

29 March 2017

The Chairman
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York 10017
United States of America

Submission via IAASB website

Dear Professor Schilder

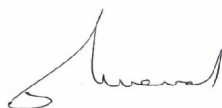
Submission on discussion paper: Exploring the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's International Standards

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to comment on the discussion paper. There is a growing demand for agreed upon procedures ("AUPs") and multi-scope reports in Australia and New Zealand, especially from regulated industries. In Australia, the Auditing and Assurance Standards Board (AUASB) revised ASRS 4400 (local equivalent) in 2013, which our members find works well in practice. In its development, the AUASB considered many of the issues raised in the discussion paper. We therefore encourage the IAASB to leverage off this existing work and the experience of the AUASB and Australian practitioners.

Small and medium practices ("SMPs") may be typically affected. While the public interest is imperative, the suitability of ISRS 4400 for SMPs will greatly enhance the value of AUPs to the public. Such value considerations include restrictions that independence requirements impose on SMPs providing a range of services to clients, and simplifying the language in a report on factual findings ("AUP report") so that users better understand its meaning.

Our responses to the specific questions raised in the discussion paper are set out in Appendix A. Appendix B-E contain supplementary information to our responses and Appendix F includes more information about CA ANZ. Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Liz Stamford (Audit and Insolvency Leader) via email at liz.stamford@charteredaccountantsanz.com or phone 02 8078 5426.

Yours sincerely



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Question 1

Results from the Working Group’s outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?

There are three different contexts of professional judgment, prompted mainly by the requirement to meet the fundamental principles of objectivity and professional competence and due care. Professional judgment is not only exercised when applying the Standards.¹ The three parallel definitions of professional judgment refer to the Standards and two other types of standards: standards of criteria and standards of ethics.² While carrying out an engagement, the practitioner exercises professional judgment in context of:

- The Standards;
- Criteria;
- Ethics – to display objectivity (and other fundamental principles, but using judgment to a lesser extent).

The Standards

According to the Assurance Framework,³ professional judgment must be exercised throughout an assurance engagement.⁴ The Assurance Standards⁵ reiterate this.⁶ This is also true with non-assurance engagements, such as a compilation engagement.⁷ Currently, only ISRS 4400 remains silent on professional judgment.

The Standards deal with professional judgment in many circumstances which are set out in **Appendix B, Table 1**. As indicated, most of them are irrelevant to an AUP engagement. Activities such as designing procedures for a specific purpose, sampling method decisions, sample design and the application of criteria are interrelated with, and depend on, assurance activities which are not performed in an AUP engagement.⁸

Other than those circumstances specifically mentioned in Standards, professional judgment may also be implied – for example, when deciding to take on an engagement⁹ or when wording a modified report. While the Standards mention *judgment* and *professional judgment* only about 600 times, other words which may also imply professional judgment – like *may*, *might*, *consider* or *consideration*, *believe*, *appropriate action*, *satisfied*, *some cases*, *sometimes*, *could* and *circumstances* – occur over 8000 times in the Standards. In context, these words often point to uncertainties requiring professional judgment. In contrast, words of certainty like *must*, *shall* and *should* occur roughly only 1500 times in the Standards.

¹ The IAASB’s International Standards.

² The Glossary cite three definitions.

³ The *International framework for assurance engagements*.

⁴ Assurance Framework par. 60.

⁵ ISAs, ISREs and ISAEs.

⁶ ISA 200 par. A29. See also the ‘responsibilities of the auditor’ section in ISA 210 Appendix 1, and ISAE 3000 par. 37-39 and A85.

⁷ ISRS 4410 par. 22.

⁸ Such as risk assessment and responses, and evaluation of sufficiency of appropriate evidence – see Australian Standard on Related Services ASRS 4400 *Agreed-upon procedures engagements to report factual findings* (ASRS 4400) par. 8. For instance, designing procedures for a client’s specific purpose without sufficient knowledge and information gathering with a proper risk assessment creates a threat against the fundamental principle of professional competence and due care.

⁹ ASRS 4400 par. 21 cites professional judgment when deciding to take on the AUP engagement, but other Standards do not.

