of a particular disclosure. In some cases, there are particular types of emissions or disclosures for which misstatements of lesser or greater amounts than materiality for the GHG statement in its entirety are acceptable. For example, the practitioner may consider it appropriate to set a lower or greater materiality for emissions from a particular jurisdiction, or for a particular gas, scope or facility.
  - How the GHG statement presents relevant information, for example, whether it includes a comparison of emissions with a prior period(s), a base year, or a "cap," in which case determining materiality in relation to the comparative information may be a relevant consideration. Where a "cap" is relevant, materiality may be set in relation to the entity's allocation of the cap if it is lower than reported emissions.
  - The relative volatility of emissions. For example, if emissions vary significantly from period to period, it may be appropriate to set materiality relative to the lower end of the fluctuation range even if the current period is higher.
  - The requirements of the applicable criteria. In some cases, the applicable criteria may set a threshold for accuracy and may refer to this as materiality. For example, the criteria may state an expectation that emissions are measured using a stipulated percentage as the "materiality threshold." Where this is the case, the threshold set by the criteria provides a frame of reference to the practitioner in determining materiality for the engagement.

A50. Qualitative factors may include:

- The sources of emissions.
- The types of gases involved.
- The context in which the information in the GHG statement will be used (for example, whether the information is for use in an emissions trading scheme, is for submission to a regulator, or is for inclusion in a widely distributed sustainability report); and the types of decisions that intended users are likely to make.
- Whether there are one or more types of emissions or disclosures on which the attention of the intended users tends to be focused, for example, gases that, as well as contributing to climate change, are ozone depleting.
- The nature of the entity, its climate change strategies and progress toward related objectives.
- The industry and the economic and regulatory environment in which the entity operates.

*Revision as the Engagement Progresses* (Ref: Para. 22)

A51. Materiality may need to be revised as a result of a change in circumstances during the engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that actual emissions are likely to be substantially different from those used initially to determine materiality. If during the engagement the practitioner concludes that a lower materiality for the GHG statement (and, if applicable, materiality level or levels for particular types of emissions or disclosures) than that initially determined is appropriate, it may be necessary to revise performance materiality, and the nature, timing and extent of the further procedures.

**Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement** (Ref: Para. 23–26)

A52. The practitioner uses professional judgment to determine the extent of the understanding and the nature, timing and extent of procedures to identify and assess risks of material misstatement that are required to obtain reasonable or limited assurance, as appropriate. The practitioner's primary consideration is whether the understanding that has been obtained and the identification and assessment of risks are sufficient to meet the objective stated in this ISAE. The depth of the understanding that is required by the practitioner is less than that possessed by management in managing the entity, and both the depth of the understanding and the nature, timing and extent of procedures to identify

and assess risks of material misstatement are less for a limited assurance engagement than for a reasonable assurance engagement.

- A53. Obtaining an understanding and identifying and assessing risks of material misstatement is an iterative process. Procedures to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.

*Uncertainty* (Ref: Para: 23(b)(i)c, 76(e))

- A54. The GHG quantification process can rarely be 100% accurate due to:

- (a) *Scientific uncertainty*: This arises because of incomplete scientific knowledge about the measurement of GHGs. For example, the rate of GHG sequestration in biological sinks, and the “global warming potential” values used to combine emissions of different gases and report them as carbon dioxide equivalents, are subject to incomplete scientific knowledge. The degree to which scientific uncertainty affects the quantification of reported emissions is beyond the control of the entity. However, the potential for scientific uncertainty to result in unreasonable variations in reported emissions can be negated by the use of criteria that stipulate particular scientific assumptions to be used in preparing the GHG statement, or particular factors that embody those assumptions; and
- (b) *Estimation (or measurement) uncertainty*: This results from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge. Estimation uncertainty may relate to the data on which an estimate is based (for example, it may relate to uncertainty inherent in measurement instruments used), or the method, including where applicable the model, used in making the estimate (sometimes known as parameter and model uncertainty, respectively). The degree of estimation uncertainty is often controllable by the entity. Reducing the degree of estimation uncertainty may involve greater cost.

- A55. The fact that quantifying an entity’s emissions is subject to uncertainty does not mean that an entity’s emissions are inappropriate as a subject matter. For example, the applicable criteria may require Scope 2 emissions from electricity to be calculated by applying a prescribed emissions factor to the number of kilowatt hours consumed. The prescribed emissions factor will be based on assumptions and models that may not hold true in all circumstances. However, as long as the assumptions and models are reasonable in the circumstances and adequately disclosed, information in the GHG statement will ordinarily be capable of being subjected to an assurance engagement.

- A56. The situation in paragraph A55 can be contrasted with quantification in accordance with criteria that use models and assumptions based on an entity's individual circumstances. Using entity-specific models and assumptions will likely result in more accurate quantification than using, for example, average emissions factors for an industry; it will also likely introduce additional risks of material misstatement with respect to how the entity-specific models and assumptions were arrived at. As noted in paragraph A55, as long as the assumptions and models are reasonable in the circumstances and adequately disclosed, information in the GHG statement will ordinarily be capable of being subjected to an assurance engagement.
- A57. In some cases, however, the practitioner may decide that it is inappropriate to undertake an assurance engagement if the impact of uncertainty on information in the GHG statement is very high. This may be the case when, for example, a significant proportion of the entity's reported emissions are from fugitive sources (see paragraph A8) that are not monitored and estimation methods are not sufficiently sophisticated, or when a significant proportion of the entity's reported removals are attributable to biological sinks. It should be noted that decisions whether to undertake an assurance engagement in such circumstances are not affected by the level of assurance, that is, if it is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa.
- A58. A discussion in the explanatory notes to the GHG statement of the nature, causes, and effects of the uncertainties that affect the entity's GHG statement alerts intended users to the uncertainties associated with the quantification of emissions. This may be particularly important where the intended users did not determine the criteria to be used. For example, a GHG statement may be available to a broad range of users even though the criteria used were developed for a particular regulatory purpose.
- A59. Because uncertainty is a significant characteristic of all GHG statements, paragraph 76(e) requires it to be mentioned in the assurance report regardless of what, if any, disclosures are included in the explanatory notes to the GHG statement.<sup>20</sup>

### *The Entity and Its Environment*

#### Interruptions to Operations (Ref: Para. 23(b)(iii))

- A60. Interruptions may include incidents such as shutdowns, which may occur unexpectedly, or may be planned, for example, as part of a maintenance schedule. In some cases, the nature of operations may be intermittent, for example, when a facility is only used at peak periods.

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<sup>20</sup> See also ISAE 3000 (Revised), paragraph 69(e).

## Climate Change Objectives and Strategies (Ref: Para. 23(e))

A61. Consideration of the entity's climate change strategy, if any, and associated economic, regulatory, physical and reputational risks, may assist the practitioner to identify risks of material misstatement. For example, if the entity has made commitments to become carbon neutral, this may provide an incentive to understate emissions so the target will appear to be achieved within a declared timeframe. Conversely, if the entity is expecting to be subject to a regulated emissions trading scheme in the future, this may provide an incentive to overstate emissions in the meantime to increase the opportunity for it to receive a larger allowance at the outset of the scheme.

*Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement* (Ref: Para. 24)

A62. Although the practitioner is required to perform all the procedures in paragraph 24 in the course of obtaining the required understanding of the entity, the practitioner is not required to perform all of them for each aspect of that understanding.

*Analytical Procedures for Obtaining an Understanding of the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement* (Ref: Para. 24(b))

A63. Analytical procedures performed to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement may identify aspects of the entity of which the practitioner was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks. Analytical procedures may include, for example, comparing GHG emissions from various facilities with production figures for those facilities.

A64. Analytical procedures may help identify the existence of unusual events, and amounts, ratios, and trends that might indicate matters that have implications for the engagement. Unusual or unexpected relationships that are identified may assist the practitioner in identifying risks of material misstatement.

A65. However, when such analytical procedures use data aggregated at a high level (which may be the situation with analytical procedures performed to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement), the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist. Accordingly, in such cases, consideration of other evidence that has been gathered when identifying the risks of material misstatement together with the results of such analytical procedures may assist the practitioner in understanding and evaluating the results of the analytical procedures.

*Observation and Inspection* (Ref: Para. 24(c))

A66. Observation consists of looking at a process or procedure being performed by others, for example, the practitioner's observation of monitoring devices being calibrated by the entity's personnel, or of the performance of control activities. Observation provides 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.

A67. Inspection involves:

- (a) Examining records or documents, whether internal or external, in paper form, electronic form, or other media, for example, calibration records of a monitoring device. Inspection of records and documents provides 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; or
- (b) A physical examination of, for example, a calibrating device.

A68. Observation and inspection may support inquiries of management and others, and may also provide information about the entity and its environment. Examples of such procedures include observation or inspection of the following:

- The entity's operations. Observing processes and equipment, including monitoring equipment, at facilities may be particularly relevant where significant Scope 1 emissions are included in the GHG statement.
- Documents (such as emissions mitigation plans and strategies), records (such as calibration records and results from testing laboratories), and manuals detailing information collection procedures and internal controls.
- Reports prepared for management or those charged with governance, such as internal or external reports with respect to the entity's environmental management systems.
- Reports prepared by management (such as quarterly management reports) and those charged with governance (such as minutes of board of directors' meetings).

*Obtaining an Understanding of the Entity's Internal Control* (Ref: Para. 25L–26R)

A69. In a limited assurance engagement, the practitioner is not required to obtain an understanding of all of the components of the entity's internal control relevant to emissions quantification and reporting as is required in a reasonable assurance engagement. In addition, the practitioner is not required to evaluate the design of controls and determine whether they have been implemented. Therefore, in a limited assurance engagement, while it may often be appropriate to inquire



of the entity about control activities and monitoring of controls relevant to the quantification and reporting of emissions, it will often not be necessary to obtain a detailed understanding of these components of the entity's internal control.

A70. The practitioner's understanding of relevant components of internal control may raise doubts about whether sufficient appropriate evidence is available for the practitioner to complete the engagement. For example (see also paragraphs A71–A72, A92–A93, and A96):

- Concerns about the integrity of those preparing the GHG statement may be so serious as to cause the practitioner to conclude that the risk of management misrepresentation in the GHG statement is such that an engagement cannot be conducted.
- Concerns about the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the GHG statement.

*Control Activities Relevant to the Engagement* (Ref: Para. 25R(d))

A71. The practitioner's judgment about whether particular control activities are relevant to the engagement may be affected by the level of sophistication, documentation and formality of the entity's information system, including the related business processes, relevant to reporting emissions. As reporting of emissions evolves, it can be expected that so too will the level of sophistication, documentation and formality of information systems and related control activities relevant to the quantification and reporting of emissions.

A72. In the case of very small entities or immature information systems, particular control activities are likely to be more rudimentary, less well-documented, and may only exist informally. When this is the case, it is less likely the practitioner will judge it necessary to understand particular control activities in order to assess the risks of material misstatement and design further procedures responsive to assessed risks. In some regulated schemes, on the other hand, the information system and control activities may be required to be formally documented and their design approved by the regulator. Even in some of these cases, however, not all relevant data flows and associated controls may be documented. For example, it may be more likely that control activities with respect to source data collection from continuous monitoring are sophisticated, well-documented, and more formal than control activities with respect to subsequent data processing and reporting (see also paragraphs A70, A92–A93, and A96).

*Other Engagements Performed for the Entity* (Ref: Para. 27)

A73. Information obtained from other engagements performed for the entity may relate to, for example, aspects of the entity's control environment.

*Performing Procedures on Location at the Entity's Facilities (Ref: Para. 31)*

- A74. Performing observation and inspection, as well as other procedures, on location at a facility (often referred to as a “site visit”) may be important in building on the understanding of the entity that the practitioner develops by performing procedures at head office. Because the practitioner’s understanding of the entity and identification and assessment of risks of material misstatement can be expected to be more comprehensive for a reasonable assurance engagement than for a limited assurance engagement, the number of facilities at which procedures are performed on location in the case of a reasonable assurance engagement will ordinarily be greater than in the case of a limited assurance engagement.
- A75. Performing procedures on location at a facility (or having another practitioner perform such procedures on behalf of the practitioner) may be done as part of planning, when performing procedures to identify and assess risks of material misstatement, or when responding to assessed risks of material misstatement. Performing procedures at significant facilities is often particularly important for an engagement being undertaken for the first time when considering the completeness of Scope 1 sources and of sinks included in the GHG statement, and when establishing whether the entity’s data collection and processing systems, and its estimation techniques, are appropriate relative to the underlying physical processes and related uncertainties.
- A76. As noted in paragraph A74, performing procedures on location at a facility may be important in building on the understanding of the entity that the practitioner develops by performing procedures at head office. For many reasonable assurance engagements, the practitioner will also judge it necessary to perform procedures on location at each significant facility to respond to assessed risks of material misstatement, particularly when the entity has significant facilities with Scope 1 emissions. For a limited assurance engagement where the entity has a number of significant facilities with Scope 1 emissions, a meaningful level of assurance may not be able to be obtained without the practitioner having performed procedures at a selection of significant facilities. Where the entity has significant facilities with Scope 1 emissions and the practitioner determines that effective and efficient procedures cannot be performed on location at the facility by the practitioner (or another practitioner on their behalf), alternative procedures may include one or more of the following:
- Reviewing source documents, energy flow diagrams, and material flow diagrams.
  - Analyzing questionnaire responses from facility management.
  - Inspecting satellite imagery of the facility.
- A77. To obtain adequate coverage of total emissions, particularly in a reasonable assurance engagement, the practitioner may decide that it is appropriate to

perform procedures on location at a selection of facilities that are not significant facilities. Factors that may be relevant to such a decision include:

- The nature of emissions at different facilities. For example, it is more likely that a practitioner may choose to visit a facility with Scope 1 emissions than a facility with only Scope 2 emissions. In the latter case, the examination of energy invoices at head office is more likely to be a primary source of evidence.
- The number and size of facilities, and their contribution to overall emissions.
- Whether facilities use different processes, or processes using different technologies. Where this is the case, it may be appropriate to perform procedures on location at a selection of facilities using different processes or technologies.
- The methods used at different facilities to gather emissions information.
- The experience of relevant staff at different facilities.
- Varying the selection of facilities over time.

*Internal Audit* (Ref: Para. 32)

A78. The entity's internal audit function is likely to be relevant to the engagement if the nature of the internal audit function's responsibilities and activities are related to the quantification and reporting of emissions and the practitioner expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of procedures to be performed.

*Risks of Material Misstatement at the GHG Statement Level* (Ref: Para. 33L(a)–33R(a))

A79. Risks of material misstatement at the GHG statement level refer to risks that relate pervasively to the GHG statement as a whole. Risks of this nature are not necessarily risks identifiable with a specific type of emission or disclosure level. Rather, they represent circumstances that may increase the risks of material misstatement more generally, for example, through management override of internal control. Risks of material misstatement at the GHG statement level may be especially relevant to the practitioner's consideration of the risks of material misstatement arising from fraud.

A80. Risks at the GHG statement level may derive in particular from a deficient control environment. For example, deficiencies such as management's lack of competence may have a pervasive effect on the GHG statement and may require an overall response by the practitioner. Other risks of material misstatement at the GHG statement level may include, for example:

- Inadequate, poorly controlled or poorly documented mechanisms for collecting data, quantifying emissions and preparing GHG statements.

- Lack of staff competence in collecting data, quantifying emissions and preparing GHG statements.
- Lack of management involvement in quantifying emissions and preparing GHG statements.
- Failure to identify accurately all sources of GHGs.
- Risk of fraud, for example, in connection with emissions trading markets.
- Presenting information covering prior periods that is not prepared on a consistent basis, for example, because of changed boundaries or changes in measurement methodologies.
- Misleading presentation of information in the GHG statement, for example, unduly highlighting particularly favorable data or trends.
- Inconsistent quantification methods and reporting policies, including different methods for determining the organizational boundary, at different facilities.
- Errors in unit conversion when consolidating information from facilities.
- Inadequate disclosure of scientific uncertainties and key assumptions in relation to estimates.

*The Use of Assertions* (Ref: Para. 33L(b)–33R(b))

- A81. Assertions are used by the practitioner in a reasonable assurance engagement, and may be used in a limited assurance engagement, to consider the different types of potential misstatements that may occur.
- A82. In representing that the GHG statement is in accordance with the applicable criteria, the entity implicitly or explicitly makes assertions regarding the quantification, presentation and disclosure of emissions. Assertions fall into the following categories and may take the following forms:
- (a) Assertions about the quantification of emissions for the period subject to assurance:
    - (i) Occurrence—emissions that have been recorded have occurred and pertain to the entity.
    - (ii) Completeness—all emissions that should have been recorded have been recorded (see paragraphs A30–A34 for a discussion of completeness with respect to various Scopes).
    - (iii) Accuracy—the quantification of emissions has been recorded appropriately.
    - (iv) Cutoff—emissions have been recorded in the correct reporting period.
    - (v) Classification—emissions have been recorded as the proper type.

- (b) Assertions about presentation and disclosure:
- (i) Occurrence and responsibility—disclosed emissions and other matters have occurred and pertain to the entity.
  - (ii) Completeness—all disclosures that should have been included in the GHG statement have been included.
  - (iii) Classification and understandability—emissions information is appropriately presented and described, and disclosures are clearly expressed.
  - (iv) Accuracy and quantification—emissions quantification and related information included in the GHG statement are appropriately disclosed.
  - (v) Consistency—quantification policies are consistent with those applied in the prior period, or changes are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

*Reliance on Internal Control* (Ref: Para. 33R)

A83. If the practitioner’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures), the practitioner is required by paragraph 38R to design and perform tests of the operating effectiveness of those controls.

*Causes of Risks of Material Misstatement* (Ref: Para. 34)

Fraud (Ref: Para. 28, 34(a))

- A84. Misstatements in the GHG statement can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the GHG statement is intentional or unintentional.
- A85. Incentives for intentional misstatement of the GHG statement may arise if, for example, those who are directly involved with, or have the opportunity to influence, the emissions reporting process have a significant portion of their compensation contingent upon achieving aggressive GHG targets. As noted in paragraph A61, other incentives to either under or overstate emissions may result from the entity’s climate change strategy, if any, and associated economic, regulatory, physical and reputational risks.
- A86. Although fraud is a broad legal concept, for the purposes of this ISAE, the practitioner is concerned with fraud that causes a material misstatement in the

GHG statement. Although the practitioner may suspect or, in rare cases, identify the occurrence of fraud, the practitioner does not make legal determinations of whether fraud has actually occurred.

#### Non-Compliance with Law and Regulation (Ref: Para. 34(b), 78(c))

A87. This ISAE distinguishes the practitioner's responsibilities in relation to compliance with two different categories of law and regulation as follows:

- (a) The provisions of law and regulation generally recognized to have a direct effect on the determination of material amounts and disclosures in the GHG statement in that they determine the reported quantities and disclosures in an entity's GHG statement. Paragraph 34(b) requires the practitioner to consider the likelihood of material misstatement due to non-compliance with the provisions of such law or regulation when performing the procedures required by paragraphs 33L or 33R; and
- (b) Other law or regulation that do not have a direct effect on the determination of the quantities and disclosures in the GHG statement, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, or compliance with environmental regulations). Planning and performing an engagement with professional skepticism, as required by ISAE 3000 (Revised),<sup>21</sup> is important in the context of remaining alert to the possibility that procedures applied for the purpose of forming a conclusion on the GHG statement may bring instances of identified or suspected non-compliance with such law or regulation to the practitioner's attention.

#### Other Causes of Risks of Material Misstatement (Ref: Para. 34)

A88. Examples of factors referred to in paragraph 34(c)–(k) include:

- (a) Omission of one or more emissions sources is more likely for sources that are less obvious and may be overlooked, such as fugitive emissions.
- (b) Significant economic or regulatory changes may include, for example, increases in renewable energy targets or significant price changes for allowances under an emissions trading scheme, which may lead to, for example, increased risk of misclassification of sources at an electricity generator.
- (c) The nature of the entity's operations may be complex (for example, it may involve multiple and disparate facilities and processes), discontinuous (for example, peak load electricity generation), or result in few or weak relationships between the entity's emissions and other measurable

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<sup>21</sup> ISAE 3000 (Revised), paragraph 37

activity levels (for example, a cobalt nickel plant). In such cases, the opportunity for meaningful analytical procedures may be significantly reduced.

Changes in operations or boundaries (for example, introduction of new processes, or the sale, acquisition or outsourcing of emissions sources or removal sinks) may also introduce risks of material misstatement (for example, through unfamiliarity with quantification or reporting procedures). Also, double counting of an emissions source or removals sink may occur due to inadequate coordination in the identification of sources and sinks at a complex installation.