Therefore, professional judgment when carrying out work in accordance with the Standards has a pervasive role, but a minor one at best in an AUP engagement.

Criteria

As with the technical nature of the Standards, criteria is often complex, requiring training, skill, insight to apply¹⁰ – either when assisting with compiling subject matter information or providing assurance on it.¹¹ The two tables in **Appendix C** list circumstances described in the Standards which require professional judgment when applying criteria (**Table 2**) and the effects of criteria-related judgment on an assurance engagement (**Table 3**).

When subject matter information is compiled, it involves collation of information and interpretation of criteria.¹² The outcome is therefore not factual, even though evaluation or measurement may be reasonably consistent. It is against the fundamental principle of integrity to hold out subjective subject matter information as facts.¹³ Likewise, when assurance is provided on subject matter information, conclusions are drawn on untested items contained in underlying subject matter, interpretations of criteria, and estimates contained in the subject matter information. Such conclusions are not factual findings either. Consequently, applying criteria – including exercising professional judgment when doing so – has no role in an AUP engagement.

Ethics

The professional accountant must also follow ethics standards when carrying out an engagement.¹⁴ This requires professional judgment because they are principles-based and complex in certain areas, requiring knowledge, skill and experience for each unique circumstance. **Table 4** in **Appendix D** lists instances requiring professional judgment (on ethics) described in the Code.¹⁵

Though ethics-related professional judgment plays a role in an AUP engagement, the guidance is provided in the Code and not in the Standards. Therefore, the revised ISRS 4400 should not necessarily make mention of it, except perhaps a general precondition to comply with ethics requirements,¹⁶ which is already contained in the current Standard.¹⁷

Conclusion

Professional judgment is not a requirement – it is the inevitable, called upon when facts or clear guidance are unobtainable.¹⁸ Although mostly tacit, some circumstances are *described* in standards where exercising professional judgment is unavoidable.¹⁹ Prohibitions²⁰ and actions²¹ are also *prescribed* regarding professional judgment, as it is not to be used as a panacea for fact finding failures. It would be useful to know whether the Working Group has learned of AUP engagement situations where:

- Practitioners were unaware that they could exercise professional judgment when faced with the absence of facts and the alternative actions they took instead (eg withdrawing from the engagement);

¹⁰ Assurance Framework par. 56, ISA 210 par. A2, ISAE 3000 par. A102, and ISAE 3410 par. A18.

¹¹ ISA 240 par. A45, ISA 260 par. A19, ISAE 3400 par. 3, ISRS 4410 par. 22 and A22-A24.

¹² See also ISAE 3000 par. A10.

¹³ The Code par. 110.2.

¹⁴ ISA 200 par. A17 and ISQC1 par. 11(a), 29(a), 31, 32, 49(a), 52, 55, A4, A31, A35, A64, A65 and A74, and ISA 220 par. 2, 6, 14, 15, A3, A11, A17 and A35.

¹⁵ The IESBA's *Code of ethics for professional accountants*.

¹⁶ As required by ISA 200 par. 14.

¹⁷ ISRS 4400 par. 7.

¹⁸ Also explained in Appendix 1 of ISA 240. For example, an inactive market – see IAPN 1000 par. 127.

¹⁹ Tables 1–4 in Appendices B–D list those and the effects of exercising professional judgment.

²⁰ See Appendix E – Table 5.

²¹ Appendix E – Table 6.

- Professional judgment was inappropriately exercised, either –
 - As a substitute for facts or evidence where those were possible to obtain or unsupported by any, or
 - Where professional judgment was contradicted by known facts or evidence; or
- Professional judgment was not properly consulted on, documented or reviewed.

Such information may shed light on specific standard-setting gaps, if any, pertaining to the role of professional judgment in AUP engagements. Our view remains that professional judgment has little or no role in an AUP engagement.

Question 2

Should the revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

There is not much need for the revised ISRS 4400 to either describe or prescribe matters regarding professional judgment.²² On the other hand, introducing professional judgment into AUP engagements will only exacerbate expectation gap issues. It is therefore our view that the types of procedures performed in an AUP engagement do not require the exercise of professional judgement as that is not the nature of the engagement.

Question 3

What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

Practitioners should not be restricted with independence requirements unless if required by users. Though AUPs should be performed with objectivity, it does not necessarily require independence concomitant of restrictions. Independence of mind plays a minor role when reporting objective facts with little or no professional judgment involved. Independence of appearance is also less important if the AUP report is restricted, as it should be – it is not a general purpose report.

The current ISRS 4400 requires practitioners to disclose in the AUP report when they are not independent,²³ but the Code does not have independence guidance for AUPs.

Question 4

What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

We welcome such prohibition. The Code requires professional accountants not to be associated with unclear or misleading reports.²⁴ The current ISRS 4400 already provides a helpful non-exhaustive list of appropriate terms.²⁵ We suggest principled guidance as to what kinds of procedures are appropriate for an AUP engagement, with related application guidance containing non-exhaustive lists of both recommended and prohibited terms in the AUP report to better explain those procedures.

This guidance should be supported by further clarifying the scope of ISRS 4400, for instance by stating carve-outs. This may address the root cause of the use of inappropriate terminology. Scoped-out engagements should

²² Following our discussion in Question 1 with reference to Appendices B-D (Tables 1-4), also see ASRS 4400 par. 21 and 25.

²³ ISRS 4400 par. 18(f).

²⁴ The Code par. 110.2.

²⁵ ISRS 4400 par. 16 and Appendix 2.

include any services requiring subjective views and judgment, and practitioners should be reminded that ISRS 4400 is not to be used for all non-assurance engagements other than compilations.²⁶ Likewise, users seeking assurance should be offered assurance engagements and AUPs should be kept for engagements where reporting of facts meets the needs of the clients.

We agree that terms such as “review” and “reasonable” should be prohibited – not because they imply assurance, but rather because they suggest a subjective view instead of a fact. Other terms such as “analysis”²⁷ and “checked”²⁸ are also problematic. These are accountants’ terms for recalculating and comparing, but may imply assurance if used in undefined or colloquial terms.

Cited sources are also often vague, eg “we obtained supplier statements” or “requested confirmation” without specifying where those were obtained from, or “schedule of major customers” without testing (that they are) or defining what qualifies as “major.”

Question 5

What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

AUPs are not subjective measurement, evaluation or conclusion on subject matter information such as financial or non-financial information, which is why suitable criteria, assurance objectives and management assertions are irrelevant. ISRS 4400 should therefore not have to distinguish between financial and non-financial information when practitioners report pure facts only. The precondition for a suitable criteria “on which to base findings” on non-financial subject matter information²⁹ should be removed.

Question 6

Are there any other matters that should be considered if the scope is clarified to include non-financial information?

Regardless of our views in our response to **Question 5**, please consider the following matters:

- Given the latest Standard developments, we assume terms used in both ISRS 4400 and other Standards will be reviewed for ambiguity. Similarly, overlapping terms should be used with circumspect if referring to both financial and non-financial information in ISRS 4000. No other Standard yet deals with both, which is perhaps a commentary on **Question 5**.
- If ISRS 4400 is to include independence requirements (which we do not support): section 290 of the Code relate to financial information and section 291 to non-financial information, though neither relate to non-assurance engagements.
- If ISRS 4400 is to include the use of an expert (which we also do not support): We noted that paragraphs 32-34 of the discussion paper deal only with experts in the audit of financial information, not when experts are used when dealing with non-financial information. Experts used during an audit or review of financial information are external consultants whose areas of specialisation are outside the fields of accounting and auditing, where experts within these fields form part of the engagement team.³⁰ In assurance engagements on non-financial information, multi-disciplinary teams are used and the

²⁶ The underlying message of ASRS 4400 par. 5, and ISAE 3000 par. 6(c), 8 and A1 should be reiterated, ie that practitioners sometimes perform engagements which do not fall within the ambit of any of the Standards (except ISQC 1).

²⁷ ISRS 4400 par. 16.

²⁸ ISRS 4400 Appendix 2.

²⁹ ISRS 4400 par. 2.