- (d) Selection of an inappropriate quantification method (for example, calculating Scope 1 emissions using an emissions factor when using a more accurate direct measurement method is available and would be more appropriate). Selecting an appropriate quantification method is particularly important when the method has been changed. This is because intended users are often interested in emissions trends over time, or relative to a base year. Some criteria may require that quantification methods are only changed when a more accurate method is to be used. Other factors related to the nature of quantification methods include:
- Incorrect application of a quantification method, such as not calibrating meters or not reading them sufficiently frequently, or use of an emissions factor that is inappropriate in the circumstances. For example, an emissions factor may be predicated on an assumption of continuous use and may not be appropriate to use after a shut down.
  - Complexity in quantification methods, which will likely involve higher risk of material misstatement, for example: extensive or complex mathematical manipulation of source data (such as the use of complex mathematical models); extensive use of state conversion factors (such as those to convert measures of liquid to measures of gas); or extensive use of unit conversion factors (such as those to convert imperial measures to metric measures).
  - Changes in quantification methods or input variables (for example, if the quantification method used is based on the carbon content of biomass, and the composition of the biomass used changes during the period).
- (e) Significant non-routine emissions or judgmental matters are a source of greater risk of material misstatement relative to routine, non-complex emissions that are subject to systematic quantification and reporting. Non-routine emissions are those that are unusual, in size or nature, and that therefore occur infrequently (for example, one-off events such as a

plant malfunction or major leak). Judgmental matters may include the development of subjective estimates. Risks of material misstatement may be greater because of matters such as:

- Greater management intervention to specify the quantification methods or reporting treatment.
  - Greater manual intervention for data collection and processing.
  - Complex calculations or quantification methods and reporting principles.
  - The nature of non-routine emissions, which may make it difficult for the entity to implement effective controls over the risks.
  - Quantification methods and reporting principles for estimates may be subject to differing interpretation.
  - Required judgments may be subjective or complex.
- (f) The inclusion of Scope 3 emissions where the source data used in quantification are not maintained by the entity, or where quantification methods commonly in use are imprecise or lead to large variations in reported emissions (see paragraphs A31–A34).
- (g) Matters that the practitioner may consider in obtaining an understanding of how the entity makes significant estimates and the data on which they are based include, for example:
- An understanding of the data on which estimates are based;
  - The method, including where applicable the model, used in making estimates;
  - Relevant aspects of the control environment and information system;
  - Whether the entity has used an expert;
  - The assumptions underlying estimates;
  - Whether there has been or ought to have been a change from the prior period in the methods for making estimates and, if so, why; and
  - Whether and, if so, how the entity has assessed the effect of estimation uncertainty on the GHG statement, including:
    - Whether and, if so, how the entity has considered alternative assumptions or outcomes by, for example, performing a sensitivity analysis to determine the effect of changes in the assumptions on an estimate;



- How the entity determines the estimate when analysis indicates a number of outcome scenarios; and
  - Whether the entity monitors the outcome of estimates made in the prior period, and whether it has appropriately responded to the outcome of that monitoring procedure.
- A89. Examples of other factors that may lead to risks of material misstatement include:
- Human error in the quantification of emissions, which may be more likely to occur if personnel are unfamiliar with, or not well-trained regarding, emissions processes or data recording.
  - Undue reliance on a poorly designed information system, which may have few effective controls, for example, the use of spreadsheets without adequate controls.
  - Manual adjustment of otherwise automatically recorded activity levels, for example, manual input may be required if a flare meter becomes overloaded.
  - Significant external developments such as heightened public scrutiny of a particular facility.

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

*Limited and Reasonable Assurance Engagements* (Ref: Para. 8, 35–41R, 42L–43R, 46)

- A90. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the practitioner’s overall responses to address the assessed risks of material misstatement and further procedures for a reasonable assurance engagement and a limited assurance engagement on a GHG statement include:
- (a) The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example:
    - The practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity’s personnel and analytical procedures, and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.

- Where the entity uses continuous measuring equipment to quantify emissions flows, the practitioner may decide in a limited assurance engagement to respond to an assessed risk of material misstatement by inquiring about the frequency with which the equipment is calibrated. In the same circumstances for a reasonable assurance engagement, the practitioner may decide to examine the entity's records of the equipment's calibration or independently test its calibration.
  - Where the entity burns coal, the practitioner may decide in a reasonable assurance engagement to independently analyze the characteristics of the coal, but in a limited assurance engagement the practitioner may decide that reviewing the entity's records of laboratory test results is an adequate response to an assessed risk of material misstatement.
- (b) In a limited assurance engagement, the further procedures performed are less than in a reasonable assurance engagement. This may involve:
- Selecting less items for examination;
  - Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed); or
  - Performing procedures on location at fewer facilities.
- (c) In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.<sup>22</sup>

Further, when significant fluctuations, relationships or differences are identified, appropriate evidence in a limited assurance engagement may often be obtained by making inquiries of the entity and considering responses received in the light of known engagement circumstances, without obtaining additional evidence as is required by paragraph 43R(a) in the case of a reasonable assurance engagement.

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<sup>22</sup> This may not always be the case; for example, in some circumstances the practitioner may develop a precise expectation based on fixed physical or chemical relationships even in a limited assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:

- Use data that is more highly aggregated, for example, data at a regional level rather than at a facility level, or monthly data rather than weekly data.
- Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

*Overall Responses to Assessed Risks of Material Misstatement (Ref: Para. 35)*

A91. Overall responses to address the assessed risks of material misstatement at the GHG statement level may include:

- Emphasizing to the assurance personnel the need to maintain professional skepticism.
- Assigning more experienced staff or those with special skills or using experts.
- Providing more supervision.
- Incorporating additional elements of unpredictability in the selection of further procedures to be performed.
- Making general changes to the nature, timing or extent of procedures, for example: performing procedures at the period end instead of at an interim date; or modifying the nature of procedures to obtain more persuasive evidence.

A92. The assessment of the risks of material misstatement at the GHG statement level, and thereby the practitioner's overall responses, is affected by the practitioner's understanding of the control environment. An effective control environment may allow the practitioner to have more confidence in internal control and the reliability of evidence generated internally within the entity and thus, for example, allow the practitioner to conduct some procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect. For example, the practitioner may respond to an ineffective control environment by:

- Conducting more procedures as of the period end rather than at an interim date.
- Obtaining more extensive evidence from procedures other than tests of controls.
- Increasing sample sizes and the extent of procedures, such as the number of facilities at which procedures are performed.

A93. Such considerations, therefore, have a significant bearing on the practitioner's general approach, for example, the relative emphasis on tests of controls versus other procedures (see also paragraphs A70–A72, and A96).

*Examples of Further Procedures* (Ref: Para. 37L–37R, 40R)

A94. Further procedures may include, for example:

- Testing the operating effectiveness of controls over the collection and recording of activity data, such as kilowatt hours of electricity purchased.
- Agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances.
- Reviewing joint venture agreements and other contracts relevant to determining the entity's organizational boundary.
- Reconciling recorded data to, for example, odometers on vehicles owned by the entity.
- Reperforming calculations (for example, mass balance and energy balance calculations), and reconciling differences noted.
- Taking readings from continuous monitoring equipment.
- Observing or reperforming physical measurements, such as dipping oil tanks.
- Analyzing the soundness and appropriateness of unique measurement or quantification techniques, particularly complex methods that may involve, for example, recycle or feedback loops.
- Sampling and independently analyzing the characteristics of materials such as coal, or observing the entity's sampling techniques and reviewing records of laboratory test results.
- Checking the accuracy of calculations and the suitability of calculation methods used (for example, the conversion and aggregation of input measurements).
- Agreeing recorded data back to source documents, such as production records, fuel usage records, and invoices for purchased energy.

*Factors that May Influence Assessed Risks of Material Misstatement* (Ref: Para. 37L(a)–37R(a))

A95. Factors that may influence the assessed risks of material misstatement include:

- Inherent limitations on the capabilities of measurement instruments and the frequency of their calibration.

- The number, nature, geographical spread, and ownership characteristics of facilities from which data is collected.
- The number and nature of the various gases and emissions sources included in the GHG statement.
- Whether processes to which emissions relate are continuous or intermittent, and the risk of disruption to such processes.
- The complexity of methods for activity measurement and for calculating emissions, for example, some processes require unique measurement and calculation methods.
- The risk of unidentified fugitive emissions.
- The extent to which the quantity of emissions correlates with readily available input data.
- Whether personnel who perform data collection are trained in relevant methods, and the frequency of turnover of such personnel.
- The nature and level of automation used in data capture and manipulation.
- The quality control policies and procedures implemented at testing laboratories, whether internal or external.
- The complexity of criteria and of quantification and reporting policies, including how the organizational boundary is determined.

*Operating Effectiveness of Controls* (Ref: Para. 37R(a)(ii), 38R(a))

A96. In the case of very small entities or immature information systems, there may not be many control activities that could be identified by the practitioner, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the practitioner to perform further procedures that are primarily other than tests of controls. In some rare cases, however, the absence of control activities or of other components of control may make it impossible to obtain sufficient appropriate evidence (see also paragraphs A70–A72, and A92–A93).

*Persuasiveness of Evidence* (Ref: Para. 37L(b)–37R(b))

A97. To obtain more persuasive evidence because of a higher assessment of risk of material misstatement, the practitioner may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by obtaining corroborating evidence from a number of independent sources.

*Risks for Which Tests of Controls Are Necessary to Provide Sufficient Appropriate Evidence* (Ref: 38R(b))

A98. The quantification of emissions may include processes that are highly automated with little or no manual intervention, for example, where relevant information is

recorded, processed, or reported only in electronic form such as in a continuous monitoring system, or when the processing of activity data is integrated with an information technology-based operational or financial reporting system. In such cases:

- Evidence may be available only in electronic form, and its sufficiency and appropriateness dependent on the effectiveness of controls over its accuracy and completeness.
- The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.

*Confirmation Procedures* (Ref: Para. 41R)

A99. External confirmation procedures may provide relevant evidence about such information as:

- Activity data collected by a third party, such as data about: employee air travel collated by a travel agent; the inflow of energy to a facility metered by a supplier; or kilometers travelled by entity-owned vehicles recorded by an external fleet manager.
- Industry benchmark data used in calculating emissions factors.
- The terms of agreements, contracts, or transactions between the entity and other parties, or information about whether other parties are, or are not, including particular emissions in their GHG statement, when considering the entity's organizational boundary.
- The results of laboratory analysis of samples (for example, the calorific value of input samples).

*Analytical Procedures Performed in Response to Assessed Risks of Material Misstatement* (Ref: Para. 42L–42R)

A100. In many cases, the fixed nature of physical or chemical relationships between particular emissions and other measurable phenomena allows for the design of powerful analytical procedures (for example, the relationship between fuel consumption and carbon dioxide and nitrous oxide emissions).

A101. Similarly, a reasonably predictable relationship may exist between emissions and financial or operational information (for example, the relationship between Scope 2 emissions from electricity and the general ledger balance for electricity purchases or hours of operation). Other analytical procedures may involve comparisons of information about the entity's emissions with external data such as industry averages; or the analysis of trends during the period to identify anomalies for further investigation, and trends across periods for consistency with other circumstances such as the acquisition or disposal of facilities.

A102. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external audit procedures (for example, as part of a joint venture agreement or oversight by a regulator).

*Procedures Regarding Estimates* (Ref: Para. 44L–45R)

A103. In some cases, it may be appropriate for the practitioner to evaluate how the entity has considered alternative assumptions or outcomes, and why it has rejected them.

A104. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures identified in paragraph 45R.

*Sampling* (Ref: Para. 46)

A105. Sampling involves:

- (a) Determining a sample size sufficient to reduce sampling risk to an acceptably low level. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too may be the level of sampling risk that is acceptable in the case of tests of details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size may be larger than when used in similar circumstances in a limited assurance engagement.
- (b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.
- (c) Investigating the nature and cause of deviations or misstatements identified, and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.
- (d) Evaluating:

- (i) The results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and
- (ii) Whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

*Fraud, Law and Regulation* (Ref: Para. 47)

A106. In responding to fraud or suspected fraud identified during the engagement, it may be appropriate for the practitioner to, for example:

- Discuss the matter with the entity.
- Request the entity to consult with an appropriately qualified third party, such as the entity’s legal counsel or a regulator.
- Consider the implications of the matter in relation to other aspects of the engagement, including the practitioner’s risk assessment and the reliability of written representations from the entity.
- Obtain legal advice about the consequences of different courses of action.
- Communicate with third parties (for example, a regulator).
- Withhold the assurance report.
- Withdraw from the engagement.

A107. The actions noted in the paragraph A106 may be appropriate in responding to non-compliance or suspected non-compliance with law and regulation identified during the engagement. It may also be appropriate to describe the matter in an Other Matter paragraph in the assurance report in accordance with paragraph 77 of this ISAE, unless the practitioner:

- (a) Concludes that the non-compliance has a material effect on the GHG statement and has not been adequately reflected in the GHG statement; or
- (b) Is precluded by the entity from obtaining sufficient appropriate evidence to evaluate whether non-compliance that may be material to the GHG statement has, or is likely to have, occurred, in which case paragraph 66 of ISAE 3000 (Revised) applies.

*Procedures Regarding the GHG Statement Aggregation Process* (Ref: Para. 48L–48R)

A108. As noted in paragraph A71, as reporting of emissions evolves, it can be expected that so too will the level of sophistication, documentation and formality of information systems relevant to the quantification and reporting of emissions. In immature information systems, the aggregation process may be very informal. In more sophisticated systems, the aggregation process may be more systematic and formally documented. The nature, and also the



extent, of the practitioner's procedures with respect to adjustments and the manner in which the practitioner agrees or reconciles the GHG statement with the underlying records depends on the nature and complexity of the entity's quantifications and reporting process and the related risks of material misstatement.

*Additional Procedures* (Ref: Para. 49L–49R)

A109. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures. Such procedures may include asking the entity to examine the matter(s) identified by the practitioner, and to make adjustments to the GHG statement if appropriate.

*Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement* (Ref: Para. 49L, 49L(b))

A110. The practitioner may become aware of a matter(s) that causes the practitioner to believe the GHG statement may be materially misstated. For example, when performing site visits, the practitioner may identify a potential source of emissions which does not appear to be included in the GHG statement. In such cases, the practitioner makes further inquiries as to whether the potential source has been incorporated into the GHG statement. The extent of additional procedures performed, in accordance with paragraph 49L, will be a matter of professional judgment. The greater the likelihood of material misstatement the more persuasive the evidence the practitioner obtains.

A111. If, in the case of a limited assurance engagement, a matter(s) comes to the practitioner's attention that causes the practitioner to believe the GHG statement may be materially misstated, the practitioner is required by paragraph 49L to design and perform additional procedures. If having done so, however, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated or determine that it does cause the GHG statement to be materially misstated, a scope limitation exists.

*Accumulation of Identified Misstatements* (Ref: Para. 50)

A112. The practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the GHG statement. "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with this ISAE, and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether

judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

### **Using the Work of another Practitioner**

#### *Communication to another Practitioner* (Ref: Para. 57(a))

A113. Relevant matters that the engagement team may communicate to another practitioners in respect of the work to be performed, the use to be made of that work, and the form and content of the other practitioner's communication with the engagement team may include:

- A request that the other practitioner, knowing the context in which the engagement team will use the work of the other practitioner, confirms that the other practitioner will cooperate with the engagement team.
- Performance materiality for the work of the other practitioner, which may be lower than performance materiality for the GHG statement (and, if applicable, the materiality level or levels for particular types of emissions or disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the GHG statement.
- Identified risks of material misstatement of the GHG statement that are relevant to the work of the other practitioner; and a request that the other practitioner communicate on a timely basis any other risks identified during the engagement that may be material to the GHG statement, and the other practitioner's responses to such risks.

#### *Communication from Another Practitioner* (Ref: Para. 57(a))

A114. Relevant matters that the engagement team may request another practitioner to communicate include:

- Whether the other practitioner has complied with ethical requirements that are relevant to the group engagement, including independence and professional competence.
- Whether the other practitioner has complied with the group engagement team's requirements.
- Information on instances of non-compliance with law or regulation that could give rise to a material misstatement of the GHG statement.
- A list of uncorrected misstatements identified by the other practitioner during the engagement that are not clearly trivial.
- Indicators of possible bias in the preparation of relevant information.
- Description of any identified significant deficiencies in internal control identified by the other practitioner during the engagement.

- Other significant matters that the other practitioner has communicated or expects to communicate to the entity, including fraud or suspected fraud.
- Any other matters that may be relevant to the GHG statement, or that the other practitioner wishes to draw to the attention of the engagement team, including exceptions noted in any written representations that the other practitioner requested from the entity.
- The other practitioner's overall findings, conclusion or opinion.

*Evidence* (Ref: Para. 57(b))

A115. Relevant considerations when obtaining evidence regarding the work of another practitioner may include:

- Discussions with the other practitioner regarding business activities relevant to that other practitioner's work that are significant to the GHG statement.
- Discussions with the other practitioner regarding the susceptibility of relevant information to material misstatement.
- Reviewing the other practitioner's documentation of identified risks of material misstatement, responses to those risks, and conclusions. Such documentation may take the form of a memorandum that reflects the other practitioner's conclusion with regard to the identified risks.

**Written Representations** (Ref: Para. 58)

A116. In addition to the written representations required by paragraph 58, the practitioner may consider it necessary to request other written representations. The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance. However, because management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics, it is not possible for this ISAE to specify for all engagements the appropriate person(s) from whom to request written representations. For example, the entity may be a facility that is not a separate legal entity in its own right. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

**Subsequent Events** (Ref: Para. 61)

A117. Subsequent events may include, for example, the publication of revised emissions factors by a body such as a government agency, changes to relevant legislation or regulations, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error.

**Comparative Information** (Ref: Para. 62–63, 76(c))

A118. Law or regulation, or the terms of the engagement, may specify the requirements in respect of presentation, reporting and assurance of the comparative information in a GHG statement. A key difference between financial statements and a GHG statement is that the amounts presented in a GHG statement measures emissions for a discrete period and are not based on cumulative amounts over time. As a result, the comparative information presented does not affect current year information unless emissions have been recorded in the wrong period and therefore the amounts may be based on the incorrect starting period for measurement.

A119. Where a GHG statement includes references to percentage reductions in emissions, or a similar comparison of period on period information, it is important that the practitioner consider the appropriateness of the comparisons. These may be inappropriate due to:

- (a) Significant changes in operations from the prior period;
- (b) Significant changes in conversion factors; or
- (c) Inconsistency of sources or methods of measurement.

A120. When comparative information is presented with the current emissions information but some or all of that comparative information is not covered by the practitioner's conclusion, it is important that the status of such information is clearly identified in both the GHG statement and the assurance report.

*Restatements* (Ref: Para. 62(a))

A121. The GHG quantities reported in a prior period may need to be restated in accordance with law or regulation or the applicable criteria because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error.

*Performing Procedures on Comparative Information* (Ref: Para 63(a))

A122. In a limited assurance engagement that includes assurance on comparative information, if the practitioner becomes aware that there may be a material misstatement in the comparative information presented, the procedures to be performed are to be in accordance with the requirements of paragraph 49L. In the case of a reasonable assurance engagement, the procedures to be performed are to be sufficient to form an opinion on the comparative information.

A123. If the engagement does not include assurance on comparative information, the requirement to perform procedures in the circumstances addressed by paragraph 63(a) is to satisfy the practitioner's ethical obligation to not knowingly be associated with materially false or misleading information.

**Other Information** (Ref: Para. 64)

A124. A GHG statement may be published with other information that is not covered by the practitioner's conclusion, for example, a GHG statement may be included as part of an entity's annual report or sustainability report, or included with other climate change-specific information such as:

- A strategic analysis, including a statement about the impact climate change has on the entity's strategic objectives.
- An explanation and qualitative assessment of current and anticipated significant risks and opportunities associated with climate change.
- Disclosures about the entity's actions, including its long-term and short-term plan to address climate change-related risks, opportunities and impacts.
- Disclosures about future outlook, including trends and factors related to climate change that are likely to affect the entity's strategy or the timescale over which achievement of the strategy is planned.
- A description of governance processes and the entity's resources that have been assigned to the identification, management and oversight of climate change-related issues.

A125. In some cases, the entity may publish emissions information that is calculated on a different basis from that used in preparing the GHG statement, for example, the other information may be prepared on a "like-for-like" basis whereby emissions are recalculated to omit the effect of non-recurring events, such as the commissioning of a new plant or the closing down of a facility. The practitioner may seek to have such information removed if the methods used to prepare it would be disallowed by the criteria used to prepare the GHG statement. The practitioner may also seek to have removed any narrative information that is inconsistent with the quantitative data included in the GHG statement or cannot be substantiated (for example, speculative projections or claims about future action).

A126. Further actions that may be appropriate when other information could undermine the credibility of the GHG statement and the assurance report include, for example:

- Requesting the entity to consult with a qualified third party, such as the entity's legal counsel.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties, for example, a regulator.
- Withholding the assurance report.

- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.
- Describing the matter in the assurance report.

## Documentation

*Documentation of the Procedures Performed and Evidence Obtained* (Ref: Para. 15, 65–66)

A127. ISAE 3000 (Revised) requires the practitioner to prepare on a timely basis engagement documentation that provides a record of the basis of the assurance report.<sup>23</sup> The following are examples of matters that may be appropriate to include in the engagement documentation:

- **Fraud:** The risks of material misstatement and the nature, timing and extent of procedures with respect to fraud; and communications about fraud made to the entity, regulators and others.
- **Law or Regulation:** Identified or suspected non-compliance with law or regulation and the results of discussion with the entity and other parties outside the entity.
- **Planning:** The overall engagement strategy, the engagement plan, and any significant changes made during the engagement, and the reasons for such changes.
- **Materiality:** The following amounts and the factors considered in their determination: materiality for the GHG statement; if applicable, the materiality level or levels for particular types of emissions or disclosures; performance materiality; and any revision of materiality as the engagement progresses.
- **Risks of Material Misstatement:** the discussion required by paragraph 29, and the significant decisions reached, key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 23, and the risks of material misstatement for which in the practitioner’s professional judgment further procedures were required.
- **Further Procedures:** the nature, timing and extent of the further procedures performed, the linkage of those further procedures with the risks of material misstatement, and the results of the procedures.
- **Evaluation of Misstatements:** The amount below which misstatements would be regarded as clearly trivial, misstatements accumulated during the engagement and whether they have been corrected, and the practitioner’s conclusion as to whether uncorrected misstatements are material, individually or in the aggregate, and the basis for that conclusion.

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<sup>23</sup> ISAE 3000 (Revised), paragraph 42

*Matters Arising after the Date of the Assurance Report* (Ref: Para. 68)

A128. Examples of exceptional circumstances include facts which become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the GHG statement to be amended or the practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the engagement documentation are reviewed in accordance with the firm's policies and procedures with respect to review responsibilities as required by ISQC 1, with the engagement partner taking final responsibility for the changes.<sup>24</sup>

*Assembly of the Final Engagement File* (Ref: Para. 69)

A129. ISQC 1 (or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files.<sup>25</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>26</sup>

**Engagement Quality Control Review** (Ref: Para. 71)

A130. Other matters that may be considered in an engagement quality control review include:

- The engagement team's evaluation of the firm's independence in relation to the engagement.
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
- Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

**Forming the Assurance Conclusion***Description of the Applicable Criteria* (Ref: Para. 74(d), 76(g)(iv))

A131. The preparation of the GHG statement by the entity requires the inclusion of an adequate description of the applicable criteria in the explanatory notes to the GHG statement. That description advises intended users of the framework on which the GHG statement is based, and is particularly important when there are

<sup>24</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 32–33

<sup>25</sup> ISQC 1, paragraph 45

<sup>26</sup> ISQC 1, paragraph A54

significant differences between various criteria regarding how particular matters are treated in a GHG statement, for example: which emissions deductions are included, if any; how they have been quantified and what they represent; and the basis for selecting which Scope 3 emissions are included, and how they have been quantified.