³⁰ IAPN 1000 par. 14.

expert can be internal or external.³¹ When external, the procedures listed in paragraph 34 are performed and when internal, the experts in the multi-disciplinary engagement team must comply with the firm's policies under ISQC1.

Question 7

Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

We do not agree with the Working Group's views that ISRS 4400 should be enhanced for the use of experts in AUP engagements. Factual findings are observed facts of lay observation.³² They are not scientific facts requiring specialised subject matter-specific expertise or expert judgment, opinions, conclusions or views. An expert would not be needed. ISA 620 states that an expert may be needed to:

- Obtain an understanding of the entity, its environment and internal control;
- Identify risks of misstatement;
- Determine responses to risks;
- Design and perform audit procedures;
- Evaluate the sufficiency and appropriateness of audit evidence obtained.³³

Except for performing certain "audit" procedures, these are inappropriate for an AUP engagement. The performance of procedures by an expert is needed only when there are complexities³⁴ necessitating expert judgment³⁵ and conclusions,³⁶ often with assumptions as well.³⁷ The results of an expert's work is not factual, which is why the auditor performs corroborative procedures on the results of an expert's work, such as analytical procedures, which also do not result in factual findings either.³⁸ The practitioner's expert may help the practitioner understand the underlying subject matter information to be able to conclude,³⁹ which is also not relevant to an AUP engagement.

Question 8

What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report? We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.

- The AUP report should use simple language that is easily understandable. This will add value to AUP engagements.
- ISRS 4400 should also clarify that only factual misstatements may be reported, not judgmental misstatements (eg based on extrapolation or estimates).⁴⁰
- ISRS 4400 should also require practitioners to report on any failures to obtain factual evidence to ensure the AUP report is complete with regard to the exact findings.
- Sample selection vs the carrying out of procedures on selected items should be separated out.

³¹ ISAE 3000 par. 12(h) and (s).

³² The Australian ethics standard APES 215, *Forensic Accounting Services*, Annexure 1 "Facts, assumptions and opinions," provides an analysis on the differences.

³³ ISA 620 par. A4.

³⁴ ISA 620 par. A5-A10.

³⁵ ISA 620 par. A10.

³⁶ ISA 620 par. 12(a).

³⁷ ISA 620 par. 12(b), A22 and A35-A37.

³⁸ ISA 620 par. A33.

³⁹ ISAE 3000 par. A70.

⁴⁰ ISA 450 par. A6 distinguishes between factual misstatements (no doubt) and judgmental misstatements.

Question 9

Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?

We cannot agree because a user's "clear understanding" (ie state of mind) cannot be completely determined. Making that user a signatory to an engagement letter does not clear it up either. The solution is that the user – not the responsible party – should initiate, dictate, request, commission, formulate or instruct the procedures – either directly to the practitioner or, where not possible, via the contracting (ie responsible) party. The practitioner should consider whether procedures are appropriate and agree to them in the engagement letter, which also contains other arrangements between contracting parties that are irrelevant to the user.

It is ideal that the engagement letter be signed by the user, responsible party and practitioner, but this is not always possible. Due to professional indemnity implications, the AUP report is restricted and addressed to signatories of the engagement letter.

Question 10

In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

We believe the first approach is the most appropriate, but the AUP report should still note the restrictions in the report as suggested in the third approach.

Question 11

Are there any other approaches that the Working Group should consider?

Note our response to **Question 10**.

Question 12

Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

No recommendations should be presented with an AUP report. It should not be construed that the practitioner has considered issues beyond the scope of the AUP engagement, which is strictly to report on factual findings.

Informal discussions on the formulation of terminology in procedures so that the practitioner complies with ISRS 4400 are not considered recommendations.

However, we discourage any recommendations by the same practitioner on the nature, timing and extent of procedures to achieve a purpose. If permitted, this should be a separate advisory engagement, which must include knowledge gathering, understanding and risk assessment that are not carried out during a pure AUP engagement. Those recommendations should not accompany the AUP report but be a separate report provided before the AUP engagement commences. The practitioner should make it clear that the sufficiency and appropriateness of evidence and any extension of procedures will not be considered during the subsequent AUP engagement.

Question 13

Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

The IAASB should keep in mind that mainly small and medium practices will be affected by changes to ISRS 4400.

Question 14

What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

As multi-scope engagements are usually jurisdictional, the IAASB could consider formulating a framework (or updating the Assurance Framework) for national standard-setters to follow when developing local guidance on multi-scope engagements.

Question 15

Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements? Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

Yes, we agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements. Refer to our response to **Question 14** for suggestions regarding our suggestions on the nature of guidance on multi-scope engagements. We consider the following helpful examples of multi-scope engagements:

- Issued by the Australian Auditing and Assurance Standards Board:
 - Guidance Statement GS 022 Grant acquittals and multi-scope engagements;
 - Guidance Statement GS 017 Audit implications for prudential reporting requirements of a life company;
 - Guidance Statement GS 021 Engagements under the national greenhouse and energy reporting scheme, carbon pricing mechanism and related schemes;
- Prudential Standard SPS 310 *Audit and related matters*, issued by the Australian Prudential Regulation Authority, which requires multiple auditor's reports on financial statements, other information and compliance.

Table 1 – Circumstances requiring professional judgment relating to Standards – highlighting those relevant to an AUP engagement

DESCRIPTION	AF*	ISAs	ISREs	ISAEs	ISRS 4410
PRELIMINARY ENGAGEMENT ACTIVITIES					
Crafting an engagement letter, as the auditor sometimes uses professional judgment when considering laws and regulations pertaining to management responsibilities ⁴¹		•		•	
Considering whether the level of assurance is meaningful (limited assurance engagements only) ⁴²	•		•	•	
PLANNING					
STRATEGY					
Allocating human resources and considering significant factors ⁴³		•		•	
GATHERING KNOWLEDGE OR UNDERSTANDING⁴⁴					
Developing expectations for use in analytical procedures ⁴⁵		•			
Determining which aspects of the reporting process are applicable in a limited other assurance engagement ⁴⁶				•	
Determining which controls are applicable in a reasonable other assurance engagement ⁴⁷				•	
Determining to what extent the practitioner has to understand the entity and its environment to be able to perform an engagement ⁴⁸			•	•	
Engagement risk ⁴⁹	•	•	•	•	
Setting materiality ⁵⁰	•	•	•	•	

⁴¹ ISA 210 par. 12, also implied by ISAE 3000 par. 30.

⁴² Assurance Framework par. 22(b)(vi), ISRE 2400 par. 17(f), ISAE 3000 par. 12(a)(i)(b), 24(vi), A4-A7, A81, A104 and A111, ISAE 3410 par. A76 and A88(c), and IASE 3420 par. A15.

⁴³ ISA 200, ISA 300 par. 8(c), ISA 315 par. A12, and ISAE 3410.19(c).

⁴⁴ Gathering knowledge of the business, accounting information system and controls (for audit) or understanding underlying subject matter and engagement circumstances (for other assurance).

⁴⁵ ISA 315 par. A1.

⁴⁶ ISAE 3000 par. A106.

⁴⁷ ISAE 3000 par. A105, ISAE 3402 par. A1, and ISAE 3410 par. A71.

⁴⁸ ISRE 2400 par. A75 and ISAE 3410 par. A52.

⁴⁹ Assurance Framework par. 75, ISA 200 par. 7 and A34, ISA 240 par. A24 and A49-A50, ISA 315 par. 4(e), 6(a), 12, 27 and 28, ISA 320 par. 6(a) and A2, ISA 330 par. A42 and A60, and ISAE 3000 par. A13.

⁵⁰ Assurance Framework par. 67, 68, and 69, ISA 200 par. 6, ISA 250 par. 19, ISA 315 par. A134, ISA 320 par. 2, 4, 6, A4, A8 and A13; also materiality of other information, see ISA 720 par. A7, ISRE 2400 par. A70-A73, ISAE 3000 par. A92, A94-A95 and A100, ISAE 3410 par. A44, A46 and A48, and ISAE 3420 par. A17.