A132. A description that the GHG statement is prepared in accordance with particular criteria is appropriate only if the GHG statement complies with all the requirements of those criteria that are effective during the period covered by the GHG statement.

A133. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the GHG statement is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the GHG statement.

### **Assurance Report Content**

#### *Illustrative Assurance Reports (Ref: Para. 76)*

A134. Appendix 2 contains illustrations of assurance reports on GHG statements incorporating the elements set forth in paragraph 76.

#### *Information Not Covered by the Practitioner’s Conclusion (Ref: Para. 76(c))*

A135. To avoid misunderstanding and undue reliance on information that has not been subject to assurance, where the GHG statement includes information, such as comparatives, that is not covered by the practitioner’s conclusion, that information is ordinarily identified as such in the GHG statement and in the practitioner’s assurance report.

#### *Emissions Deductions (Ref: Para. 76(f))*

A136. The wording of the statement to be included in the assurance report when the GHG statement includes emissions deductions may vary considerably depending on the circumstances.

A137. The availability of relevant and reliable information in relation to offsets and other emissions deductions varies greatly and, therefore, so does the evidence available to practitioners to support entities’ claimed emissions deductions.

A138. Because of the varied nature of emissions deductions and the often reduced number and nature of procedures that can be applied to emissions deductions by the practitioner, this ISAE requires identification in the assurance report of those emissions deductions, if any, that are covered by the practitioner’s conclusion, and a statement of the practitioner’s responsibility with respect to them.

A139. A statement of the practitioner’s responsibility with respect to emissions deductions may be worded as follows when the emissions deductions are comprised of offsets: “The GHG statement includes a deduction from ABC’s



emissions for the year of yyy tonnes of CO<sub>2-e</sub> relating to offsets. We have performed procedures as to whether these offsets were acquired during the year, and whether the description of them in the GHG statement is a reasonable summary of the relevant contracts and related documentation. We have not, however, performed any procedures regarding the external providers of these offsets, and express no conclusion about whether the offsets have resulted, or will result, in a reduction of yyy tonnes of CO<sub>2-e</sub>.”

*Use of the Assurance Report* (Ref: Para. 76(g)(iii))

A140. As well as identifying the addressee of the assurance report, the practitioner may consider it appropriate to include wording in the body of the assurance report that specifies the purpose for which, or the intended users for whom, the report was prepared. For example, when the GHG statement will be lodged on the public record, it may be appropriate for the explanatory notes to the GHG statement and the assurance report to include a statement that the report is intended for users who have a reasonable knowledge of GHG related activities, and who have studied the information in the GHG statement with reasonable diligence and understand that the GHG statement is prepared and assured to appropriate levels of materiality.

A141. In addition, the practitioner may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.

*Summary of the Practitioner’s Procedures* (Ref: Para. 76(h)(ii))

A142. The assurance report in a reasonable assurance engagement normally follows a standard wording and only briefly describes procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express an opinion.

A143. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. The description of the practitioner’s procedures in a limited assurance engagement is therefore ordinarily more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the practitioner’s required understanding and assessment of risks of material misstatement are less than in a reasonable assurance engagement.

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

- Circumstances specific to the entity (e.g., the differing nature of the entity’s activities compared to those typical in the sector).
- Specific engagement circumstances affecting the nature and extent of the procedures performed.
- The intended users’ expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

A144. In describing the procedures performed in the limited assurance report, it is important that they are written in an objective way but are not summarized to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.

*The Practitioner’s Signature* (Ref: Para. 76(k))

A145. The practitioner’s signature is either in the name of the practitioner’s firm, the personal name of the practitioner, or both, as appropriate for the particular jurisdiction. In addition to the practitioner’s signature, in certain jurisdictions, the practitioner may be required to declare in the assurance report the practitioner’s professional designation or the fact that the practitioner or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

*Emphasis of Matter Paragraphs and Other Matter Paragraphs* (Ref: Para. 77)

A146. A widespread use of Emphasis of Matter or Other Matter paragraphs diminishes the effectiveness of the practitioner’s communication of such matters.

A147. An Emphasis of Matter paragraph may be appropriate when, for example, different criteria have been used or the criteria have been revised, updated or interpreted differently than in prior periods and this has had a fundamental effect on reported emissions, or a system breakdown for part of the period being accounted for means that extrapolation was used to estimate emissions for that time and this has been stated in the GHG statement.

A148. An Other Matter paragraph may be appropriate when, for example, the scope of the engagement has changed significantly from the prior period and this has not been stated in the GHG statement.

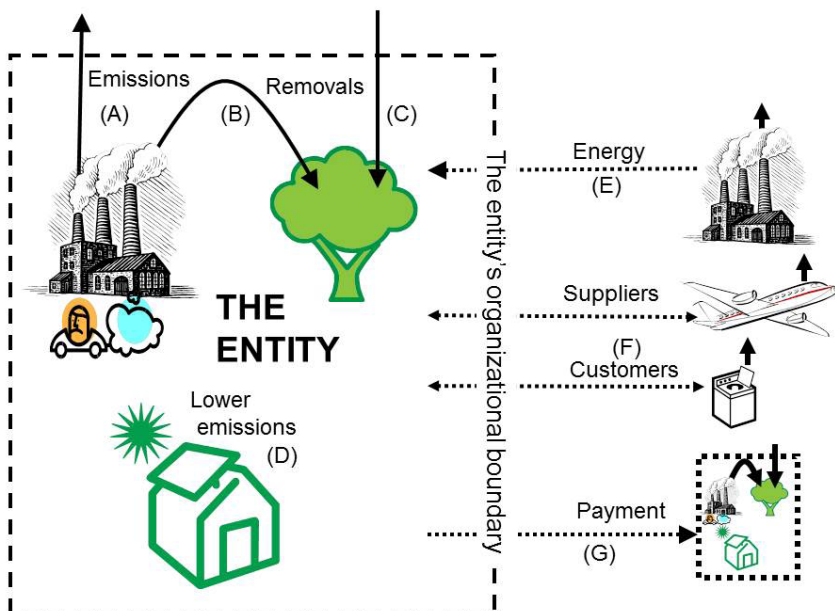
A149. The content of an Emphasis of Matter paragraph includes a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the GHG statement. It also indicates that the practitioner’s conclusion is not modified in respect of the matter emphasized. (See also paragraph A125)

- A150. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the GHG statement. Paragraph 77 limits the use of an Other Matter paragraph to matters relevant to users' understanding of the engagement, the practitioner's responsibilities or the assurance report, that the practitioner considers it necessary to communicate in the assurance report. (See also paragraph A124)
- A151. Including the practitioner's recommendations on matters such as improvements to the entity's information system in the assurance report may imply that those matters have not been appropriately dealt with in preparing the GHG statement. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users, and whether they are worded appropriately to ensure they will not be misunderstood as a qualification of the practitioner's conclusion on the GHG statement.
- A152. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

## Appendix 1

(Ref: Para. A8–A14)

### Emissions, Removals and Emissions Deductions



- A = Direct, or Scope 1, emissions (see paragraph A8).
- B = Removals (emissions that are generated within the entity's boundary but captured and stored within that boundary rather than released into the atmosphere. They are commonly accounted for on a gross basis, that is, as a Scope 1 emission and a removal) (see paragraph A14).
- C = Removals (GHGs the entity has removed from the atmosphere) (see paragraph A14).
- D = Actions the entity takes to lower its emissions. Such actions might reduce Scope 1 emissions (for example, using more fuel efficient vehicles), Scope 2 emissions (for example, installing solar panels to reduce the quantity of purchased electricity), or Scope 3 emissions (for example, reducing business travel or selling products that require less energy to use). The entity might discuss such actions in the explanatory notes to the GHG statement, but they only affect the quantification of emissions on the face of the entity's GHG statement to the extent that reported emissions are lower than they would otherwise be or they constitute an emissions deduction in accordance with the applicable criteria (see paragraph A11).

- E = Scope 2 emissions (see paragraph A9).
- F = Scope 3 emissions (see paragraph A10).
- G = Emissions deductions, including purchased offsets (see paragraphs A11–A13).

**Appendix 2**

(Ref: Para. A134)

**Illustrations of Assurance Reports on GHG Statements****Illustration 1:****Circumstances include the following:**

- **Reasonable assurance engagement.**
- **The entity's GHG statement contains no Scope 3 emissions.**
- **The entity's GHG statement contains no emissions deductions.**
- **The GHG statement contains no comparative information.**

*The following illustrative report is for guidance only and is not intended to be exhaustive or applicable to all situations.*

**INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON  
ABC'S GREENHOUSE GAS (GHG) STATEMENT**

[Appropriate Addressee]

**Report on GHG Statement** (*this heading is not needed if this is the only section*)

We have undertaken a reasonable assurance engagement of the accompanying GHG statement of ABC for the year ended December 31, 20X1, comprising the Emissions Inventory and the Explanatory Notes on pages xx–yy. [This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.]<sup>1</sup>

*ABC's Responsibility for the GHG Statement*

ABC is responsible for the preparation of the GHG statement in accordance with [*applicable criteria*<sup>2</sup>], applied as explained in Note 1 to the GHG statement. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error.

[As discussed in Note 1 to the GHG statement,]<sup>3</sup> GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

<sup>1</sup> The sentence should be deleted if it is not applicable to the engagement (for example, if the engagement was to report only on Scope 2 emissions and no other experts were used).

<sup>2</sup> [*Applicable criteria*] are available for free download from [www.#####.org](http://www.#####.org).

<sup>3</sup> Where there is no discussion of the inherent uncertainty in Note 1 to the GHG statement, this should be deleted.

### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the International Ethics Standards Board of Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1<sup>4</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### *Our Responsibility*

Our responsibility is to express an opinion on the GHG statement based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* ("ISAE 3410"), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the GHG statement is free from material misstatement.

A reasonable assurance engagement in accordance with ISAE 3410 involves performing procedures to obtain evidence about the quantification of emissions and related information in the GHG statement. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, in the GHG statement. In making those risk assessments, we considered internal control relevant to ABC's preparation of the GHG statement. A reasonable assurance engagement also includes:

- Assessing the suitability in the circumstances of ABC's use of [*applicable criteria*], applied as explained in Note 1 to the GHG statement, as the basis for preparing the GHG statement;
- Evaluating the appropriateness of quantification methods and reporting policies used, and the reasonableness of estimates made by ABC; and
- Evaluating the overall presentation of the GHG statement.

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

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<sup>4</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

*Opinion*

In our opinion, the GHG statement for the year ended December 31, 20X1 is prepared, in all material respects, in accordance with the [*applicable criteria*] applied as explained in Note 1 to the GHG statement.

**Report on Other Legal and Regulatory Requirements** (*applicable for some engagements only*)

[Form and content of this section of the assurance report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the assurance report]

[Practitioner's address]



**Illustration 2:**

**Circumstances include the following:**

- **Limited assurance engagement.**
- **The entity's GHG statement contains no Scope 3 emissions.**
- **The entity's GHG statement contains no emissions deductions.**
- **The GHG statement contains no comparative information**

*The following illustrative report is for guidance only and is not intended to be exhaustive or applicable to all situations.*

**INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON  
ABC'S GREENHOUSE GAS (GHG) STATEMENT**

[Appropriate Addressee]

**Report on GHG Statement** *(this heading is not needed if this is the only section)*

We have undertaken a limited assurance engagement of the accompanying GHG statement of ABC for the year ended December 31, 20X1, comprising the Emissions Inventory [and the Explanatory Notes on pages xx–yy]. [This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.]<sup>5</sup>

*ABC's Responsibility for the GHG Statement*

ABC is responsible for the preparation of the GHG statement in accordance with [applicable criteria<sup>6</sup>], applied as explained in Note 1 to the GHG statement. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error.

[As discussed in Note 1 to the GHG statement,]<sup>7</sup> GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

<sup>5</sup> The sentence should be deleted if it is not applicable to the engagement (for example, if the engagement was to report only on Scope 2 emissions and no other experts were used).

<sup>6</sup> [Applicable criteria] are available for free download from www.#####.org.

<sup>7</sup> Where there is no discussion of the inherent uncertainty in Note 1 to the GHG statement, this should be deleted.

The firm applies International Standard on Quality Control 1<sup>8</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### *Our Responsibility*

Our responsibility is to express a limited assurance conclusion on the GHG statement based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (“ISAE 3410”), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the GHG statement is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of ABC’s use of [applicable criteria] as the basis for the preparation of the GHG statement, assessing the risks of material misstatement of the GHG statement whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the GHG statement. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

*[[The practitioner may insert a summary of the nature and extent of procedures performed that, in the practitioner’s judgment, provides additional information that may be relevant to the users’ understanding of the basis for the practitioner’s conclusion.<sup>9</sup> The following section has been provided as guidance, and the example procedures are not an exhaustive list of either the type, or extent, of the procedures which may be important for the users’ understanding of the work done.]]<sup>10</sup>*

Given the circumstances of the engagement, in performing the procedures listed above we:

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<sup>8</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>9</sup> *The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.*

<sup>10</sup> In the final report, this explanatory paragraph will be deleted.

- Through inquiries, obtained an understanding of ABC’s control environment and information systems relevant to emissions quantification and reporting, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Evaluated whether ABC’s methods for developing estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate ABC’s estimates.
- Undertook site visits [at three sites] to assess the completeness of the emissions sources, data collection methods, source data and relevant assumptions applicable to the sites. The sites selected for testing were chosen taking into consideration their emissions in relation to total emissions, emissions sources, and sites selected in prior periods. Our procedures [did/did not] include testing information systems to collect and aggregate facility data, or the controls at these sites.]<sup>11</sup>

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether ABC’s GHG statement has been prepared, in all material respects, in accordance with the [*applicable criteria*] applied as explained in Note 1 to the GHG statement.

#### *Limited Assurance Conclusion*

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that ABC’s GHG statement for the year ended December 31, 20X1 is not prepared, in all material respects, in accordance with the [*applicable criteria*] applied as explained in Note 1 to the GHG statement.

#### **Report on Other Legal and Regulatory Requirements** (*applicable for some engagements only*)

[Form and content of this section of the assurance report will vary depending on the nature of the practitioner’s other reporting responsibilities.]

[Practitioner’s signature]

[Date of the assurance report]

[Practitioner’s address]

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<sup>11</sup> This section should be deleted if the practitioner concludes that the expanded information on the procedures performed is not needed in the circumstances of the engagement.

**INTERNATIONAL STANDARD ON ASSURANCE  
ENGAGEMENTS 3420**

**ASSURANCE ENGAGEMENTS TO REPORT ON  
THE COMPILATION OF PRO FORMA FINANCIAL  
INFORMATION INCLUDED IN A PROSPECTUS**

(Effective for assurance reports dated on or after March 31, 2013)

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ASSURANCE ENGAGEMENTS TO REPORT ON THE COMPILATION OF PRO FORMA  
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International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, should be read in conjunction with the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

## Introduction

### Scope of this ISAE

1. This International Standard on Assurance Engagements (ISAE) deals with reasonable assurance attestation engagements undertaken by a practitioner<sup>1</sup> to report on the responsible party's<sup>2</sup> compilation of pro forma financial information included in a prospectus. The ISAE applies where:
  - Such reporting is required by securities law or the regulation of the securities exchange ("relevant law or regulation") in the jurisdiction in which the prospectus is to be issued; or
  - This reporting is generally accepted practice in such jurisdiction. (Ref: Para. A1)

### *Nature of the Practitioner's Responsibility*

2. In an engagement performed under this ISAE, the practitioner has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the responsible party. The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.
3. This ISAE does not deal with non-assurance engagements in which the practitioner is engaged by the entity to compile its historical financial statements.

### *Purpose of Pro Forma Financial Information Included in a Prospectus*

4. The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma financial information does not represent the entity's actual financial position, financial performance, or cash flows. (Ref: Para. A2–A3)

### *Compilation of Pro Forma Financial Information*

5. The compilation of pro forma financial information involves the responsible party gathering, classifying, summarizing and presenting financial information that illustrates the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at the selected date. Steps involved in this process include:

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<sup>1</sup> ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, paragraph 12(r).

<sup>2</sup> ISAE 3000 (Revised), paragraph 12(v)

- Identifying the source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source; (Ref: Para. A4–A5)
- Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented; and
- Presenting the resulting pro forma financial information with accompanying disclosures.

#### *Nature of Reasonable Assurance Engagement*

6. A reasonable assurance engagement to report on the compilation of pro forma financial information involves performing the procedures set out in this ISAE to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether: (Ref: Para. A6)
- The related pro forma adjustments give appropriate effect to those criteria; and
  - The resulting pro forma column (see paragraph 11(c)) reflects the proper application of those adjustments to the unadjusted financial information.

It also involves evaluating the overall presentation of the pro forma financial information. The engagement, however, does not involve the practitioner updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, or performing an audit or review of the financial information used in compiling the pro forma financial information.

#### *Relationship with ISAE 3000 (Revised), Other Professional Pronouncements, and Other Requirements*

7. The practitioner is required to comply with ISAE 3000 (Revised) and this ISAE when performing an assurance engagement to report on the compilation of pro forma financial information included in a prospectus. This ISAE supplements, but does not replace, ISAE 3000 (Revised), and expands on how ISAE 3000 (Revised) is to be applied in a reasonable assurance engagement to report on the compilation of pro forma financial information financial information included in a prospectus.
8. Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to

assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>3</sup> It also requires the engagement partner to be a member of a firm that applies ISQC 1,<sup>4</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1.

### **Effective Date**

9. This ISAE is effective for assurance reports dated on or after March 31, 2013.

### **Objectives**

10. The objectives of the practitioner are:

- (a) To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and
- (b) To report in accordance with the practitioner's findings.

### **Definitions**

11. For purposes of this ISAE, the following terms have the meanings attributed below:

- (a) **Applicable criteria** – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation. Where established criteria do not exist, they will be developed by the responsible party. (Ref: Para. A7–A9)
- (b) **Pro forma adjustments** – In relation to unadjusted financial information, these include:
  - (i) Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and
  - (ii) Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity (“entity”) and its accounting policies under that framework. (Ref: Para. A15–A16)

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<sup>3</sup> ISAE 3000 (Revised), paragraphs 3(a), 20 and 34

<sup>4</sup> ISAE 3000 (Revised), paragraphs 3(b) and 31(a). International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*



Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired (“acquiree”), or a business that has been, or is to be, divested (“divestee”), to the extent that such information is used in compiling the pro forma financial information (“acquiree or divestee financial information”).

- (c) Pro forma financial information – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. In this ISAE, it is presumed that pro forma financial information is presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma column. (Ref: Para. A2)
- (d) Prospectus – A document issued pursuant to legal or regulatory requirements relating to the entity’s securities on which it is intended that a third party should make an investment decision.
- (e) Published financial information – Financial information of the entity or of an acquiree or a divestee that is made available publicly.
- (f) Unadjusted financial information – Financial information of the entity to which pro forma adjustments are applied by the responsible party. (Ref: Para. A4–A5)

## Requirements

### ISAE 3000 (Revised)

- 12. The practitioner shall not represent compliance with this ISAE unless the practitioner has complied with the requirements of both this ISAE and ISAE 3000 (Revised).

### Engagement Acceptance

- 13. Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall:
  - (a) Determine that those persons who are to perform the engagement collectively have the appropriate competence and capabilities; (Ref: Para. A10)
  - (b) On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the criteria that the practitioner expects to be applied are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended;

- (c) Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this ISAE; (Ref: Para. A54–A56)
- (d) Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner’s report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources;
- (e) If the entity’s historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; (Ref: Para. A31)
- (f) If the event or transaction includes an acquisition and the acquiree’s historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and
- (g) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: (Ref: Para. A11–A12)
  - (i) Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;
  - (ii) Compiling the pro forma financial information on the basis of the applicable criteria; and
  - (iii) Providing the practitioner with:
    - a. Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria;
    - b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement;
    - c. Access to those within the entity and the entity’s advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro

forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and

- d. When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

## Planning and Performing the Engagement

### *Determining the Suitability of the Applicable Criteria*

14. The practitioner shall determine whether the applicable criteria are suitable, as required by ISAE 3000 (Revised),<sup>5</sup> and in particular shall determine that they include, at a minimum, that:
  - (a) The unadjusted financial information be extracted from an appropriate source; (Ref: Para. A4–A5, A27)
  - (b) The pro forma adjustments be:
    - (i) Directly attributable to the event or transaction; (Ref: Para. A13)
    - (ii) Factually supportable; and (Ref: Para. A14)
    - (iii) Consistent with the entity’s applicable financial reporting framework and its accounting policies under that framework; and (Ref: Para. A15–A16)
  - (c) Appropriate presentation be made and disclosures be provided to enable the intended users to understand the information conveyed. (Ref: Para. A2–A3, A42)
15. In addition, the practitioner shall assess whether the applicable criteria are:
  - (a) Consistent, and do not conflict, with relevant law or regulation; and
  - (b) Unlikely to result in pro forma financial information that is misleading.

### *Materiality*

16. When planning and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. (Ref: Para. A17–A18)

### *Obtaining an Understanding of How the Responsible Party Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances*

17. The practitioner shall obtain an understanding of: (Ref: Para. A19)
  - (a) The event or transaction in respect of which the pro forma financial information is being compiled;

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<sup>5</sup> ISAE 3000 (Revised), paragraphs 42(b)(ii) and A45

- (b) How the responsible party has compiled the pro forma financial information; (Ref: Para. A20–A21)
- (c) The nature of the entity and any acquiree or divestee, including: (Ref: Para. A22–A23)
  - (i) Their operations;
  - (ii) Their assets and liabilities; and
  - (iii) The way they are structured and how they are financed;
- (d) Relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A24–A26)
- (e) The applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including their selection and application of accounting policies.

*Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted*

- 18. The practitioner shall determine whether the responsible party has extracted the unadjusted financial information from an appropriate source. (Ref: Para. A27–A28)
- 19. If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate. (Ref: Para. A29–A31)
- 20. The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source.

*Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments*

- 21. In evaluating whether the pro forma adjustments are appropriate, the practitioner shall determine whether the responsible party has identified the pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration. (Ref: Para. A32)
- 22. In determining whether the pro forma adjustments are in accordance with the applicable criteria, the practitioner shall determine whether they are:
  - (a) Directly attributable to the event or transaction; (Ref: Para. A13)
  - (b) Factually supportable. If acquiree or divestee financial information is included in the pro forma adjustments and there is no audit or review report on the source from which such financial information has been extracted, the practitioner shall perform procedures to be satisfied that

the financial information is factually supportable; and (Ref: Para. A14, A33–A38)

- (c) Consistent with the entity’s applicable financial reporting framework and its accounting policies under that framework. (Ref: Para. A15-A16)

*Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph, with Respect to the Source from Which the Unadjusted Financial Information Has Been Extracted or the Source from Which the Acquiree or Divestee Financial Information Has Been Extracted*

23. A modified audit opinion or review conclusion may have been expressed with respect to either the source from which the unadjusted financial information has been extracted or the source from which the acquiree or divestee financial information has been extracted, or a report containing an Emphasis of Matter paragraph may have been issued with respect to such source. In such circumstances, if the relevant law or regulation does not prohibit the use of such a source, the practitioner shall evaluate:

- (a) The potential consequence on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; (Ref: Para. A39)
- (b) What further appropriate action to take; and (Ref: Para. A40)
- (c) Whether there is any effect on the practitioner’s ability to report in accordance with the terms of the engagement, including any effect on the practitioner’s report.

*Source from Which the Unadjusted Financial Information Has Been Extracted or Pro Forma Adjustments Not Appropriate*

24. If, on the basis of the procedures performed, the practitioner identifies that the responsible party has:

- (a) Used an inappropriate source from which to extract the unadjusted financial information; or
- (b) Omitted a pro forma adjustment that should be included, applied a pro forma adjustment that is not in accordance with the applicable criteria or otherwise inappropriately applied a pro forma adjustment,

the practitioner shall discuss the matter with the responsible party. If the practitioner is unable to agree with the responsible party as to how the matter should be resolved, the practitioner shall evaluate what further action to take. (Ref: Para. A40)

*Obtaining Evidence about the Calculations within the Pro Forma Financial Information*

25. The practitioner shall determine whether the calculations within the pro forma financial information are arithmetically accurate.

*Evaluating the Presentation of the Pro Forma Financial Information*

26. The practitioner shall evaluate the presentation of the pro forma financial information. This shall include consideration of:
- (a) The overall presentation and structure of the pro forma financial information, including whether it is clearly labeled to distinguish it from historical or other financial information; (Ref: Para. A2–A3)
  - (b) Whether the pro forma financial information and related explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading; (Ref: Para. A41)
  - (c) Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed; and (Ref: Para. A42)
  - (d) Whether the practitioner has become aware of any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the pro forma financial information. (Ref: Para. A43)
27. The practitioner shall read the other information included in the prospectus containing the pro forma financial information to identify material inconsistencies, if any, with the pro forma financial information or the assurance report. If, on reading the other information, the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact in that other information, the practitioner shall discuss the matter with the responsible party. If correction of the matter is necessary and the responsible party refuses to do so, the practitioner shall take further appropriate action. (Ref: Para. A44)

**Written Representations**

28. The practitioner shall request written representations from the responsible party that:
- (a) In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; and (Ref: Para. A45)
  - (b) The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

## Forming the Opinion

29. The practitioner shall form an opinion on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. (Ref: Para. A46–A48)
30. In order to form that opinion, the practitioner shall conclude whether the practitioner has obtained sufficient appropriate evidence about whether the compilation of the pro forma financial information is free from material omissions, or inappropriate use or application of a pro forma adjustment. That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria to the extent that these are not publicly available. (Ref: Para. A49–A50)

## Form of Opinion

### *Unmodified Opinion*

31. The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

### *Modified Opinion*

32. In many jurisdictions, the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. Where this is the case and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with ISAE 3000 (Revised), the practitioner shall discuss the matter with the responsible party. If the responsible party does not agree to make the necessary changes, the practitioner shall:
  - (a) Withhold the report;
  - (b) Withdraw from the engagement; or
  - (c) Consider seeking legal advice.
33. In some jurisdictions, the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. In such jurisdictions, if the practitioner determines that a modified opinion is appropriate in accordance with ISAE 3000 (Revised), the practitioner shall apply the requirements in ISAE 3000 (Revised)<sup>6</sup> regarding modified opinions.

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<sup>6</sup> ISAE 3000 (Revised), paragraph 74

### *Emphasis of Matter Paragraph*

34. In some circumstances, the practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes. This would be the case when, in the practitioner's opinion, the matter is of such importance that it is fundamental to users' understanding of whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. In such circumstances, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not affect whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information or the accompanying explanatory notes.

### **Preparing the Assurance Report**

35. The practitioner's report shall include, at a minimum, the following basic elements: (Ref: Para. A57)
- (a) A title that clearly indicates that the report is an independent assurance report; (Ref: Para. A51)
  - (b) An addressee(s), as agreed in the terms of engagement; (Ref: Para. A52)
    - (i) Introductory paragraphs that identify: (Ref: Para. A53)
    - (ii) The pro forma financial information;
    - (iii) The source from which the unadjusted financial information has been extracted, and whether or not an audit or review report on such a source has been published;
    - (iv) The period covered by, or the date of, the pro forma financial information; and
  - (c) A reference to the applicable criteria on the basis of which the responsible party has performed the compilation of the pro forma financial information, and the source of the criteria;
  - (d) A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria;
    - (i) A description of the practitioner's responsibilities, including statements that:
    - (ii) The practitioner's responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria;



- (iii) For purposes of this engagement, the practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor has the practitioner, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information; and
- (e) The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, the practitioner does not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented;
- (f) A statement that the engagement was performed in accordance with ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, which requires that the practitioner plan and perform procedures to obtain reasonable assurance about whether the responsible party has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria;
- (g) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1.
- (h) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law and regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.
- (i) Statements that:
- A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess

whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
  - The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information;
- (ii) The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the entity, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances; and
- (iii) The engagement also involves evaluating the overall presentation of the pro forma financial information;
- (i) Unless otherwise required by law or regulation, the practitioner's opinion using one of the following phrases, which are regarded as being equivalent: (Ref: Para. A54–A56)
- (i) The pro forma financial information has been compiled, in all material respects, on the basis of the [*applicable criteria*]; or
  - (ii) The pro forma financial information has been properly compiled on the basis stated;
- (j) The practitioner's signature;
- (k) The date of the report; and
- (l) The location in the jurisdiction where the practitioner practices.

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## **Application and Other Explanatory Material**

### **Scope of this ISAE (Ref: Para. 1)**

- A1. This standard does not deal with circumstances where pro forma financial information is provided as part of the entity's financial statements pursuant to the requirements of an applicable financial reporting framework.

**Purpose of Pro Forma Financial Information Included in a Prospectus**  
**(Ref: Para. 4, 11(c), 14(c), 26(a))**

- A2. Pro forma financial information is accompanied by related explanatory notes that often disclose the matters set out in paragraph A42.
- A3. Different presentations of pro forma financial information may be included in the prospectus depending on the nature of the event or transaction and how the responsible party intends to illustrate the impact of such event or transaction on the unadjusted financial information of the entity. For example, the entity may acquire a number of businesses prior to an initial public offering. In such circumstances, the responsible party may choose to present a pro forma net asset statement to illustrate the impact of the acquisitions on the entity's financial position and key ratios such as debt to equity as if the acquired businesses had been combined with the entity at an earlier date. The responsible party may also choose to present a pro forma income statement to illustrate what the results of operations might have been for the period ended on that date. In such cases, the nature of the pro forma financial information may be described by titles such as "Statement of Pro Forma Net Assets as at December 31, 20X1" and "Pro Forma Income Statement for the Year Ended December 31, 20X1."

**Compilation of Pro Forma Financial Information**

*Unadjusted Financial Information* (Ref: Para. 5, 11(f), 14(a))

- A4. In many cases, the source from which the unadjusted financial information has been extracted will be published financial information such as annual or interim financial statements.
- A5. Depending on how the responsible party chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either:
- One or more single financial statements, such as a statement of financial position and a statement of comprehensive income; or
  - Financial information that is appropriately condensed from a complete set of financial statements, for example, a statement of net assets.

**Nature of Reasonable Assurance Engagement** (Ref: Para. 6)

- A6. In this ISAE, describing the pro forma financial information as being "properly compiled" means that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

**Definitions**

*Applicable Criteria* (Ref: Para. 11(a))

- A7. Where established criteria for compiling the pro forma financial information do not exist, the responsible party will have developed the criteria based on, for

example, practice in a particular industry or the criteria of a jurisdiction that has developed established criteria, and disclosed that fact.

- A8. The applicable criteria for compiling the pro forma financial information will be suitable in the circumstances if they meet the requirements set out in paragraph 14.
- A9. Accompanying explanatory notes may include some additional detail about the criteria to describe how they illustrate the effects of the particular event or transaction. This may include, for example:
- The date at which the event is assumed to have occurred or the transaction been undertaken.
  - The approach used for allocating income, overheads, assets and liabilities between relevant businesses in a divestment.

### **Engagement Acceptance**

#### *Capabilities and Competence to Perform the Engagement (Ref: Para. 13(a))*

A10. The IESBA Code requires the practitioner to comply with the principle of professional competence and due care by attaining and maintaining professional knowledge and skill, in order to provide competent professional service, based on current technical and professional standards and relevant legislation, and acting diligently and in accordance with such professional standards and legislation.<sup>7</sup> In the context of this requirement of the IESBA Code, professional competence to perform the engagement may include matters such as the following:

- Knowledge and experience of the industry in which the entity operates;
- An understanding of the relevant securities laws and regulations and related developments;
- An understanding of the listing requirements of the relevant securities exchange and of capital market transactions such as mergers, acquisitions and securities offerings;
- Familiarity with the process of preparing a prospectus and listing securities on the securities exchange; and
- Knowledge of the financial reporting frameworks used in the preparation of the sources from which the unadjusted financial information and, if applicable, the acquiree's financial information have been extracted.

#### *The Responsible Party's Responsibilities (Ref: Para. 13(g))*

A11. An engagement in accordance with this ISAE is conducted on the premise that the responsible party has acknowledged and understands that it has

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<sup>7</sup> IESBA Code, paragraph R113.1

the responsibilities set out in paragraph 13(g). In some jurisdictions, such responsibilities may be specified in the relevant law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. An assurance engagement to report on whether pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria is based on the assumption that:

- (a) The practitioner's role does not involve taking responsibility for compiling such information; and
- (b) The practitioner has a reasonable expectation of obtaining the information necessary for the engagement.

Accordingly, this premise is fundamental to the conduct of the engagement. To avoid misunderstanding, agreement is reached with the responsible party that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the engagement as required by ISAE 3000 (Revised).<sup>8</sup>

- A12. If law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need only record the fact that such law or regulation applies and that the responsible party acknowledges and understands its responsibilities as set out in paragraph 13(g).

## Planning and Performing the Engagement

### *Assessing the Suitability of the Applicable Criteria*

#### Directly Attributable Adjustments (Ref: Para. 14(b)(i), 22(a))

- A13. It is necessary that the pro forma adjustments be directly attributable to the event or transaction to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the event or that are not an integral part of the transaction. Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the transaction has been completed, even if such actions are key to the entity entering into the transaction (for example, closing of redundant production sites after an acquisition).

#### Factually Supportable Adjustments (Ref: Para. 14(b)(ii), 22(b))

- A14. It is also necessary that the pro forma adjustments be factually supportable in order to provide a reliable basis for the pro forma financial information. Factually supportable adjustments are capable of objective determination. Sources of factual support for the pro forma adjustments include, for example:
- Purchase and sale agreements.
  - Financing documents for the event or transaction, such as debt agreements.

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<sup>8</sup> ISAE 3000 (Revised), paragraph 27

- Independent valuation reports.
- Other documents relating to the event or transaction.
- Published financial statements.
- Other financial information disclosed in the prospectus.
- Relevant legal or regulatory actions, such as in the area of taxation.
- Employment agreements.
- Actions of those charged with governance.

Adjustments Consistent with the Entity's Applicable Financial Reporting Framework and Its Accounting Policies under that Framework (Ref: Para. 11(b)(ii), 14(b)(iii), 22(c))

A15. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the entity's applicable financial reporting framework and its accounting policies under that framework. In the context of a business combination, for example, compiling the pro forma financial information on the basis of the applicable criteria involves consideration of such matters as:

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

A16. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event or transaction, the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

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

*Materiality* (Ref: Para. 16)

A17. Materiality with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria does not depend on a single quantitative measure. Instead, it depends on the size and nature of the omission or inappropriate application of an element of the compilation as described in paragraph A18, whether or not intentional.

Judgment about these aspects of size and nature will, in turn, depend on such matters as:

- The context of the event or transaction;
- The purpose for which the pro forma financial information is being compiled; and
- The related engagement circumstances.

The determining factor could be the size or the nature of the matter, or a combination of both.

A18. The risk of the pro forma financial information not being considered compiled, in all material respects, on the basis of the applicable criteria may arise when there is evidence of, for example:

- Use of an inappropriate source from which to extract the unadjusted financial information.
- Incorrect extraction of the unadjusted financial information from an appropriate source.
- In relation to adjustments, the misapplication of accounting policies or the failure of the adjustments to be consistent with the entity's accounting policies.
- Failure to make an adjustment required by the applicable criteria.
- Making an adjustment that is not in accordance with the applicable criteria.
- A mathematical or clerical mistake in the calculations within the pro forma financial information.
- Inadequate, incorrect or omitted disclosures.

*Obtaining an Understanding of How the Responsible Party Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances (Ref: Para. 17)*

A19. The practitioner may obtain this understanding through a combination of procedures such as:

- Inquiring of the responsible party and other entity personnel involved in compiling the pro forma financial information.
- Inquiring of other appropriate parties such as those charged with governance and the entity's advisors.
- Reading relevant supporting documentation such as contracts or agreements.
- Reading minutes of meetings of those charged with governance.

How the Responsible Party Has Compiled the Pro Forma Financial Information (Ref: Para. 17(b))

A20. The practitioner may obtain an understanding of how the responsible party has compiled the pro forma financial information by considering, for example:

- The source from which the unadjusted financial information has been extracted.
- The steps taken by the responsible party to:
  - Extract the unadjusted financial information from the source.
  - Identify the appropriate pro forma adjustments, for example, how the responsible party has obtained acquiree financial information in compiling the pro forma financial information.
- The responsible party's competence in compiling pro forma financial information.
- The nature and extent of oversight by the responsible party of other entity personnel involved in compiling the pro forma financial information.
- The responsible party's approach to identifying appropriate disclosures to support the pro forma financial information.

A21. In a business combination or divestment, areas that may give rise to complexity in the compilation of the pro forma financial information include allocations of income, overheads, and assets and liabilities among or between the relevant businesses. Accordingly, it is important that the practitioner understand the responsible party's approach and criteria for such allocations and that the explanatory notes accompanying the pro forma financial information disclose these matters.

Nature of the Entity and Any Acquiree or Divestee (Ref: Para. 17(c))

A22. An acquiree may be an incorporated entity or a separately identifiable unincorporated operation within another entity such as a division, branch or line of business. A divestee may be an incorporated entity such as a subsidiary or joint venture, or a separately identifiable unincorporated operation within the entity such as a division, branch or line of business.

A23. The practitioner may have all or part of the required understanding of the entity and any acquiree or divestee, and their respective environments, if the practitioner has audited or reviewed their financial information.

Relevant Industry, Legal and Regulatory, and Other External Factors (Ref: Para. 17(d))

A24. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the practitioner may consider include:



- The market and competition, including demand, capacity, and price competition.
  - Common business practices within the industry.
  - Cyclical or seasonal activity.
  - Product technology relating to the entity's products.
- A25. Relevant legal and regulatory factors include the legal and regulatory environment. This encompasses, among other matters, the applicable financial reporting framework in accordance with which the entity or, if applicable, the acquiree prepares its periodic financial information, and the legal and political environment. Examples of matters the practitioner may consider include:
- Industry-specific accounting practices.
  - Legal and regulatory framework for a regulated industry.
  - Legislation and regulation that significantly affect the entity's or, if applicable, the acquiree's or divestee's operations, including direct supervisory activities.
  - Taxation.
  - Government policies currently affecting the conduct of the entity's or, if applicable, the acquiree's or divestee's business, such as monetary policies (including foreign exchange controls), fiscal policies, financial incentives (for example, government aid programs), and tariffs or trade restrictions policies.
  - Environmental requirements affecting the entity's or acquiree's or divestee's industry and business.
- A26. Examples of other external factors affecting the entity and, if applicable, the acquiree or divestee that the practitioner may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

*Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted*

Relevant Factors to Consider (Ref: Para. 14(a), 18)

- A27. Factors that affect the appropriateness of the source from which the unadjusted financial information has been extracted include whether there is an audit or review report on the source and whether the source:
- Is permitted or specifically prescribed by the relevant law or regulation, is permitted by the relevant securities exchange with which the prospectus is to be filed, or is used as such under normal market custom and practice.

- Is clearly identifiable.
- Represents a reasonable starting point for compiling the pro forma financial information in the context of the event or transaction, including whether it is consistent with the entity's accounting policies and is at an appropriate date or covers an appropriate period.

A28. An audit or review report on the source from which the unadjusted financial information has been extracted may have been issued by another practitioner. In this situation, the need by the practitioner reporting under this ISAE for an understanding of the entity and its accounting and financial reporting practices pursuant to the requirements of paragraphs 17(c) and (e), and to be satisfied that the source from which the unadjusted financial information has been extracted is appropriate, is not diminished.

No Audit or Review Report on the Source from Which the Unadjusted Financial Information Has Been Extracted (Ref: Para. 19)

A29. When there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

- Whether the practitioner has previously audited or reviewed the entity's historical financial information, and the practitioner's knowledge of the entity from such engagement.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

A30. The entity's financial statements for the period immediately preceding that of the source from which the unadjusted financial information has been extracted are likely to have been audited or reviewed, even if the source from which the unadjusted financial information has been extracted itself is not. For example, the source from which the unadjusted financial information has been extracted may be interim financial statements that have not been audited or reviewed whereas the entity's financial statements for the immediately preceding financial year may have been audited. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A29, in relation to the appropriateness of the source from which the unadjusted financial information has been extracted include:

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

Historical financial information of the entity never audited or reviewed (Ref: Para. 13(e))

A31. Other than in the case of an entity formed for purposes of the transaction and which has never had any trading activity, it is unlikely that relevant law or regulation will permit an entity to issue a prospectus if its historical financial information has never been audited or reviewed.

#### *Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments*

Identification of Appropriate Pro Forma Adjustments (Ref: Para. 21)

A32. Informed by the practitioner's understanding of how the responsible party has compiled the pro forma financial information and other engagement circumstances, the practitioner may obtain evidence regarding whether

the responsible party has appropriately identified the necessary pro forma adjustments through a combination of procedures such as:

- Evaluating the reasonableness of the responsible party's approach to identifying the appropriate pro forma adjustments, for example, the method used in identifying appropriate allocations of income, overheads, assets and liabilities among the relevant businesses.
- Inquiring of relevant parties within an acquiree regarding the approach to extracting the acquiree financial information.
- Evaluating specific aspects of the relevant contracts, agreements or other documents.
- Inquiring of the entity's advisors regarding specific aspects of the event or transaction and related contracts and agreements that are relevant to the identification of appropriate adjustments.
- Evaluating relevant analyses and worksheets prepared by the responsible party and other entity personnel involved in compiling the pro forma financial information.
- Obtaining evidence of the responsible party's oversight of other entity personnel involved in compiling the pro forma financial information.
- Performing analytical procedures.

Factual Support for Any Acquiree or Divestee Financial Information Included in the Pro Forma Adjustments (Ref: Para. 22(b))

#### Divestee financial information

A33. In the case of a divestment, the divestee's financial information will be derived from the source from which the unadjusted financial information has been extracted, which will often be audited or reviewed. The source from which the unadjusted financial information has been extracted will therefore provide the basis for the practitioner to determine whether there is factual support for the divestee financial information. In such a case, matters to consider include, for example, whether income and expenses attributable to the divestee that are recorded at the consolidated level have been appropriately reflected in the pro forma adjustments.

A34. Where the source from which the unadjusted financial information has been extracted has not been audited or reviewed, the practitioner may refer to the guidance in paragraphs A29–A30 in determining whether the divestee financial information is factually supportable.

#### Acquiree financial information

A35. The source from which the acquiree financial information has been extracted may have been audited or reviewed. Where the source from which the acquiree

financial information has been extracted has been audited or reviewed by the practitioner, the acquiree financial information will, subject to any implications arising from the circumstances addressed in paragraph 23, be factually supportable.

- A36. The source from which the acquiree financial information has been extracted may have been audited or reviewed by another practitioner. In this situation, the need by the practitioner reporting under this ISAE for an understanding of the acquiree and its accounting and financial reporting practices pursuant to the requirements of paragraphs 17(c) and (e), and to be satisfied that the acquiree financial information is factually supportable, is not diminished.
- A37. When the source from which the acquiree financial information has been extracted has not been audited or reviewed, it is necessary for the practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:
- Whether the practitioner has previously audited or reviewed the acquiree's historical financial information, and the practitioner's knowledge of the acquiree from such engagement.
  - How recently the acquiree's historical financial information was audited or reviewed.
  - Whether the acquiree's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.
- A38. The acquiree's financial statements for the period immediately preceding that of the source from which the acquiree financial information has been extracted often will have been audited or reviewed, even if the source from which the acquiree financial information has been extracted itself is not. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A37, in relation to whether the acquiree financial information is factually supportable include:
- Inquiring of the acquiree's management about:
    - The process by which the source from which the acquiree financial information has been extracted has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
    - Whether all transactions have been recorded.
    - Whether the source from which the acquiree financial information has been extracted has been prepared in accordance with the acquiree's accounting policies.

- Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.
- Its assessment of the risk that the source from which the acquiree financial information has been extracted may be materially misstated as a result of fraud.
- The effect of changes in the acquiree's business activities and operations.
- If the practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the acquiree financial information has been extracted.
- Corroborating the information provided by the acquiree's management in response to the practitioner's inquiries when the responses appear inconsistent with the practitioner's understanding of the acquiree or the engagement circumstances.
- Comparing the source from which the acquiree financial information has been extracted with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the acquiree's management.

*Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph, with Respect to the Source from Which the Unadjusted Financial Information Has Been Extracted or the Source from Which the Acquiree or Divestee Financial Information Has Been Extracted*

Potential Consequence (Ref: Para. 23(a))

A39. Not all modified audit opinions, review conclusions or Emphasis of Matter paragraphs with respect to either the source from which the unadjusted financial information has been extracted or the source from which the acquiree or divestee financial information has been extracted may necessarily affect whether the pro forma financial information can be compiled, in all material respects, on the basis of the applicable criteria. For example, a qualified audit opinion may have been expressed on the entity's financial statements because of the non-disclosure of remuneration for those charged with governance as required by the applicable financial reporting framework. If this is the case and these financial statements are used as the source from which the unadjusted financial information has been extracted, such qualification may have no consequence on whether pro forma net asset and income statements can be compiled, in all material respects, on the basis of the applicable criteria.

Further Appropriate Action (Ref: Para. 23(b), 24)

A40. Further appropriate action that the practitioner may take includes, for example:

- In relation to the requirement in paragraph 23(b):
  - Discussing the matter with the responsible party.
  - Where possible under relevant law or regulation, making a reference in the practitioner's report to the modified audit opinion, review conclusion, or the Emphasis of Matter paragraph, if, in the practitioner's professional judgment, the matter is of sufficient relevance and importance to users' understanding of the pro forma financial information.
- In relation to the requirement in paragraph 24, where possible under relevant law or regulation, modifying the practitioner's opinion.
- Where possible under relevant law or regulation, withholding the report or withdrawing from the engagement.
- Seeking legal advice.

*Evaluating the Presentation of the Pro Forma Financial Information*

Avoiding Association with Misleading Financial Information (Ref: Para. 26(b))

A41. The IESBA Code requires that a practitioner not knowingly be associated with reports, returns, communications or other information that the practitioner believes:<sup>9</sup>

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

Disclosures Accompanying the Pro Forma Financial Information (Ref: Para. 14(c), 26(c))

A42. Appropriate disclosures may include matters such as:

- The nature and purpose of the pro forma financial information, including the nature of the event or transaction, and the date at which such event is assumed to have occurred or transaction been undertaken;
- The source from which the unadjusted financial information has been extracted, and whether or not an audit or review report on such a source has been published;

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<sup>9</sup> IESBA Code, paragraph R111.2

- The pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source from which such information has been extracted and whether or not an audit or review report on such a source has been published;
- If not publicly available, a description of the applicable criteria on the basis of which the pro forma financial information has been compiled; and
- A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity's actual financial position, financial performance, or cash flows.

Relevant law or regulation may require these or other specific disclosures.

#### Consideration of Significant Subsequent Events (Ref: Para. 26(d))

A43. As the practitioner is not reporting on the source from which the unadjusted financial information has been extracted, there is no requirement for the practitioner to perform procedures to identify events after the date of the source that require adjustment of, or disclosure in, such source. Nevertheless, it is necessary for the practitioner to consider whether any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted have come to the practitioner's attention that may require reference to, or disclosure in, the explanatory notes to the pro forma financial information to avoid the latter being misleading. Such consideration is based on performing the procedures under this ISAE or the practitioner's knowledge of the entity and the engagement circumstances. For example, after the date of the source from which the unadjusted financial information has been extracted, the entity may have entered into a capital transaction involving the conversion of its convertible debt into equity, non-disclosure of which could result in the pro forma financial information being misleading.

#### Material Inconsistency with Other Information (Ref: Para. 27)

A44. Further appropriate action that the practitioner may take if the responsible party refuses to revise the pro forma financial information or the other information as appropriate includes, for example:

- Where possible under relevant law or regulation:
  - Describing the material inconsistency in the practitioner's report.
  - Modifying the practitioner's opinion.
  - Withholding the report or withdrawing from the engagement.
- Seeking legal advice.



### **Written Representations (Ref: Para. 28(a))**

- A45. In some circumstances, the types of transactions involved may require the responsible party to select accounting policies for the pro forma adjustments that the entity has not previously had to articulate because it had no relevant transactions. In such a case, the practitioner may request the responsible party to expand the written representations to include confirmation that the selected accounting policies constitute the entity's adopted policies for such types of transactions.

### **Forming the Opinion**

*Assurance on Further Matters Required by the Relevant Law or Regulation (Ref: Para. 29)*

- A46. Relevant law or regulation may require the practitioner to express an opinion on matters other than whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. In some of these circumstances, it may not be necessary for the practitioner to perform additional procedures. For example, the relevant law or regulation may require the practitioner to express an opinion about whether the basis on which the responsible party has compiled the pro forma financial information is consistent with the entity's accounting policies. Compliance with the requirements in paragraphs 18 and 22(c) of this ISAE provides a basis for expressing such an opinion.
- A47. In other circumstances, the practitioner may need to perform additional procedures. The nature and extent of such additional procedures will vary with the nature of the other matters on which the relevant law or regulation requires the practitioner to express an opinion.

### **Statement of the Practitioner's Responsibility for the Report**

- A48. The relevant law or regulation may require the practitioner to include in the practitioner's report an explicit statement asserting or confirming the practitioner's responsibility for the report. The inclusion of such an additional legal or regulatory statement in the practitioner's report is not incompatible with the requirements of this ISAE.

*Disclosure of the Applicable Criteria (Ref: Para. 30)*

- A49. The responsible party need not repeat in the explanatory notes accompanying the pro forma financial information any criteria that are prescribed by the relevant law or regulation, or promulgated by an authorized or recognized standard-setting organization. Such criteria will be publicly available as part of the reporting regime and are therefore implicit in the responsible party's compilation of the pro forma financial information.

- A50. Where the responsible party has developed any specific criteria, it is necessary that those criteria be disclosed so that users may obtain a proper understanding of how the pro forma financial information has been compiled by the responsible party.

### **Preparing the Assurance Report**

#### *Title* (Ref: Para. 35(a))

- A51. A title indicating that the report is the report of an independent practitioner, for example, “Independent Practitioner’s Assurance Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,” affirms that the practitioner has met all of the relevant ethical requirements regarding independence as required by ISAE 3000 (Revised).<sup>10</sup> This distinguishes the report of the independent practitioner from reports issued by others.

#### *Addressee(s)* (Ref: Para. 35(b))

- A52. The relevant law or regulation may specify the addressee(s) of the report. Alternatively, the practitioner may agree with the entity who the addressee(s) will be as part of the terms of the engagement.

#### *Introductory Paragraphs* (Ref: Para. 35(c))

- A53. As the pro forma financial information will be included in a prospectus that contains other information, the practitioner may consider, if the form of presentation allows, including a reference that identifies the section where the pro forma financial information is presented. This helps readers identify the pro forma financial information to which the practitioner’s report relates.

#### *Opinion* (Ref: Para. 13(c), 35(h))

- A54. Whether the phrase “pro forma financial information has been compiled, in all material respects, on the basis of the [*applicable criteria*],” or the phrase “pro forma financial information has been properly compiled on the basis stated” is used to express the opinion in any particular jurisdiction is determined by the law or regulation governing reporting on pro forma financial information in that jurisdiction, or by generally accepted practice in that jurisdiction.
- A55. The relevant law or regulation in some jurisdictions may prescribe the wording of the practitioner’s opinion in terms other than those specified above. Where this is the case, it may be necessary for the practitioner to exercise judgment to determine whether performing the procedures set out in this ISAE would enable the practitioner to express the opinion in the wording prescribed by law or regulation, or whether further procedures would be necessary.

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<sup>10</sup> ISAE 3000 (Revised), paragraph 20

A56. When the practitioner concludes that performing the procedures set out in this ISAE would be sufficient to enable the practitioner to express the opinion in the wording prescribed by law or regulation, it may be appropriate to regard that wording as being equivalent to the two alternative wordings of the opinion specified in this ISAE.

*Illustrative Report* (Ref: Para. 35)

A57. A practitioner's report with an unmodified opinion is set out in the Appendix.

## Appendix

(Ref: Para. A57)

### Illustrative Practitioner's Report with an Unmodified Opinion

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED  
IN A PROSPECTUS

[Appropriate Addressee(s)]

#### Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

We have completed our assurance engagement to report on the compilation of pro forma financial information of ABC Company by [*the responsible party*]. The pro forma financial information consists of [the pro forma net asset statement as at [date]], [the pro forma income statement for the period ended [date]], [the pro forma cash flow statement for the period ended [date].] and related notes [as set out on pages xx–xx of the prospectus issued by the company]. The applicable criteria on the basis of which [*the responsible party*] has compiled the pro forma financial information are [specified in [Securities Regulation XX] and described in [Note X]]/[described in [Note X]].

The pro forma financial information has been compiled by [*the responsible party*] to illustrate the impact of the [event or transaction] [set out in Note X] on the [company's financial position as at *specify date*] [and] [the company's/its financial performance [and cash flows] for the period ended *specify date*] as if the [event or transaction] had taken place at [*specify date*] [and *specify date* respectively]. As part of this process, information about the company's [financial position], [financial performance] [and cash flows] has been extracted by [*the responsible party*] from the company's financial statements [for the period ended [date]], on which [[an audit]/[a review] report]/[no audit or review report] has been published.<sup>1</sup>

[*The Responsible Party's*] *Responsibility for the Pro Forma Financial Information*

[*The responsible party*] is responsible for compiling the pro forma financial information on the basis of the [*applicable criteria*].

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirement of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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<sup>1</sup> Where the audit or review report has been modified, reference may be made to where the modification has been described in the prospectus.

*The firm applies International Standard on Quality Control 1<sup>2</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.*

#### *Practitioner's Responsibilities*

Our responsibility is to express an opinion [, as required by [Securities Regulation XX],] about whether the pro forma financial information has been compiled, in all material respects, by [*the responsible party*] on the basis of the [*applicable criteria*].

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the practitioner plan and perform procedures to obtain reasonable assurance about whether [*the responsible party*] has compiled, in all material respects, the pro forma financial information on the basis of the [*applicable criteria*].

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at [*specify date*] would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by [*the responsible party*] in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

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<sup>2</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

In our opinion, [the pro forma financial information has been compiled, in all material respects, on the basis of the [*applicable criteria*]]/[the pro forma financial information has been properly compiled on the basis stated].

### **Report on Other Legal or Regulatory Requirements**

[Relevant law or regulation may require the practitioner to express an opinion on other matters (see paragraphs A46–A47). The form and content of this section of the practitioner’s report will vary with the nature of such other reporting responsibilities.]

[Practitioner’s signature]

[Date of the practitioner’s report]

[Practitioner’s address]

# INTERNATIONAL STANDARD ON RELATED SERVICES 4400

(Previously ISA 920)

## ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING FINANCIAL INFORMATION

(This Standard is effective)

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International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*, should be read in the context of the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

## Introduction

1. The purpose of this International Standard on Related Services (ISRS) is to establish standards and provide guidance on the auditor's<sup>11</sup> professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.
2. This ISRS is directed toward engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings. Guidance in the International Standards on Auditing (ISAs) may be useful to the auditor in applying this ISRS.
3. An engagement to perform agreed-upon procedures may involve the auditor in performing certain procedures concerning individual items of financial data (for example, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity), a financial statement (for example, a balance sheet) or even a complete set of financial statements.

## Objective of an Agreed-Upon Procedures Engagement

4. **The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.**
5. As the auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work.
6. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

## General Principles of an Agreed-Upon Procedures Engagement

7. **The auditor should comply with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).** Ethical principles governing the auditor's professional responsibilities for this type of engagement are:

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<sup>1</sup> The term "auditor" is used throughout the pronouncements of the International Auditing and Assurance Standards Board when describing both audit, review, other assurance and related services that may be performed. Such reference is not intended to imply that a person performing review, other assurance or related services need be the auditor of the entity's financial statements.



- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require the auditor to comply with the *International Independence Standards* in the IESBA Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.

8. **The auditor should conduct an agreed-upon procedures engagement in accordance with this ISRS and the terms of the engagement.**

### **Defining the Terms of the Engagement**

9. **The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.** Matters to be agreed include the following:
- Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
  - Stated purpose for the engagement.
  - Identification of the financial information to which the agreed-upon procedures will be applied.
  - Nature, timing and extent of the specific procedures to be applied.
  - Anticipated form of the report of factual findings.
  - Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.
10. In certain circumstances, for example, when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the auditor may not be able to discuss the procedures with all the parties who will receive the report. In such cases, the auditor may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties or sending them a draft of the type of report that will be issued.

11. It is in the interests of both the client and the auditor that the auditor sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditor's responsibilities and the form of reports to be issued.
12. Matters that would be included in the engagement letter include the following:
  - A listing of the procedures to be performed as agreed upon between the parties.
  - A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

In addition, the auditor may consider attaching to the engagement letter a draft of the type of report of factual findings that will be issued. An example of an engagement letter appears in Appendix 1 to this ISRS.

## **Planning**

13. **The auditor should plan the work so that an effective engagement will be performed.**

## **Documentation**

14. **The auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with this ISRS and the terms of the engagement.**

## **Procedures and Evidence**

15. **The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.**
16. The procedures applied in an engagement to perform agreed-upon procedures may include the following:
  - Inquiry and analysis.
  - Recomputation, comparison and other clerical accuracy checks.
  - Observation.
  - Inspection.
  - Obtaining confirmations.

Appendix 2 to this ISRS is an example report which contains an illustrative list of procedures which may be used as one part of a typical agreed-upon procedures engagement.

## Reporting

17. The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.
18. **The report of factual findings should contain:**
  - (a) **Title;**
  - (b) **Addressee (ordinarily the client who engaged the auditor to perform the agreed-upon procedures);**
  - (c) **Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;**
  - (d) **A statement that the procedures performed were those agreed upon with the recipient;**
  - (e) **A statement that the engagement was performed in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements, or with relevant national standards or practices;**
  - (f) **When relevant a statement that the auditor is not independent of the entity;**
  - (g) **Identification of the purpose for which the agreed-upon procedures were performed;**
  - (h) **A listing of the specific procedures performed;**
  - (i) **A description of the auditor's factual findings including sufficient details of errors and exceptions found;**
  - (j) **Statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;**
  - (k) **A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;**
  - (l) **A statement that the report is restricted to those parties that have agreed to the procedures to be performed;**
  - (m) **A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole;**
  - (n) **Date of the report;**
  - (o) **Auditor's address; and**
  - (p) **Auditor's signature.**

Appendix 2 to this ISRS contains an example of a report of factual findings issued in connection with an engagement to perform agreed-upon procedures regarding financial information.

### **Public Sector Perspective**

1. *The report in a public sector engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available also to a wider range of entities or people (for example, a parliamentary investigation about a specific public entity or governmental department).*
2. *It also has to be noted that public sector mandates vary significantly and caution has to be taken to distinguish engagements that are truly “agreed-upon procedures” from engagements that are expected to be audits of financial information, such as performance reports.*

## Illustration of an Engagement Letter for an Agreed-Upon Procedures Engagement

The following letter is for use as a guide in conjunction with paragraph 9 of this ISRS and is not intended to be a standard letter. The engagement letter will need to be varied according to individual requirements and circumstances.

To the Board of Directors or other appropriate representatives of the client who engaged the auditor:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standard on Related Services (or refer to relevant national standards or practices) applicable to agreed-upon procedures engagements and we will indicate so in our report.

We have agreed to perform the following procedures and report to you the factual findings resulting from our work:

(Describe the nature, timing and extent of the procedures to be performed, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures that we will perform are solely to assist you in (state purpose). Our report is not to be used for any other purpose and is solely for your information.

The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or refer to relevant national standards or practices) and, consequently, no assurance will be expressed.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement.

Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures which we have agreed will be performed.

ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING  
FINANCIAL INFORMATION

XYZ & Co

Acknowledged on behalf of ABC Company by  
(signed)

Name and Title

Date

## Illustration of a Report of Factual Findings in Connection with Accounts Payable

### REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated below with respect to the accounts payable of ABC Company as at (date), set forth in the accompanying schedules (not shown in this example). Our engagement was undertaken in accordance with the International Standard on Related Services (or refer to relevant national standards or practices) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the validity of the accounts payable and are summarized as follows:

1. We obtained and checked the addition of the trial balance of accounts payable as at (date) prepared by ABC Company, and we compared the total to the balance in the related general ledger account.
2. We compared the attached list (not shown in this example) of major suppliers and the amounts owing at (date) to the related names and amounts in the trial balance.
3. We obtained suppliers' statements or requested suppliers to confirm balances owing at (date).
4. We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from ABC Company. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and outstanding checks, each of which was greater than xxx. We located and examined such invoices and credit notes subsequently received and checks subsequently paid and we ascertained that they should in fact have been listed as outstanding on the reconciliations.

We report our findings below:

- (a) With respect to item 1 we found the addition to be correct and the total amount to be in agreement.
- (b) With respect to item 2 we found the amounts compared to be in agreement.
- (c) With respect to item 3 we found there were suppliers' statements for all such suppliers.
- (d) With respect to item 4 we found the amounts agreed, or with respect to amounts which did not agree, we found ABC Company had prepared reconciliations

ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING  
FINANCIAL INFORMATION

and that the credit notes, invoices and outstanding checks over xxx were appropriately listed as reconciling items with the following exceptions:

(Detail the exceptions)

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the accounts payable as of (date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the accounts and items specified above and does not extend to any financial statements of ABC Company, taken as a whole.

AUDITOR

Date

Address



# INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

## COMPILATION ENGAGEMENTS

(Effective for compilation engagement reports dated on or after July 1, 2013)

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International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, should be read in conjunction with the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

## Introduction

### Scope of this ISRS

1. This International Standard on Related Services (ISRS) deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with this ISRS. (Ref: Para. A1–A2)
2. This ISRS applies to compilation engagements for historical financial information. The ISRS may be applied, adapted as necessary, to compilation engagements for financial information other than historical financial information, and to compilation engagements for non-financial information. Hereinafter in this ISRS, reference to “financial information” means “historical financial information.” (Ref: Para. A3–A4)
3. When the practitioner is requested to assist management with the preparation and presentation of financial information, appropriate consideration may need to be given to whether the engagement should be undertaken in accordance with this ISRS. Factors that indicate that it may be appropriate to apply this ISRS, including reporting under this ISRS, include whether:
  - The financial information is required under provisions of applicable law or regulation, and whether it is required to be publicly filed.
  - External parties other than the intended users of the compiled financial information are likely to associate the practitioner with the financial information, and there is a risk that the level of the practitioner's involvement with the information may be misunderstood, for example:
    - If the financial information is intended for use by parties other than management or those charged with governance, or may be provided to, or obtained by, parties who are not the intended users of the information; and
    - If the practitioner's name is identified with the financial information. (Ref: Para. A5)

### *Relationship with ISQC 1<sup>1</sup>*

4. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's compilation engagements.<sup>2</sup> The provisions of this ISRS regarding quality control at the level of individual compilation engagements are premised on

<sup>1</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>2</sup> ISQC 1, paragraph 4

the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. (Ref: Para. A6–A11)

### **The Compilation Engagement**

5. Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. The value of a compilation engagement performed in accordance with this ISRS to users of financial information results from the application of the practitioner's professional expertise in accounting and financial reporting and compliance with professional standards, including relevant ethical requirements, and the clear communication of the nature and extent of the practitioner's involvement with the compiled financial information. (Ref: Para. A12–A15)
6. Since a compilation engagement is not an assurance engagement, a compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.
7. Management retains responsibility for the financial information and the basis on which it is prepared and presented. That responsibility includes application by management of the judgment required for the preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates. (Ref: Para. A12–A13)
8. This ISRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. An engagement performed in accordance with this ISRS is conducted on the premise that management, or those charged with governance where appropriate, have agreed certain responsibilities that are fundamental to the performance of the compilation engagement. (Ref: Para. A12–A13)
9. Financial information that is the subject of a compilation engagement may be required for various purposes including:
  - (a) To comply with mandatory periodic financial reporting requirements established in law or regulation; or
  - (b) For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:
    - For management or those charged with governance, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
    - For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial

information provided to a funding body to support provision or continuation of a grant).

- For transactional purposes, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).
10. Different financial reporting frameworks can be used to prepare and present financial information, ranging from a simple entity-specific basis of accounting to established financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information will depend on the nature of the entity and the intended use of the information. (Ref: Para. A16–A18)

### **Authority of this ISRS**

11. This ISRS contains the objectives of the practitioner in following the ISRS which provide the context in which the requirements of this ISRS are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a compilation engagement.
12. This ISRS contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.
13. In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the ISRS.
14. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRS that assists in the application of the requirements.

### **Effective Date**

15. This ISRS is effective for compilation engagement reports dated on or after July 1, 2013.

### **Objectives**

16. The practitioner's objectives in a compilation engagement under this ISRS are to:
- (a) Apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management; and
  - (b) Report in accordance with the requirements of this ISRS.