DESCRIPTION	AF*	ISAs	ISREs	ISAEs	ISRS 4410
Designing the nature, timing and extent of procedures in response to assessed risks, including deciding later if further procedures are necessary and designing them ⁵¹	•	•	•	•	
TESTS OF CONTROL AND/OR SUBSTANTIVE PROCEDURES					
EVIDENCE					
Concluding on the authenticity of evidence ⁵² (see **Note below)		•			
ANALYTICAL PROCEDURES (SUBSTANTIVE TESTING)					
Developing ranges (expectations) for deciding whether management estimates are reasonable ⁵³		•		•	
SAMPLING AND SELECTION					
Determining which sampling method ⁵⁴		•			
Determining the sample size ⁵⁵		•			
Selecting items when performing non-statistical sampling, ⁵⁶ ie selecting specific items to test ⁵⁷		•			
USE OF INTERNAL AUDIT					
Considering the extent of reliance on the work of internal auditors ⁵⁸		•			
USE OF AN EXPERT					
Choosing an appropriate expert ⁵⁹		•			
OTHER CONSIDERATIONS					
Considering going concern (audit) ⁶⁰		•			
Deciding whether a component in a group audit is significant ⁶¹		•			
Determining if there are significant issues with management's competence, integrity, ethical values or diligence ⁶²		•			
Deciding whether to withdraw from an engagement ⁶³				•	

⁵¹ Assurance Framework par. 79, ISA 200 par. 7, ISA 240 par. A44, ISA 320 par. 6(c) and A37, ISA 520 par. A4, ISRE 2400 par. A96-A97, ISAE 3000 par. A110 and A117, ISAE 3410 par. 7, A52 and A110, and ISAE 3420 par. 35(i)(ii).

⁵² ISA 230.8(c) and A10.

⁵³ ISA 540 par. 16 and ISAE 3410 par. A15.

⁵⁴ ISA 530 par. A9.

⁵⁵ ISA 530 par. A11.

⁵⁶ ISA 530 par. A12.

⁵⁷ ISA 500 par. A54.

⁵⁸ ISA 610 par. 11, 18, 24, 29, 30, A5, A17 and A19-A21.

⁵⁹ ISA 620 par. A2-3.

⁶⁰ ISA 570.5, 18 and 21.

⁶¹ ISA 600 par. A5.

⁶² ISA 580 par. A25.

⁶³ ISRE 2400 par. 15, 64 and 82.

DESCRIPTION	AF*	ISAs	ISREs	ISAEs	ISRS 4410
DOCUMENTATION					
Deciding what or how much detail to document (if not specified) ⁶⁴		•			
FINALISATION					
Evaluating whether sufficient appropriate evidence has been obtained to be able to conclude ⁶⁵ (overall and also whether each assurance objective has been achieved) ⁶⁶	•	•	•	•	
Concluding ⁶⁷	•	•	•	•	
REPORTING AND COMMUNICATION					
Deciding on key audit matters to report ⁶⁸		•			
Considering whether to communicate issues such as fraud, compliance and deficiencies in internal controls with management and/or those charged with governance ⁶⁹ (only if the examination of internal controls are within the ambit of the AUPs carried out)		•	•	•	• ⁷⁰
Considering whether supplementary information should be covered by the auditor's opinion ⁷¹		•			
Determining the level of detail in the basis for opinion paragraph in a modified opinion ⁷² and wording the opinion certain circumstances ⁷³		•		•	
Deciding on including an emphasis of matter paragraphs and/or other matter paragraphs ⁷⁴		•	•	•	
Considering the implications of including certain matters in the audit report in audit of a single financial statement or a specific element of a financial statement against the same on a complete set of financial statements ⁷⁵		•			

⁶⁴ ISA 315 par. A152 and ISA 330 par. A63.

⁶⁵ Assurance Framework par. 66, 73 and 89, ISA 200 par. A33, ISA 330 par. A62, ISA 540 par. A80 and A111, and ISAE 3000 par. A151 and A153-A154.

⁶⁶ ISA 200 par. A77.

⁶⁷ Assurance Framework par. 73, 89, and 92, ISA 200 par. 7 and 13(i), ISA 450 par. 4(a), A17 and A21, ISA 500 par. A6, ISRE 2410 par. 32 and 37; also concluding on going concern, see ISA 570 par. 18, ISA 700 par. A8, ISA 705 par. 2(b), 5(a) and A1, ISRE 2410 par. 53, ISAE 3000 par. 74-75, A90(b), A113 and A188-189, and ISAE 3400 par. 9.

⁶⁸ ISA 701 par. 2, 8 and 11.

⁶⁹ ISA 240 par. 42 and A64, ISA 240 par. A60, ISA 250 par. 23, ISA 260 par. 16(e), 17(a)(i), 19 and A49, ISA 265 par. 5, 6(b), 10(b), A10, A15, A22 and A24, ISA 402 par. A39, ISRE 2400 par. 42, ISRE 2410 par. 38 and 39, ISAE 3000 par. A20, and ISAE 3410 par. 78.

⁷⁰ ISRS 4410 par. 27.

⁷¹ ISA 700 par. 53 and A79.

⁷² ISA 705 par. A23.

⁷³ ISA 805 par. A9 and ISAE 3420 par. A55.

⁷⁴ ISA 706 par. 6-8 and 10, ISRE 2400 par. 87 and 90, ISAE 3000 par. 73, and ISAE 3410 par. 77 and A40.

⁷⁵ ISA 805 par. A23.

DESCRIPTION	AF*	ISAs	ISREs	ISAEs	ISRS 4410
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Considering potential material inconsistencies contained in other information⁷⁶ and what actions to take when they turn out to be actual material inconsistencies⁷⁷



* AF – The Assurance Framework

** NOTE – Concluding on the authenticity of evidence:

In an audit, this is a rare occurrence:

- Auditors are not trained experts, in which case the auditor might be using the work of an expert to ascertain the authenticity of evidence;⁷⁸
- A document is assumed to be authentic unless the auditor has reason to believe the contrary, and only then the auditor investigates further;⁷⁹ and
- Also, where responses to management inquiries are inconsistent then the auditor may investigate further as to the authenticity of evidence.⁸⁰

⁷⁶ ISA 720 par. A7, A24, A27-28, A36 and A42.

⁷⁷ ISA 720 par. A44 and A49.

⁷⁸ ISA 240 par. 13 and A9.

⁷⁹ ISA 240 par. 13.

⁸⁰ ISA 240 par. 14.

Table 2 – Instances requiring professional judgment when applying criteria – described in Standards

DESCRIPTION	AF*	ISAs	ISREs	ISAEs	ISRS 4410
If assessing whether the criteria is suitable ⁸¹ criteria and/or applicable ⁸² to the specific circumstances.	•	•		•	•
When evaluating management’s judgment in preparing the subject matter information ⁸³		•	•		
Areas of more significant judgment by management are usually close to or at period end because they are non-routine ⁸⁴		•			
When applying a fair representation framework, disclosure misstatements may be a matter of professional judgment ⁸⁵					•

* AF – The Assurance Framework

Table 3 – Effects of judgment when applying criteria on the assurance engagement

DESCRIPTION	Code	AF*	ISAs	ISREs	ISAEs	ISRS 4410
Judgment increases the risk of misstatement ⁸⁶			•		•	
Management’s lack of understanding of criteria increases risk further ⁸⁷			•		•	
The use of professional judgment with non-assurance work compromises objectivity ⁸⁸	•					

* AF – The Assurance Framework

⁸¹ The Assurance Framework par. 46, ISAE 3000 par. 24(b)(ii), A47 and A90(a), and ISRS 4410 par. A22.

⁸² Not only suitable criteria in general (ie exhibiting qualitative characteristics), but suitable for the particular engagement – see ISAE 3000 par. 41, 43 and A56, ISAE 3410.17(b)(iv), and ISRS 4410 par. A22. Also special purpose frameworks, see ISA 800 par. A8, including considering who the intended users are in some cases, see ISA 800 par. A10.

⁸³ ISA 200 par. A25 and A48, ISA 240 par. 6 and 32(b), ISRE 2400 par. A48.

⁸⁴ IAPN 1000 par. 102.

⁸⁵ ISRS 4410 par. 17(e).