## Definitions

17. The Handbook’s Glossary of Terms<sup>3</sup> (the Glossary) includes the terms defined in this ISRS and also includes descriptions of other terms found in this ISRS, to assist in consistent interpretation. The following terms have the meanings attributed below for the purposes of this ISRS:

- (a) *Applicable financial reporting framework* – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial information that is acceptable in view of the nature of the entity and the objective of the financial information, or that is required by law or regulation. (Ref: Para. A35–A37)
- (b) *Compilation engagement* – An engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and reports as required by this ISRS. Throughout this ISRS, the words “compile”, “compiling” and “compiled” are used in this context.
- (c) *Engagement partner* – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) *Engagement team* – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
- (e) *Misstatement* – A difference between the amount, classification, presentation, or disclosure of a reported item in the financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Where the financial information is prepared in accordance with a fair presentation framework, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the practitioner’s judgment, are necessary for the financial information to be presented fairly, in all material respects, or to give a true and fair view.

- (f) *Practitioner* – A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner

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<sup>3</sup> The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (the Handbook), published by IFAC

or other members of the engagement team, or, as applicable, the firm. Where this ISRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

- (g) *Relevant ethical requirements* – Ethical requirements to which the engagement team is subject when undertaking a compilation engagement, which ordinarily comprise the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with national requirements that are more restrictive. (Ref: Para. A21)

## Requirements

### Conduct of a Compilation Engagement in Accordance with this ISRS

18. The practitioner shall have an understanding of the entire text of this ISRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

19. The practitioner shall comply with each requirement of this ISRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.
20. The practitioner shall not represent compliance with this ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the compilation engagement.

### Ethical Requirements

21. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A19–A26)

### Professional Judgment

22. The practitioner shall exercise professional judgment in conducting a compilation engagement. (Ref: Para. A27–A29)

### Engagement Level Quality Control

23. The engagement partner shall take responsibility for:
- (a) The overall quality of each compilation engagement to which that partner is assigned; and

- (b) The engagement being performed in accordance with the firm’s quality control policies and procedures, by: (Ref: Para. A30)
  - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A31)
  - (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement;
  - (iii) Being alert for indications of breaches of relevant ethical requirements by members of the engagement team, and determining the appropriate action if matters come to the engagement partner’s attention indicating that members of the engagement team have breached relevant ethical requirements; (Ref: Para. A32)
  - (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
  - (v) Taking responsibility for appropriate engagement documentation being maintained.

### **Engagement Acceptance and Continuance**

#### *Continuance of Client Relationships, Engagement Acceptance and Agreeing the Terms of the Engagement*

24. The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:
- (a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable; (Ref: Para. A20, A33–A34, A37–A38)
  - (b) Identification of the applicable financial reporting framework; (Ref: Para. A20, A35–A38)
  - (c) The objective and scope of the compilation engagement; (Ref: Para. A20)
  - (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements; (Ref: Para. A20)
  - (e) The responsibilities of management for: (Ref: Para. A39–A41)
    - (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;



- (ii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement; and
  - (iii) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and (Ref: Para. A27)
- (f) The expected form and content of the practitioner's report.
25. The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement. (Ref: Para. A42–A44)

#### *Recurring Engagements*

26. On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is need to remind management of the existing terms of engagement. (Ref: Para. A45)

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

27. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A46–A47)

#### **Performing the Engagement**

##### *The Practitioner's Understanding*

28. The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement: (Ref: Para. A48–A50)
- (a) The entity's business and operations, including the entity's accounting system and accounting records; and
  - (b) The applicable financial reporting framework, including its application in the entity's industry.

##### *Compiling the Financial Information*

29. The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management.

30. The practitioner shall discuss with management, or those charged with governance as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information. (Ref: Para. A51)
31. Prior to completion of the compilation engagement, the practitioner shall read the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework. (Ref: Para. A52)
32. If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the additional or corrected information.
33. If the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. (Ref: Para. A58)
34. If the practitioner becomes aware during the course of the engagement that:
  - (a) The compiled financial information does not adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A53)
  - (b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or (Ref: Para. A54–A56)
  - (c) The compiled financial information is otherwise misleading, (Ref: Para. A57)

the practitioner shall propose the appropriate amendments to management.
35. If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. (Ref: Para. A58)
36. If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.
37. The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information. (Ref: Para. A68)

**Documentation**

38. The practitioner shall include in the engagement documentation: (Ref: Para. A59–A61)
- (a) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner;
  - (b) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management; and
  - (c) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report. (Ref: Para. A68)

**The Practitioner's Report**

39. An important purpose of the practitioner's report is to clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form.
40. The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: (Ref: Para. A62–A63, A69)
- (a) The report title;
  - (b) The addressee(s), as required by the terms of the engagement; (Ref: Para. A64)
  - (c) A statement that the practitioner has compiled the financial information based on information provided by management;
  - (d) A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;
  - (e) Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;
  - (f) Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;
  - (g) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in

accordance with this ISRS, and that the practitioner has complied with relevant ethical requirements;

- (h) A description of what a compilation engagement entails in accordance with this ISRS;
- (i) Explanations that:
  - (i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and
  - (ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.
- (j) If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that: (Ref: Para. A65–A67)
  - (i) Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
  - (ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes;
- (k) The date of the practitioner’s report;
- (l) The practitioner’s signature; and
- (m) The practitioner’s address.

41. The practitioner shall date the report on the date the practitioner has completed the compilation engagement in accordance with this ISRS. (Ref: Para. A68)

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## **Application and Other Explanatory Material**

### **Scope of this ISRS**

*General Considerations* (Ref: Para. 1)

- A1. In a compilation engagement where the engaging party is someone other than management or those charged with governance of the entity, this ISRS may be applied adapted as necessary.

- A2. A practitioner's involvement with services or activities in the course of assisting management of an entity with the preparation and presentation of the entity's financial information can take many different forms. When the practitioner is engaged to provide such services or activities for an entity under this ISRS, the practitioner's association with the financial information is communicated through the practitioner's report provided for the engagement in the form required by this ISRS. The practitioner's report contains the practitioner's explicit assertion of compliance with this ISRS.

*Application to Compilation Engagements Other than for Historical Financial Information* (Ref: Para. 2)

- A3. This ISRS addresses engagements where the practitioner assists management in the preparation and presentation of historical financial information. The ISRS may, however, also be applied, adapted as necessary, when the practitioner is engaged to assist management in preparing and presenting other financial information. Examples include:
- Pro forma financial information.
  - Prospective financial information, including financial budgets or forecasts.
- A4. Practitioners may also undertake engagements to assist management in the preparation and presentation of non-financial information, for example, greenhouse gas statements, statistical returns or other information returns. In those circumstances, the practitioner may apply this ISRS, adapted as necessary, as relevant to those types of engagements.

Considerations Relevant to Application of the ISRS (Ref: Para. 3)

- A5. Mandatory application of this ISRS may be specified in national settings for engagements where practitioners undertake services relevant to the preparation and presentation of financial information of an entity (such as in relation to preparation of historical financial statements required for public filing). If mandatory application is not specified, either under law or regulation, or under applicable professional standards or otherwise, the practitioner may nevertheless conclude that applying this ISRS is appropriate in the circumstances.

*Relationship with ISQC 1* (Ref: Para. 4)

- A6. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for related services engagements, including compilation engagements. Those responsibilities are directed at establishing:
- The firm's quality control system; and
  - The firm's related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.

- A7. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>4</sup>
- A8. A jurisdiction that has not adopted ISQC 1 in relation to compilation engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ISQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ISQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:
- Leadership responsibilities for quality within the firm;
  - Relevant ethical requirements;
  - Acceptance and continuance of client relationships and specific engagements;
  - Human resources;
  - Engagement performance; and
  - Monitoring.
- A9. Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.
- A10. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm’s system of quality control. For example, the engagement team may rely on the firm’s system of quality control in relation to:
- Competence of personnel through their recruitment and formal training.
  - Maintenance of client relationships through acceptance and continuance systems.
  - Adherence to legal and regulatory requirements through the monitoring process.
- In considering deficiencies identified in the firm’s system of quality control that may affect the compilation engagement, the engagement partner may consider

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<sup>4</sup> ISQC 1, paragraph 11

measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that compilation engagement.

- A11. A deficiency in the firm’s system of quality control does not necessarily indicate that a compilation engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner’s report was not appropriate.

### **The Compilation Engagement**

*Use of the Terms “Management” and “Those Charged with Governance”* (Ref: Para. 5, 7–8)

- A12. The respective responsibilities of management and those charged with governance will differ between jurisdictions, and between entities of various types. These differences affect the way the practitioner applies the requirements of this ISRS regarding management or those charged with governance. Accordingly, the phrase “management and, where appropriate, those charged with governance” used in various places throughout this ISRS is intended to alert the practitioner to the fact that different entity environments may have different management and governance structures and arrangements.
- A13. Various responsibilities relating to the preparation of financial information and external financial reporting fall to either management or those charged with governance according to factors such as:
- The resources and structure of the entity.
  - The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements established for the entity (for example, as recorded in contracts, or a constitution or other type of document by which an entity is established).

In many small entities, there is often no separation of the management and governance roles for the entity, or those charged with governance of the entity may also be involved in managing the entity. In most other cases, especially in larger entities, management is responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance have oversight of management. In larger entities, those charged with governance will often have or assume responsibility for approving the financial information of the entity, particularly when it is intended for use by external parties. In large entities, often a subgroup of those charged with governance, such as an audit committee, is charged with certain oversight responsibilities. In some jurisdictions, the preparation of financial statements for an entity in accordance with a specified framework is the legal responsibility of those charged with governance, and in other jurisdictions it is a management responsibility.

*Involvement in Other Activities Relating to Preparation and Presentation of Financial Information* (Ref: Para. 5)

- A14. The scope of a compilation engagement will vary depending on the circumstances of the engagement. However, in every case it will involve assisting management in the preparation and presentation of the entity's financial information in accordance with the financial reporting framework, based on information provided by management. In some compilation engagements, management may have already prepared the financial information itself in a draft or preliminary form.
- A15. A practitioner may also be engaged to undertake certain other activities on behalf of management, additional to the compilation engagement. For example, the practitioner may be requested to also collect, classify and summarize the underlying accounting data of the entity and process the data in the form of accounting records through to production of a trial balance. The trial balance would then be used as the underlying information from which the practitioner can compile the financial information that is the subject of a compilation engagement undertaken in accordance with this ISRS. This is often the case for smaller entities that do not have well-developed accounting systems, or entities that prefer to outsource the preparation of accounting records to external providers. This ISRS does not address such additional activities that the practitioner may perform to assist management in other areas, in advance of compiling the entity's financial statements.

*Financial Reporting Frameworks* (Ref: Para. 10)

- A16. The financial information may be prepared in accordance with a financial reporting framework designed to meet:
- The common financial information needs of a wide range of users (that is, a "general purpose financial reporting framework"); or
  - The financial information needs of specific users (that is, a "special purpose financial reporting framework").

The requirements of the applicable financial reporting framework determine the form and content of the financial information. The financial reporting framework may, in some cases, be referred to as the "basis of accounting."

- A17. Examples of commonly used general purpose financial reporting frameworks are:
- International Financial Reporting Standards (IFRS) and established national financial reporting standards applicable to publicly-listed entities.
  - International Financial Reporting Standards for Small- and Medium-Sized Entities (IFRS for SMEs) and established national financial reporting standards applicable to small- and medium-sized entities.



A18. Examples of special purpose financial reporting frameworks that may be used, depending on the particular purpose of the financial information, are:

- The tax basis of accounting used in a particular jurisdiction to prepare financial information to fulfill tax compliance obligations.
- For entities not required to use an established financial reporting framework:
  - A basis of accounting used in the financial information of a particular entity that is appropriate for the intended use of the financial information and the entity's circumstances (for example, use of the cash basis of accounting with selected accruals, such as accounts receivable and accounts payable, leading to a balance sheet and income statement; or use of an established financial reporting framework that is modified to suit the particular purpose for which the financial information is prepared).
  - The cash basis of accounting leading to a statement of receipts and disbursements (for example, for the purpose of allocating the excess of cash receipts over disbursements to the owners of a rental property; or to record movements in the petty cash fund of a club).

#### **Ethical Requirements** (Ref: Para. 21)

A19. The IESBA Code establishes the fundamental principles of ethics, which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

The IESBA Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out *International Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.

*Ethical Considerations Regarding the Practitioner's Association with Information*  
(Ref: Para. 21, 24(a)–(d))

A20. Under the IESBA Code,<sup>5</sup> in applying the principle of integrity, a professional accountant is required to not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

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

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant is required by the IESBA Code to take steps to be disassociated from that information.

*Independence* (Ref: Para. 17(g), 21)

A21. Notwithstanding that the *International Independence Standards* of the IESBA Code do not apply to compilation engagements, national ethical codes or laws or regulations may specify requirements or disclosure rules pertaining to independence.

Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity

A22. Law, regulation or relevant ethical requirements may:

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>6</sup>

A23. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
- (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.

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<sup>5</sup> IESBA Code, paragraph R111.2

<sup>6</sup> See, for example, paragraphs R360.36 and R360.37 of the IESBA Code.

- A24. Under paragraph 28 of this ISRS, the practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the compilation engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A25. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>7</sup>
- A26. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>8</sup>

### **Professional Judgment** (Ref: Para. 22, 24(e)(iii))

- A27. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this ISRS, and the need for informed decisions throughout the performance of a compilation engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular, when the engagement involves assisting management of the entity regarding decisions about:
- The acceptability of the financial reporting framework that is to be used to prepare and present the financial information of the entity, in view of the intended use of the financial information and the intended users thereof.
  - The application of the applicable financial reporting framework, including:
    - Selection of appropriate accounting policies under that framework;
    - Development of accounting estimates needed for the financial information to be prepared and presented under that framework; and

<sup>7</sup> See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the IESBA Code.

<sup>8</sup> See, for example, paragraph 360.39 A1 of the IESBA Code.

- Preparation and presentation of financial information in accordance with the applicable financial reporting framework.

The practitioner's assistance to management is always provided on the basis that management or those charged with governance, as appropriate, understand the significant judgments that are reflected in the financial information, and accept responsibility for those judgments.

A28. Professional judgment involves the application of relevant training, knowledge and experience, within the context provided by this ISRS and accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the compilation engagement.

A29. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known to the practitioner up to the date of the practitioner's report on the engagement, including:

- Knowledge acquired from performance of other engagements undertaken for the entity, where applicable (for example, taxation services).
- The practitioner's understanding of the entity's business and operations, including its accounting system, and of the application of the applicable financial reporting framework in the industry in which the entity operates.
- The extent to which the preparation and presentation of the financial information requires the exercise of management judgment.

### **Engagement Level Quality Control (Ref: Para. 23(b))**

A30. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasize the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ISRS.

### *Acceptance and Continuance of Client Relationships and Compilation Engagements* (Ref: Para. 23(b)(i))

A31. ISQC 1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of

client relationships and compilation engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

*Compliance with Relevant Ethical Requirements in Conducting the Engagement*  
(Ref: Para. 23(b)(iii))

- A32. ISQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ISRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

## **Engagement Acceptance and Continuance**

*Identifying the Intended Use of the Financial Information* (Ref: Para. 24(a))

- A33. The intended use of the financial information is identified with reference to applicable law, regulation, or other arrangements established concerning the provision of financial information of the entity, bearing in mind the financial information needs of parties internal or external to the entity who are the intended users. Examples are financial information required to be provided by an entity in connection with undertaking transactions or financing applications with external parties such as suppliers, banks or other providers of finance or funding.
- A34. The practitioner's identification of the intended use of the financial information also involves understanding such factors as the particular purpose(s) of management, or those charged with governance, where applicable, that are intended to be served through requesting the compilation engagement, and those of the engaging party where different. For example, a grant funding body may require the entity to provide financial information compiled by a professional accountant to obtain information about certain aspects of an entity's operations or activities, prepared in a specified form, to support provision of a grant or continuation of an existing grant.

*Identification of the Applicable Financial Reporting Framework* (Ref: Para. 17(a), 24(b))

- A35. The decision about the financial reporting framework that management adopts for the financial information is made in the context of the intended use of the information as described in the agreed terms of engagement, and the requirements of any applicable law or regulation.
- A36. The following are examples of factors that indicate it may be relevant to consider whether the financial reporting framework is acceptable:

- The nature of the entity, and whether it is a regulated form of entity, for example, whether it is a profit-oriented business enterprise, a public sector entity or a not-for-profit organization.
- The intended use of the financial information and the intended users. For example, the financial information could be intended to be used by a wide range of users or, alternatively, could be for use by management or by certain external users in the context of a particular purpose specified as part of agreeing the terms of the compilation engagement.
- Whether the applicable financial reporting framework is prescribed or specified, either in applicable law or regulation, or in a contract or other form of agreement with a third party, or as part of governance or accountability arrangements adopted voluntarily by the entity.
- The nature and form of the financial information that is to be prepared and presented under the applicable financial reporting framework, for example, a complete set of financial statements, a single financial statement, or financial information presented in another format agreed between parties to a contract or other form of agreement.

Relevant Factors When Financial Information Is Intended for a Particular Purpose  
(Ref: Para. 24(a)–(b))

- A37. The engaging party generally agrees the nature and form of financial information that is intended for a particular purpose with the intended users, for example as specified under the financial reporting provisions of a contract or a project grant or as needed to support the entity's transactions or activities. The relevant contract may require use of an established financial reporting framework, such as a general purpose financial reporting framework established by an authorized or recognized standard-setting body or by law or regulation. Alternatively, the parties to the contract may agree on the use of a general purpose framework with modifications or adaptations that fit their particular needs. In that case, the applicable financial reporting framework may be described in the financial information and in the practitioner's report as being the financial reporting provisions of the specified contract rather than with reference to the modified financial reporting framework. In such cases, notwithstanding that the compiled financial information may be made more broadly available, the applicable financial reporting framework is a special purpose framework, and the practitioner is required to comply with the relevant reporting requirements of this ISRS.
- A38. When the applicable financial reporting framework is a special purpose financial reporting framework, the practitioner is required by this ISRS to record any restrictions on either the intended use or distribution of the financial information in the engagement letter, and to state in the practitioner's report that

the financial information is prepared using a special purpose financial reporting framework, and as a result may not be suitable for other purposes.

*Responsibilities of Management* (Ref: Para. (24(e)))

- A39. Under this ISRS, the practitioner is required to obtain the agreement of management, or where applicable those charged with governance, on management's responsibilities in relation to both the financial information and the compilation engagement as a condition precedent to accepting the engagement. In smaller entities, management, or those charged with governance where applicable, may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the practitioner may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.
- A40. If management does not acknowledge its responsibilities in the context of a compilation engagement, the practitioner is not able to undertake the engagement, and it is not appropriate for the practitioner to accept the engagement unless required to do so under applicable law or regulation. In circumstances where the practitioner is nevertheless required to accept the engagement, the practitioner may need to communicate with management about the importance of these matters and the implications for the engagement.
- A41. The practitioner is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations and other information relevant to the compilation of the financial information using the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions or plans underlying development of accounting estimates needed to compile the information under the applicable financial reporting framework.

*Engagement Letter or Other Form of Written Agreement* (Ref: Para. 25)

- A42. It is in the interests of both management, and the engaging parties where different, and the practitioner that the practitioner sends an engagement letter to management and, where applicable, to the engaging parties prior to performing the compilation engagement, to help avoid misunderstandings with respect to the compilation engagement. An engagement letter confirms the practitioner's acceptance of the engagement and confirms such matters as:
- The objectives and scope of the engagement, including the understanding of the parties to the engagement that the engagement is not an assurance engagement.

- The intended use and distribution of the financial information, and any restrictions on its use or distribution (where applicable).
- The responsibilities of management in relation to the compilation engagement.
- The extent of the practitioner’s responsibilities, including that the practitioner will not express an audit opinion or a review conclusion on the financial information.
- The form and content of the report to be issued by the practitioner for the engagement.

#### Form and Content of the Engagement Letter

A43. The form and content of the engagement letter may vary for each engagement. In addition to the matters required by this ISRS, an engagement letter may make reference to, for example:

- Arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation engagement.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
- The possibility that management or those charged with governance, as appropriate, may be requested to confirm in writing certain information or explanations conveyed orally to the practitioner during the engagement.
- Ownership of the information used for purposes of the compilation engagement, distinguishing between documents and information of the entity provided for the engagement and the practitioner’s engagement documentation, having regard to applicable law and regulation.
- A request for management, and the engaging party if different, to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

#### Illustrative Engagement Letter

A44. An illustrative engagement letter for a compilation engagement is set out in Appendix 1 to this ISRS.

#### *Recurring Engagements* (Ref: Para. 26)

A45. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the compilation engagement, or to remind management or the engaging party, where applicable, of the existing terms of the engagement:



- Any indication that management or the engaging party, where applicable, misunderstands the objective and scope of the engagement.
- Any revised or special terms of the engagement.
- A recent change of senior management of the entity.
- A significant change in ownership of the entity.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements affecting the entity.
- A change in the applicable financial reporting framework.

**Communication with Management and Those Charged with Governance** (Ref: Para. 27)

- A46. The appropriate timing for communications will vary with the circumstances of the compilation engagement. Relevant circumstances include the significance and nature of the matter and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the engagement as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.
- A47. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

**Performing the Engagement**

*The Practitioner's Understanding* (Ref: Para. 28)

- A48. Obtaining an understanding of the entity's business and its operations, including the entity's accounting system and accounting records, is an ongoing process that occurs throughout the compilation engagement. The understanding establishes a frame of reference within which the practitioner exercises professional judgment in compiling the financial information.
- A49. The breadth and depth of the understanding the practitioner has or obtains about the entity's business and operations is less than that possessed by management.

It is directed at the level that is sufficient for the practitioner to be able to compile the financial information under the terms of the engagement.

A50. Examples of matters the practitioner may consider in obtaining an understanding of the entity's business and operations and the applicable financial reporting framework include:

- The size and complexity of the entity and its operations.
- The complexity of the financial reporting framework.
- The entity's financial reporting obligations or requirements, whether they exist under applicable laws and regulation, under the provisions of a contract or other form of agreement with a third party, or in the context of voluntary financial reporting arrangements.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin the preparation of financial information of the entity.
- The level of development and complexity of the entity's financial accounting and reporting systems and related controls.
- The nature of the entity's assets, liabilities, revenues and expenses.

### *Compiling the Financial Information*

#### Significant Judgments (Ref: Para.30)

A51. In some compilation engagements, the practitioner does not provide assistance to management with significant judgments. In other engagements, the practitioner may provide such assistance, for example, in relation to a required accounting estimate or helping management with its consideration of appropriate accounting policies. Where assistance is provided, discussion is needed so that management and those charged with governance, as appropriate, understand the significant judgments reflected in the financial information, and accept their responsibility for those judgments.

#### Reading the Financial Information (Ref: Para. 31)

A52. The practitioner's reading of the financial information is intended to assist the practitioner in fulfilling the practitioner's ethical obligations relevant to the compilation engagement.

### Proposing Amendments to the Financial Information

Reference to or description of the applicable financial reporting framework (Ref: Para. 34(a))

A53. There may be circumstances when the applicable financial reporting framework is an established financial reporting framework with significant departures

therefrom. If the description of the applicable financial reporting framework in the compiled financial information makes reference to the established framework with significant departures, the practitioner may need to consider whether the reference to the established framework is misleading in the circumstances of the engagement.

Amendment for material misstatements, and for the information not to be misleading (Ref: Para. 34(b)–(c))

- A54. The practitioner’s consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial information. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial information;
  - Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
  - Judgments about matters that are material to users of the financial information are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
- A55. If present in the applicable financial reporting framework, such a discussion provides a frame of reference for the practitioner in understanding materiality for the purpose of the compilation engagement. If not present, the above considerations provide the practitioner with a frame of reference.
- A56. The practitioner’s perception of the needs of users of the financial information affects the practitioner’s view of materiality. In this context, it is reasonable for the practitioner to assume that users:
- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the financial information with reasonable diligence;
  - Understand that financial information is prepared and presented to levels of materiality;
  - Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
  - Make reasonable economic decisions on the basis of the information in the financial information.

A57. The applicable financial reporting framework may include the premise that the financial information is prepared on the going concern basis. If the practitioner becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the practitioner may, as appropriate, suggest a more appropriate presentation under the applicable financial reporting framework, or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework, and to avoid the financial information being misleading.

Conditions that Require the Practitioner to Withdraw from the Engagement (Ref: Para. 33, 35)

A58. In circumstances addressed by the requirements of this ISRS where withdrawal from the engagement is necessary, the responsibility to inform management and those charged with governance of the reasons for withdrawing provides an opportunity to explain the practitioner's ethical obligations.

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

A59. The documentation required by this ISRS serves a number of purposes, including the following:

- Providing a record of matters of continuing relevance to future compilation engagements.
- Enabling the engagement team, as applicable, to be accountable for its work, including recording the completion of the engagement.

A60. The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

A61. In recording how the compiled financial information reconciles with the underlying records, documents, explanations and other information provided by management for the purpose of the compilation engagement, the practitioner may, for example, keep a schedule showing the reconciliation of the entity's general ledger account balances to the compiled financial information, including any adjusting journal entries or other amendments to the financial information that the practitioner has agreed with management in the course of the engagement.

**The Practitioner's Report** (Ref: Para. 40)

A62. The written report encompasses reports issued in hard copy format and those issued using an electronic medium.

A63. A63. When the practitioner is aware that the compiled financial information and the practitioner's report will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial

information is presented. This helps users to identify the financial information to which the practitioner's report relates.

*Addressees of the Report* (Ref: Para. 40(b))

- A64. Law or regulation may specify to whom the practitioner's report is to be addressed in the particular jurisdiction. The practitioner's report is normally addressed to the party who engaged the practitioner under the terms of the engagement, ordinarily the management of the entity.

*Financial Information Prepared Using a Special Purpose Financial Reporting Framework* (Ref: Para. 40(j))

- A65. Under this ISRS, if the financial information is prepared using a special purpose financial reporting framework, the practitioner's report is required to draw the attention of readers of the report to the special purpose financial reporting framework used in the financial information, and to state that the financial information may therefore not be suitable for other purposes. This may be supplemented by an additional clause that restricts either the distribution or use, or both, of the practitioner's report to the intended users only.
- A66. Financial information prepared for a particular purpose may be obtained by parties other than the intended users, who may seek to use the information for purposes other than those for which the information was intended. For example, a regulator may require certain entities to provide financial statements prepared using a special purpose financial reporting framework, and those financial statements to be on public record. The fact of the wider availability of those financial statements to parties other than the intended users does not mean the financial statements would then become general purpose financial statements. The practitioner's statements required to be included in the practitioner's report are needed to draw readers' attention to the fact that the financial statements are prepared under a special purpose financial reporting framework, and may not, therefore, be suitable for other purposes.

*Restriction on Distribution and Use of the Practitioner's Report*

- A67. The practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specified intended users of the financial information. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting either the distribution or use, or both, of the practitioner's report to the intended users only.

*Completion of the Compilation Engagement and Dating of the Practitioner's Report* (Ref: Para. 37, 38, 41)

- A68. The process that exists within the entity for the approval of the financial information by management, or by those charged with governance as appropriate, is a relevant consideration for the practitioner when completing the

compilation engagement. Depending on the nature and purpose of the financial information, there may be an established approval process that management or those charged with governance are required to follow, or that is prescribed in applicable law and regulation, for the preparation and finalization of financial information or financial statements of the entity.

Illustrative Reports (Ref: Para. 40)

A69. Appendix 2 to this ISRS contains illustrations of practitioners' compilation reports incorporating the required elements of the report.

**Appendix 1**

(Ref: Para. A44)

**Illustrative Engagement Letter for a Compilation Engagement**

The following is an example of an engagement letter for a compilation engagement that illustrates the relevant requirements and guidance contained in this ISRS. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISRS. It will need to be adapted according to the requirements and circumstances of individual compilation engagements. It is drafted to refer to the compilation of financial statements for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ISRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

This engagement letter illustrates the following circumstances:

- The financial statements are to be compiled for sole use by the management of a company (ABC Company), and use of the financial statements will be restricted to management. Use and distribution of the practitioner's report is also restricted to management.
- The compiled financial statements will comprise only the balance sheet of the company as at December 31, 20X1 and the income statement for the year then ended, without notes. Management has determined that the financial statements be prepared on an accrual basis as described.

\*\*\*

To the Management<sup>1</sup> of ABC Company:

*[The objective and scope of the compilation engagement]*

You have requested that we provide the following services:

On the basis of information that you will provide, we will assist you in the preparation and presentation of the following financial statements for ABC Company: the balance sheet of ABC Company as at December 31, 20X1 and the income statement for the year then ended, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable less an allowance for doubtful accounts, inventory accounted for on an average cost basis, current income taxes payable as at the reporting date, and capitalization of significant long-lived assets at historical cost amortized over their estimated useful lives on the straight-line basis. These financial statements will not include explanatory notes, other than a note describing the basis of accounting as set out in this engagement letter.

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<sup>1</sup> Throughout this illustrative engagement letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

The purpose for which the financial statements will be used is to provide full-year financial information showing the entity’s financial position at the financial reporting date of December 31, 20X1 and financial performance for the year then ended. The financial statements will be solely for your use, and will not be distributed to other parties.

### Our Responsibilities

A compilation engagement involves applying expertise in accounting and financial reporting to assist you in the preparation and presentation of financial information. Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provide to us for the compilation engagement, or otherwise to gather evidence to express an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on whether the financial statements are prepared in accordance with the basis of accounting you have specified, as described above.

We will perform the compilation engagement in accordance with the International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*. ISRS 4410 (Revised) requires that, in undertaking this engagement, we comply with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care. For that purpose, we are required to comply with the International Ethics Standards Board for Professional Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).

### Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the preparation and presentation of the financial statements in accordance with the financial reporting framework you have adopted for the financial statements. Accordingly, you have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with ISRS 4410 (Revised):

- (a) Responsibility for the financial statements and the preparation and presentation thereof in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users.
- (b) Responsibility for the accuracy and completeness of the records, documents, explanations and other information you provide to us for the purpose of compiling the financial statements.
- (c) Responsibility for the judgments needed in the preparation and presentation of the financial statements, including those for which we may provide assistance in the course of the compilation engagement.



Our Compilation Report

As part of our engagement, we will issue our report attached to the financial statements compiled by us, which will describe the financial statements, and the work we performed for this compilation engagement [see attached]. The report will also note that the use of the financial statements is restricted to the purpose set out in this engagement letter, and that use and distribution of our report provided for the compilation engagement is restricted to you, as the management of ABC Company.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to compile the financial statements described herein, and our respective responsibilities.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

XYZ & Co.

Acknowledged and agreed on behalf of the management of ABC Company by  
(signed)

.....

Name and Title

Date

**Appendix 2**

(Ref: Para. A69)

**Illustrative Practitioners' Compilation Reports****Compilation Engagement for General Purpose Financial Statements**

- Illustration 1: Practitioner's report for an engagement to compile financial statements using a general purpose financial reporting framework.

**Compilation Engagement for Financial Statements Prepared for a Special Purpose**

- Illustration 2: Practitioner's report for an engagement to compile financial statements using a modified general purpose financial reporting framework.

**Compilation Engagements for Financial Information Prepared for a Special Purpose where Use or Distribution of the Financial Information Is Restricted to the Intended Users**

- Illustration 3: Practitioner's report for an engagement to compile financial statements using the basis of accounting specified in a contract.
- Illustration 4: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by the management of an entity for financial information required for management's own purposes.
- Illustration 5: Practitioner's report for an engagement to compile financial information that is an element, account or item, being [*insert appropriate reference to information required for a regulatory compliance purpose*].

**Illustration 1: Practitioner’s report for an engagement to compile financial statements using a general purpose financial reporting framework.**

- **General purpose financial statements required under applicable law that specifies that the entity’s financial statements are to be prepared applying International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs).**

## PRACTITIONER’S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements comprise the statement of financial position of ABC Company as at December 31, 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs). We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with IFRS for SMEs.

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]

**Illustration 2: Practitioner’s report for an engagement to compile financial statements using a modified general purpose financial reporting framework.**

- **Financial statements prepared using a general purpose financial reporting framework adopted by management on a modified basis.**
- **The applicable financial reporting framework is International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs) excluding the treatment of property, which has been revalued rather than being carried at historical cost.**
- **Use or distribution of the financial statements is not restricted.**

## **PRACTITIONER’S COMPILATION REPORT**

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements comprise the statement of financial position of ABC Company as at December 31, 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements on the basis of accounting described in Note X to the financial statements. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with the basis of accounting described in Note X.

As stated in Note X, the financial statements are prepared and presented in accordance with International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs), excluding property which is revalued in the financial statements rather than being carried at historical cost. The financial statements are

prepared for the purpose described in Note Y to the financial statements. Accordingly, these financial statements may not be suitable for other purposes.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

**Illustration 3: Practitioner’s report for an engagement to compile financial statements using the basis of accounting specified in a contract.**

- **Financial statements prepared to comply with the provisions of a contract, applying the basis of accounting specified in the contract.**
- **The practitioner is engaged by a party other than management or those charged with governance of the entity.**
- **The financial statements are intended for use only by the parties specified in the contract.**
- **Distribution and use of the practitioner’s report is restricted to the intended users of the financial statements specified in the contract.**

## **PRACTITIONER’S COMPILATION REPORT**

[To the Engaging Party<sup>1</sup>]

We have compiled the accompanying financial statements of ABC Company (“the Company”) based on information provided by the management of the Company (“management”). These financial statements comprise *[name all the elements of the financial statements prepared under the basis of accounting specified in the Contract and the period/date to which they relate]*.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist management in the preparation and presentation of these financial statements on the basis of accounting described in Note X to the financial statements. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are management’s responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information provided to us by management to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with the basis of accounting described in Note X.

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<sup>1</sup> Alternatively, the appropriate addressee specified in the relevant contract

As stated in Note X, the financial statements are prepared and presented on the basis described in Clause Z of the provisions of the Company’s contract with XYZ Limited dated *[insert date of the relevant contract/agreement]* (“the Contract”), and for the purpose described in Note Y to the financial statements. Accordingly, these financial statements are intended for use only by the parties specified in the Contract, and may not be suitable for other purposes.

Our compilation report is intended solely for the parties specified in the Contract, and should not be distributed to other parties.

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]



**Illustration 4: Practitioner’s report for an engagement to compile financial statements using a basis of accounting selected by management of an entity for financial information required for management’s own purposes.**

- **Financial statements prepared using a special purpose financial reporting framework, intended for use only by the management of a company for management’s own purposes.**
- **The financial statements incorporate certain accruals, and comprise only a balance sheet, an income statement, and a single note that refers to the basis of accounting used for the financial statements.**
- **The financial statements are intended for use only by management.**
- **Distribution and use of the practitioner’s report is restricted to management.**

## **PRACTITIONER’S COMPILATION REPORT**

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements comprise the balance sheet of ABC Company as at December 31, 20X1 and an income statement for the year then ended.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements on the basis of accounting described in Note X to the financial statements. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with the basis of accounting described in Note X.

Note X states the basis on which these financial statements are prepared, and their purpose is described in Note Y. Accordingly, these financial statements are for your use only, and may not be suitable for other purposes.



## COMPILATION ENGAGEMENTS

Our compilation report is intended solely for your use in your capacity as management of ABC Company, and should not be distributed to other parties.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

**Illustration 5: Practitioner’s report for an engagement to compile financial information that is an element, account or item, being *[insert appropriate reference to information required for a regulatory compliance purpose]*.**

- **Financial information prepared for a special purpose, i.e., to comply with financial reporting requirements established by a regulator, in accordance with provisions established by the regulator prescribing the form and content of the financial information.**
- **The applicable financial reporting framework is a compliance framework.**
- **The financial information is intended to meet the needs of particular users, and use of the financial information is restricted to those users.**
- **Distribution of the practitioner’s report is restricted to the intended users.**

## PRACTITIONER’S COMPILATION REPORT

[To the Management of ABC Company<sup>2</sup>]

We have compiled the accompanying schedule of *[identify the compiled financial information]* of ABC Company as at December 31, 20X1 (“the Schedule”) based on information you have provided.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of the Schedule as prescribed by *[insert name of or reference to the relevant regulation]*. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

This Schedule and the accuracy and completeness of the information used to compile it are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile the Schedule. Accordingly, we do not express an audit opinion or a review conclusion on whether the Schedule is prepared in accordance with *[insert name of or reference to applicable financial reporting framework as specified in the relevant regulation]*.

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<sup>2</sup> Alternatively, the appropriate addressee specified in the applicable financial reporting requirements

As stated in Note X, the Schedule is prepared and presented on the basis prescribed by [*insert name of or reference to the applicable financial reporting framework as specified in the relevant regulation*], for the purpose of ABC Company's compliance with [*insert name of or reference to the relevant regulation*] Accordingly, the Schedule is for use only in connection with that purpose and may not be suitable for any other purpose.

Our compilation report is intended solely for the use of ABC Company and Regulator F, and should not be distributed to parties other than ABC Company or Regulator F.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

**INTERNATIONAL STANDARD ON RELATED SERVICES  
4400 (REVISED)**

**AGREED-UPON PROCEDURES ENGAGEMENTS**

(Effective for agreed-upon procedures engagements for which the terms of  
engagement are agreed on or after January 1, 2022)

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International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*, should be read in the context of the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

The grey shaded materials are adapted from ISRS 4410 (Revised), *Compilation Engagements*, and relate to International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*.

## Introduction

### Scope of this ISRS

1. This International Standard on Related Services (ISRS) deals with:
  - (a) The practitioner's responsibilities when engaged to perform an agreed-upon procedures engagement; and
  - (b) The form and content of the agreed-upon procedures report.
2. This ISRS applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

### *Relationship with ISQC 1<sup>1</sup>*

3. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's agreed-upon procedures engagements. The provisions of this ISRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)

### The Agreed-Upon Procedures Engagement

4. In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.
5. The value of an agreed-upon procedures engagement performed in accordance with this ISRS results from:
  - (a) The practitioner's compliance with professional standards, including relevant ethical requirements; and
  - (b) Clear communication of the procedures performed and the related findings.
6. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

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<sup>1</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

### Authority of this ISRS

7. This ISRS contains the objectives of the practitioner in following the ISRS, which provide the context in which the requirements of this ISRS are set. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an agreed-upon procedures engagement.
8. This ISRS contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ISRS.
10. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRS that assists in the application of the requirements.

### Effective Date

11. This ISRS is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. (Ref: Para. A9)

### Objectives

12. The practitioner’s objectives in an agreed-upon procedures engagement under this ISRS are to:
  - (a) Agree with the engaging party the procedures to be performed;
  - (b) Perform the agreed-upon procedures; and
  - (c) Communicate the procedures performed and the related findings in accordance with the requirements of this ISRS.

### Definitions

13. For purposes of this ISRS, the following terms have the meanings attributed below:
  - (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)
  - (b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)

- (c) Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the agreed-upon procedures report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engaging party – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A11)
- (e) Engagement team – All partners and staff performing the agreed-upon procedures engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner’s external expert engaged by the firm or a network firm.
- (f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ISRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)
- (g) Intended users – The individual(s) or organization(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed. (Ref: Para. A10)
- (h) Practitioner – The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ISRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used.
- (i) Practitioner’s expert – An individual or organization possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner’s responsibilities for the agreed-upon procedures engagement. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm) or a practitioner’s external expert.
- (j) Professional judgment - The application of relevant training, knowledge and experience, within the context provided by this ISRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.
- (k) Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking agreed-upon procedures engagements. These requirements ordinarily comprise the International



Ethics Standards Board for Accountants’ (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards* (IESBA Code) together with national requirements that are more restrictive.

- (l) Responsible party - The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

## Requirements

### Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ISRS

- 14. The practitioner shall have an understanding of the entire text of this ISRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

- 15. The practitioner shall comply with each requirement of this ISRS unless a particular requirement is not relevant to the agreed-upon procedures engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement.
- 16. The practitioner shall not represent compliance with this ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the agreed-upon procedures engagement.

### Relevant Ethical Requirements

- 17. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A14–A20)

### Professional Judgment

- 18. The practitioner shall exercise professional judgment in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A21–A23)

### Engagement Level Quality Control

- 19. The engagement partner shall take responsibility for:
  - (a) The overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner’s expert; and (Ref: Para. A24)
  - (b) The engagement being performed in accordance with the firm’s quality control policies and procedures by:

- (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
- (ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon procedures engagement;
- (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)
- (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
- (v) Taking responsibility for appropriate engagement documentation being maintained.

20. If the work of a practitioner's expert is to be used, the engagement partner shall be satisfied that the practitioner will be able to be involved in the work of a practitioner's expert to an extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report. (Ref: Para. A27)

### **Engagement Acceptance and Continuance**

21. Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)
22. The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A28–A31)
- (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
  - (b) The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
  - (c) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; (Ref: Para. A32–A36)

- (d) The practitioner has no reason to believe that relevant ethical requirements will not be complied with; and
  - (e) If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with. (Ref: Para. A37–A38)
23. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.

### **Agreeing the Terms of the Engagement**

24. The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following: (Ref: Para. A39–A40)
- (a) Identification of the subject matter(s) on which the agreed-upon procedures will be performed;
  - (b) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
  - (c) If applicable, the responsible party as identified by the engaging party, and a statement that the agreed-upon procedures engagement is performed on the basis that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
  - (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;
  - (e) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A37–A38)
  - (f) The nature of the agreed-upon procedures engagement, including statements that:
    - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
    - (ii) Findings are the factual results of the agreed-upon procedures performed; and

- (iii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
  - (g) Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
  - (h) Identification of the addressee of the agreed-upon procedures report;
  - (i) The nature, timing and extent of the procedures to be performed, described in terms that are clear, not misleading and not subject to varying interpretations; and (Ref: Para. A41–A42)
  - (j) Reference to the expected form and content of the agreed-upon procedures report.
25. If the agreed-upon procedures are modified during the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A43)

*Recurring Agreed-Upon Procedures Engagements*

26. On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)

**Performing the Agreed-Upon Procedures**

27. The practitioner shall perform the procedures as agreed upon in the terms of the engagement.
28. The practitioner shall consider whether to request written representations. (Ref: Para. A45)

**Using the Work of a Practitioner’s Expert**

29. If the practitioner uses the work of a practitioner’s expert, the practitioner shall: (Ref: Para. A46–A47, 50)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner’s expert;
  - (b) Agree with the practitioner’s expert on the nature, scope and objectives of that expert’s work; (Ref: Para. A48–A49)
  - (c) Determine whether the nature, timing and extent of the work performed by the practitioner’s expert is consistent with the work agreed with the expert; and

- (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

### **The Agreed-Upon Procedures Report**

30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)
- (a) A title that clearly indicates that the report is an agreed-upon procedures report;
  - (b) An addressee as set forth in the terms of the engagement;
  - (c) Identification of the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A52)
  - (d) Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; (Ref: Para. A53–A54)
  - (e) A description of an agreed-upon procedures engagement stating that:
    - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
    - (ii) Findings are the factual results of the agreed-upon procedures performed; and
    - (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
  - (f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
  - (g) A statement that the engagement was performed in accordance with ISRS 4400 (Revised);
  - (h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;
  - (i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
  - (j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;

- (k) A statement that the practitioner complies with the ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;
  - (l) With respect to independence:
    - (i) If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or
    - (ii) If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;
  - (m) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1;
  - (n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement; (Ref: Para. A55–A57)
  - (o) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A55–A56)
  - (p) The practitioner’s signature;
  - (q) The date of the agreed-upon procedures report; and
  - (r) The location in the jurisdiction where the practitioner practices.
31. If the practitioner refers to the work performed by a practitioner’s expert in the agreed-upon procedures report, the wording of the report shall not imply that the practitioner’s responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert. (Ref: Para. A58)
32. If the practitioner provides a summary of findings in the agreed-upon procedures report in addition to the description of findings as required by paragraph 30(o):
- (a) The summary of findings shall be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and

- (b) The agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.
33. The practitioner shall date the agreed-upon procedures report no earlier than the date on which the practitioner completed the agreed-upon procedures and determined the findings in accordance with this ISRS.

**Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement**

34. The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A59)

**Documentation**

35. The practitioner shall include in the engagement documentation: (Ref: Para. A60)
- (a) The written terms of engagement and, if applicable, the agreement of the engaging party as to modifications to the procedures;
  - (b) The nature, timing and extent of the agreed-upon procedures performed; and
  - (c) The findings resulting from the agreed-upon procedures performed.

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**Application and Other Explanatory Material**

**Scope of this ISRS (Ref: Para. 2)**

- A1. Reference to “subject matters” in this ISRS encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.
- A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:
  - Financial subject matters relating to:
    - The entity’s financial statements or specific classes of transactions, account balances or disclosures within the financial statements.
    - Eligibility of expenditures claimed from a funding program.
    - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
    - Capital adequacy ratios for regulatory authorities.



- Non-financial subject matters relating to:
  - Numbers of passengers reported to a civil aviation authority.
  - Observation of destruction of fake or defective goods reported to a regulatory authority.
  - Data generating processes for lottery draws reported to a regulatory authority.
  - Volume of greenhouse gas emissions reported to a regulatory authority.

The above list is not exhaustive. Additional types of subject matters may arise as external reporting demands evolve.

*Relationship with ISQC 1 (Ref: Para. 3)*

A3. ISQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for related services engagements, including agreed-upon procedures engagements. Those responsibilities are directed at establishing:

- The firm’s quality control system; and
- The firm’s related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.

A4. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>2</sup>

A5. A jurisdiction that has not adopted ISQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ISQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ISQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;

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<sup>2</sup> ISQC 1, paragraph 11



- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

A6. Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

A7. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm’s system of quality control. For example, the engagement team may rely on the firm’s system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm’s system of quality control that may affect the agreed-upon procedures engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that agreed-upon procedures engagement.

A8. A deficiency in the firm’s system of quality control does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.

**Effective Date (Ref: Para. 11)**

A9. For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement so that the agreed-upon procedures engagements will be conducted in accordance with this ISRS on or after the effective date.

**Definitions**

*Engaging Party and Other Intended Users* (Ref: Para. 13(a), 13(b), 13(d), 13(g), 24(f)(i), 24(g), 30(e)(i), 30(e)(iii))

A10. In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.



A11. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ISRS include multiple engaging parties when relevant.

*Findings (Ref: Para. 13(f))*

A12. Findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results. Findings exclude the expression of an opinion or a conclusion as well as any recommendations that the practitioner may make.

A13. Practitioners may use the term “factual findings” in place of “findings”, for example, in cases when the practitioner is concerned that the term “findings” may be misunderstood. This may be the case in jurisdictions or languages where the term “findings” may be understood as including results that are not factual.

**Relevant Ethical Requirements (Ref: Para. 17)**

*Objectivity and Independence*

A14. A practitioner performing an agreed-upon procedures engagement is required to comply with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the IESBA Code, together with national requirements that are more restrictive. The IESBA Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.

A15. The IESBA Code does not contain independence requirements for agreed-upon procedures engagements. However, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

*Non-Compliance with Laws and Regulations<sup>3</sup>*

A16. Law, regulation or relevant ethical requirements may:

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>4</sup>

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<sup>3</sup> Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of the IESBA Code.

<sup>4</sup> See, for example, paragraphs R360.36 to 360.36A3 of the IESBA Code.

- A17. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
  - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
  - (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.
- A18. The practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the agreed-upon procedures engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A19. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>5</sup>
- A20. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>6</sup>

**Professional Judgment (Ref: Para. 18)**

- A21. Professional judgment is exercised in applying the requirements of this ISRS and relevant ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.
- A22. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgment is exercised, for example, in:

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<sup>5</sup> See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the IESBA Code.

<sup>6</sup> See, for example, paragraph 360.39 A1 of the IESBA Code.

### Accepting the engagement

- Discussing and agreeing with the engaging party (and if relevant, other parties) the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement).
- Determining whether engagement acceptance and continuance conditions have been met.
- Determining the resources necessary to carry out the procedures as agreed in the terms of the engagement, including the need to involve a practitioner's expert.
- Determining appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.

### Conducting the engagement

- Determining appropriate actions or responses if, when performing the agreed-upon procedures, the practitioner becomes aware of:
  - Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations.
  - Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement or that indicate that the information may be misleading.
  - Procedures that cannot be performed as agreed.

### Reporting on the engagement

- Describing the findings in an objective manner and in sufficient detail, including when exceptions are found.

A23. In conducting the agreed-upon procedures engagement, the need for the practitioner to exercise professional judgment when performing the agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.
- The agreed-upon procedures and the findings that result from performing those procedures are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

- The findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results.

**Engagement Level Quality Control (Ref: Para. 19–20)**

A24. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasize the importance to achieving the quality of the engagement of:

- Performing work that complies with professional standards and regulatory and legal requirements;
- Complying with the firm’s quality control policies and procedures as applicable; and
- Issuing the practitioner’s report for the engagement in accordance with this ISRS.

A25. ISQC 1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management’s integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

A26. ISQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ISRS sets out the engagement partner’s responsibilities with respect to the engagement team’s compliance with relevant ethical requirements.

A27. If the practitioner is unable to meet the requirement in paragraph 20, it may be appropriate for the practitioner to agree with the engaging party to limit the scope of the agreed-upon procedures engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage an expert to perform the other procedures.

**Engagement Acceptance and Continuance (Ref: Para. 21–23)**

A28. In obtaining an understanding of the purpose of the agreed-upon procedures engagement, the practitioner may become aware of indications that the procedures the practitioner is asked to perform are inappropriate for the purpose



of the agreed-upon procedures engagement. For example, the practitioner may be aware of facts or circumstances that indicate:

- The procedures are selected in a manner intended to bias the intended users' decision-making.
- The subject matter on which the agreed-upon procedures are performed is unreliable.
- An assurance engagement or advisory service may better serve the needs of the engaging party or other intended users.

A29. Other actions that may satisfy the practitioner that the conditions in paragraphs 21 and 22 are met include:

- Comparing the procedures to be performed with written requirements set out, for example, in law or regulation, or in a contractual agreement (sometimes referred to as the "Terms of Reference"), where appropriate.
- Requesting the engaging party to:
  - Distribute a copy of the anticipated procedures and the form and content of the agreed-upon procedures report as set out in the terms of engagement to the intended user(s).
  - Obtain acknowledgement from the intended user(s) of the procedures to be performed.
  - Discuss the procedures to be performed with appropriate representatives of the intended user(s).
- Reading correspondence between the engaging party and other intended user(s) if the engaging party is not the only intended user.

A30. If the conditions in paragraphs 21 and 22 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party or other intended users. In such circumstances, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.

A31. All the conditions in paragraphs 21 and 22 also apply to procedures that have been added or modified during the course of the engagement.

*Descriptions of Agreed-Upon Procedures and Findings (Ref: Para. 22(c))*

A32. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some circumstances, law or regulation may also prescribe the way the procedures or findings are to be described in the agreed-upon procedures report. As set out in paragraph 22(c), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings

can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

A33. Agreed-upon procedures are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that they are described at a level of specificity sufficient for an intended user to understand the nature and extent and if applicable, the timing, of the procedures performed. It is important to recognize that any term could potentially be used in an unclear or misleading manner, depending on context or the absence thereof. Assuming that the terms are appropriate in the context in which they are used, examples of descriptions of actions that may be acceptable include:

- Confirm.
- Compare.
- Agree.
- Trace.
- Inspect.
- Inquire.
- Recalculate.
- Observe.

A34. Terms that may be unclear, misleading, or subject to varying interpretations depending on the context in which they are used, may include, for example:

- Terms that are associated with assurance under the IAASB’s Standards such as “present fairly” or “true and fair,” “audit,” “review,” “assurance,” “opinion,” or “conclusion.”
- Terms that imply expression of an assurance opinion or conclusion such as “we certify,” “we verify,” “we have ascertained” or “we have ensured” with regard to the findings.
- Unclear or vague phrases such as “we obtained all the explanations and performed such procedures as we considered necessary.”
- Terms that are subject to varying interpretations such as “material” or “significant.”
- Imprecise descriptions of procedures such as “discuss,” “evaluate,” “test,” “analyze” or “examine” without specifying the nature and extent, and if applicable, the timing, of the procedures to be performed. For example, using the word “discuss” may be imprecise without specifying with whom the discussion is held or the specific questions asked.
- Terms that suggest that the findings do not reflect factual results such as “in our view,” “from our perspective” or “we take the position that.”

A35. For example, a procedure such as “review cost allocations to determine if they are reasonable” is unlikely to meet the condition for terms to be clear, not misleading, or not subject to varying interpretations because:

- The term “review” may be misinterpreted by some users to mean that the cost allocation was the subject of a limited assurance engagement even though no such assurance is intended by the procedure.
- The term “reasonable” is subject to varying interpretations as to what constitutes “reasonable.”

A36. In circumstances when law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 22(c) by, for example, requesting the engaging party to:

- Modify the procedure or the description of the procedure so that it is no longer unclear, misleading, or subject to varying interpretations.
- If a term that is unclear, misleading or subject to varying interpretations cannot be amended, for example because of law or regulation, include a definition of the term in the agreed-upon procedures report.

*Compliance with Independence Requirements (Ref: Para. 22(e), 24(e))*

A37. Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering engagement acceptance and continuance or agreeing the terms of engagement, the practitioner’s knowledge of the following matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate for the purpose of the agreed-upon procedures engagement:

- The purpose of the agreed-upon procedures engagement;
- The identity of the engaging party, other intended users and responsible party (if different from the engaging party);
- The nature, timing and extent of the procedures to be performed; or
- Other engagements that the practitioner is performing or has performed for the engaging party, other intended users or the responsible party (if different from the engaging party).

A38. The practitioner may be the auditor of the financial statements of the engaging party (or responsible party if different from the engaging party). In such a



circumstance, if the practitioner is also engaged to conduct an agreed-upon procedures engagement, intended users of the agreed-upon procedures report may assume that the practitioner is independent for the purpose of the agreed-upon procedures engagement. Therefore, the practitioner may agree with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. In such a case, a statement that the practitioner is required to comply with such independence requirements is included in the terms of the engagement, in accordance with paragraph 24(e).

**Agreeing the Terms of the Engagement (Ref: Para. 24–25)**

- A39. When relevant, additional matters may be included in the engagement letter, for example:
- Arrangements concerning the involvement of a practitioner's expert in some aspects of the agreed-upon procedures engagement.
  - Any restrictions on the use or distribution of the agreed-upon procedures report.
- A40. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.
- A41. The practitioner may agree with the engaging party that the procedures to be performed will include quantitative thresholds for determining exceptions. If so, these quantitative thresholds are included in the descriptions of the procedures in the terms of the engagement.
- A42. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 24(i), the practitioner agrees the timing and extent of procedures to be performed with the engaging party so that the engaging party has a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement.
- A43. In some circumstances, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other circumstances, agreeing the terms of engagement and performing the agreed-upon procedures is an iterative process, with changes to the agreed-upon procedures being agreed as the engagement progresses in response to new information coming to light. If procedures that have been previously agreed upon need to be modified, paragraph 25 requires the practitioner to agree the amended terms of engagement with the engaging party. The amended terms of engagement may, for example, take the form of an updated engagement letter, an addendum to an existing engagement letter, or other form of written acknowledgement.



*Recurring Engagements* (Ref: Para. 26)

A44. The practitioner may decide not to send a new engagement letter or other written agreement for a recurring engagement. However, the following factors may indicate that it is appropriate to revise the terms of the engagement, or to remind the engaging party of the existing terms of the engagement:

- Any indication that the engaging party misunderstands the purpose of the agreed-upon procedures engagement or the nature, timing or extent of the agreed-upon procedures.
- Any revised or special terms of the engagement, including any changes in the previously agreed-upon procedures.
- A change in legal, regulatory or contractual requirements affecting the engagement.
- A change in management or those charged with governance of the engaging party.

**Performing the Agreed-Upon Procedures** (Ref: Para. 28)

A45. The practitioner may decide to request written representations in some circumstances, for example:

- If the agreed-upon procedures involve inquiries, the practitioner may request written representations on the responses that have been provided verbally.
- If the engaging party is not the responsible party, the practitioner may agree with the engaging party to include, as an agreed-upon procedure, requests for written representations from the responsible party.

**Using the Work of a Practitioner’s Expert** (Ref: Para. 29)

A46. Using the work of a practitioner’s expert may involve the use of an expert to assist the practitioner in:

- Discussing with the engaging party the agreed-upon procedures to be performed. For example, a lawyer may provide suggestions to the practitioner on the design of a procedure to address legal aspects of a contract; or
- Performing one or more of the agreed-upon procedure(s). For example, a chemist may perform one of the agreed-upon procedures such as determining the toxin levels in a sample of grains.

A47. A practitioner’s expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm’s system of quality control. The practitioner is entitled to rely on the firm’s system of quality control, unless information provided by the firm or other parties

suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ISRS.

A48. If the practitioner's expert is performing one or more of the agreed-upon procedure(s), the agreement of the nature, scope and objectives of that expert's work as required by paragraph 29(b) includes the nature, timing and extent of the procedure(s) to be performed by the practitioner's expert. In addition to the matters required by paragraph 29(b), it may be appropriate for the practitioner's agreement with the practitioner's expert to include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A49. The matters noted in paragraph A47 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and the practitioner's external expert is often in the form of an engagement letter.

A50. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 29 at the engagement acceptance or continuance stage.

### **The Agreed-Upon Procedures Report** (Ref: Para. 30–33)

A51. Appendix 2 contains illustrations of agreed-upon procedures reports.

*Subject Matter on which the Agreed-Upon Procedures Are Performed* (Ref: Para. 30(c))

A52. If applicable, to avoid misunderstanding, the practitioner may wish to clarify that the agreed-upon procedures report does not extend to information beyond

subject matters on which the agreed-upon procedures are performed. For example, if the practitioner was engaged to perform agreed-upon procedures on an entity's accounts receivable and inventory, the practitioner may wish to include a statement that the agreed-upon procedures report relates only to these accounts and does not extend to the entity's financial statements taken as a whole.

*Purpose of the Agreed-Upon Procedures Report* (Ref: Para. 30(d))

- A53. In addition to the statement required by paragraph 30(d), the practitioner may consider it appropriate to indicate that the agreed-upon procedures report is intended solely for the engaging party and the intended users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the agreed-upon procedures report. In some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures report but not its use.
- A54. Factors that the practitioner may consider in deciding whether to restrict the distribution or use of agreed-upon procedures report (if permitted to do so) include, for example whether:
- There is an elevated risk of users other than the intended users misunderstanding the purpose of the agreed-upon procedures engagement or misinterpreting the findings.
  - The agreed-upon procedures are designed solely for the use of internal users such as management and those charged with governance of the engaging party.
  - The agreed-upon procedures or findings involve confidential information.

*Agreed-Upon Procedures and Findings* (Ref: Para. 30(n)–30(o))

- A55. If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:
- Consulting internally (for example, within the firm or network firm);
  - Consulting externally (for example, with the relevant professional body or another practitioner); or
  - Obtaining legal advice,
- to understand the professional or legal implications of taking any particular course of action.
- A56. There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings.

For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.

- A57. The practitioner may refer to the date when the agreed-upon procedures were agreed in the terms of the engagement.

*Reference to Practitioner’s Expert* (Ref: Para. 31)

- A58. In some circumstances, law or regulation may require a reference, in the agreed-upon procedures report, to a practitioner’s expert who performed any of the agreed-upon procedures. For example, such a reference may be required for the purposes of transparency in the public sector. The practitioner may also consider it appropriate in other circumstances, for example, when referring to the practitioner’s expert when describing the agreed-upon procedures. Nonetheless, the practitioner has sole responsibility for the findings included in the agreed-upon procedures report, and that responsibility is not reduced by the use of the practitioner’s expert. It is important therefore that if the agreed-upon procedures report refers to the practitioner’s expert, the report does not imply that the practitioner’s responsibility is reduced because of the reference to the practitioner’s expert.

**Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement** (Ref: Para. 34)

- A59. A practitioner may be requested to perform other engagements together with the agreed-upon procedures engagement, such as providing recommendations arising from the agreed-upon procedures engagement. Such requests may take the form of one request for the practitioner to perform agreed-upon procedures and make recommendations, and the terms of the various engagements may be set out in a single engagement letter. To avoid misunderstanding, paragraph 34 requires that the agreed-upon procedures report be clearly distinguished from the reports of other engagements. For example, the recommendations may be:

- Provided in a separate document from the agreed-upon procedures report; or
- Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon procedures report and the recommendations in separate sections of the document.

**Documentation** (Ref: Para. 35)

- A60. Documentation of the nature, timing and extent of the agreed-upon procedures performed may include a record of, for example:



- The identifying characteristics of the subject matter(s) on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matter(s) on which the agreed-upon procedure is performed. For example:
  - For a procedure on purchase orders, the practitioner may identify the documents selected by their dates and unique purchase order numbers.
  - For a procedure requiring selection of all items over a specific amount from a given population, the practitioner may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register for a specific period, all timesheets for hours recorded over a certain number for specified months or every tenth item on a specific list).
  - For a procedure requiring inquiries of specific personnel, the practitioner may record the dates of the inquiries, the names and job designations of the personnel and the specific inquiries made.
  - For an observation procedure, the practitioner may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.
- Who performed the agreed-upon procedures and the date such procedures were performed.
- Who reviewed the agreed-upon procedures performed, and the date and extent of such review.

**Appendix 1**

(Ref: Para. A40)

**Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement**

The following is an example of an engagement letter for an agreed-upon procedures engagement that illustrates the relevant requirements and guidance contained in this ISRS. This letter is not authoritative and is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISRS. It will need to be adapted according to the requirements and circumstances of individual agreed-upon procedures engagements. It is drafted to refer to an agreed-upon procedures engagement for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ISRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement on the procurement of [xyz] products. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent.

An agreed-upon procedures engagement performed under ISRS 4400 (Revised) involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your procurement of [xyz] products is compliant with your procurement policies.<sup>1</sup> Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

We have agreed to perform the following procedures and report to you the findings resulting from our work:

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<sup>1</sup> In this case, the engaging party is also the intended user.

- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether each contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”
- For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the contractor and determine whether the amount ultimately paid is the same as the agreed amount in the contract.

The procedures are to be performed between [Date] and [Date].

#### Our Agreed-Upon Procedures Report

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report].

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm’s name]

Acknowledged and agreed on behalf of [Engaging party’s name] by:

[Signature]

[Name and Title]

[Date]



## Illustrations of Agreed-Upon Procedures Reports

### Illustration 1

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the addressee and the only intended user. The engaging party is not the responsible party. For example, the regulator is the engaging party and intended user, and the entity overseen by the regulator is the responsible party.
- No exceptions were found.
- The practitioner did not engage a practitioner’s expert to perform any of the agreed-upon procedures.
- There is no restriction on the use or distribution of the report.
- There are no independence requirements with which the practitioner is required to comply.
- A quantitative threshold of \$100 for reporting exceptions in Procedure 3 has been agreed with the engaging party.

## AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressee]

### Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting [Engaging Party] in determining whether its procurement of [xyz] products is compliant with its procurement policies and may not be suitable for another purpose.

### Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

### Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon*

*Procedures Engagements.* An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

*Professional Ethics and Quality Control*

We have complied with the ethical requirements in [describe the relevant ethical requirements]. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Procedures and Findings**

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the procurement of [xyz] products.

	<b>Procedures</b>	<b>Findings</b>
1	Obtain from management of [Responsible Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1].  Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]’s “Pre-qualified Contractors List.”	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]’s “Pre-qualified Contractors List.”

3	<p>For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Responsible Party] to the contractor and determine whether the amount ultimately paid is within \$100 of the agreed amount in the contract.</p>	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Responsible Party] to the contractor.</p> <p>We found that the amounts ultimately paid were within \$100 of the agreed amounts in all of the 37 contracts with no exceptions noted.</p>
---	--	--

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]



**Illustration 2**

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the responsible party. The intended user, who is different from the engaging party, is an addressee in addition to the engaging party. For example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.
- Exceptions were found.
- The practitioner engaged a practitioner’s expert to perform an agreed-upon procedure and a reference to that expert is included in the agreed-upon procedures report.
- There is a restriction on the use and distribution of the report.
- The practitioner is the auditor of the financial statements of the engaging party (who is the responsible party). The practitioner has agreed with the engaging party that the practitioner’s compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

**AGREED-UPON PROCEDURES REPORT ON  
PROCUREMENT OF [XYZ] PRODUCTS**

To [Addressees]

**Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution**

Our report is solely for the purpose of assisting [Intended User] in determining whether the [Engaging Party]’s procurement of [xyz] products is compliant with [Intended User]’s procurement policies and may not be suitable for another purpose. This report is intended solely for [Engaging Party] and [Intended Users], and should not be used by, or distributed to, any other parties.

**Responsibilities of the Engaging Party**

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Engaging Party (also the Responsible Party)] is responsible for the subject matter on which the agreed-upon procedures are performed.

## Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

### *Professional Ethics and Quality Control*

We have complied with the ethical requirements in [describe the relevant ethical requirements] and the independence requirements in accordance with [describe the relevant independence requirements].<sup>1</sup>

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party] in the terms of engagement dated [DATE], on the procurement of [xyz] products.

	<b>Procedures</b>	<b>Findings</b>
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	<p>We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1].</p> <p>Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.</p>

<sup>1</sup> For example, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: “We have complied with the ethical requirements of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code.”

<p>2</p>	<p>For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.” For records of bidding that were submitted in [foreign language], translate the records of bidding with the assistance of a translator engaged by the practitioner before performing the comparison.</p>	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. Of the records of bidding related to the 37 contracts, 5 were submitted in [foreign language]. We engaged a translator to assist us in the translation of these 5 records of bidding.</p> <p>We found that 36 of the 37 contracts were subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”</p> <p>We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.</p> <p>The engagement of the translator to assist us in the translation of the records of bidding does not reduce our responsibility for performing the procedures and reporting the findings.</p>
<p>3</p>	<p>For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the supplier and determine whether the amount ultimately paid is the same as the agreed amount in the contract.</p>	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Engaging Party] to the supplier.</p> <p>We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X1.</p>

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]

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