⁸⁶ ISA 315 par. A140 and A142, ISA 540 par. 11, and ISAE 3400 par. 17(d).

⁸⁷ IAPN 1000 par. 110 and ISAE 3410 par. A88(e).

⁸⁸ The Code par. 290.163, 290.168, 290.172, 290.178-290.180 and 291.144.

Table 4 – Instances requiring professional judgment on ethics described in the Code

GENERAL

When applying the Code, eg when evaluating threats against the fundamental principles, applying safeguards against those threats and considering the viewpoint of a reasonable and informed third party⁸⁹

PROFESSIONAL COMPETENCE AND DUE CARE

When applying knowledge and skill⁹⁰ – when applying Standards or criteria

OBJECTIVITY

When considering independence in the application of Sections 290 and/or 291 in various circumstances (eg when determining whether an activity is management responsibility when providing other assurance services⁹¹)

PROFESSIONAL BEHAVIOUR

When considering compliance with complex laws and regulations and the viewpoint of a reasonably informed third party⁹²

CONFIDENTIALITY

In deciding whether to disclose confidential information, the professional accountant exercises professional judgment when the situation involves unsubstantiated facts or conclusions, or incomplete information⁹³

⁸⁹ The Code par. 100.2, 100.7 and 100.12; further guidance in 140.8, 200.8, 200.10, 220.3, 230.1, and sections 290 and 291.

⁹⁰ Par. 130.2.

⁹¹ Par. 291.142.

⁹² Par. 150.1.

⁹³ Par. 140.8.

Table 5 – Circumstances where professional judgment (or reliance on judgment) is prohibited

DESCRIPTION	Code	AF*	ISAs	ISREs	ISAEs	ISRS 4410
GENERAL PRINCIPLES						
A practitioner may not make use of professional judgment where reliance could be placed on evidence or facts instead. Professional judgment is reserved for situations where any reasonable practitioner cannot find solid evidence or facts. Professional judgment is also not to be used to justify decisions that are not otherwise supported by facts or evidence. ⁹⁴ Views taken when exercising professional judgment must be consistent with the facts available at the time. ⁹⁵		•		•		
Where objectivity is compromised and professional judgment influenced ⁹⁶	•					
SIGNIFICANT JUDGMENTS BY OTHERS						
INTERNAL AUDIT – RELIANCE						
A practitioner may not make use of significant judgment made by internal audit ⁹⁷ as they are not independent enough to be objective ⁹⁸ especially in high risk areas as more judgment is needed in those ⁹⁹		•			•	
MANAGEMENT – ASSISTANCE						
Allowed but practitioners may not take responsibility for management judgments ¹⁰⁰						•

* AF – The Assurance Framework

⁹⁴ Assurance Framework par. 58-60 and ISRE 2400 par. A25.

⁹⁵ ISAE 3000 par. A84.

⁹⁶ The Code par. 100.5(b), 120.1 and 120.2, eg a conflict of interest, see 220.1, 220.3, 220.10, 220.11, 310.1, 310.3, 310.5 and 310.7. When providing non-assurance services – see par. 290.163, 290.168, 290.172, 290.178-290.180 and 291.144.

⁹⁷ ISA 610 par. 11, 18, 24, 29, 30, A5, A17 and A19-A21, and ISAE 3402 par. A38.

⁹⁸ ISA 610 par. A7, A32 and A33.

⁹⁹ ISA 610 par. A20, A21 and 29.

¹⁰⁰ ISRS 4410 par. 7.

Table 6 – Actions to take when professional judgment is exercised

DESCRIPTION	Code	AF*	ISAs	ISREs	ISAEs	ISRS 4410
GENERAL ACTIONS						
Document underlying facts, reasoning and views taken ¹⁰¹	•	•	•	•	•	
Consult on significant judgments ¹⁰²	•				•	
Review by EQCR, expert or consultant ¹⁰³	•				•	
Consider whether management made proper disclosure as required ¹⁰⁴			•			
SIGNIFICANT JUDGMENTS BY OTHERS						
EXPERT – RELIANCE						
Consider risk & extending audit procedures ¹⁰⁵			•			
Consider the expert's objectivity ¹⁰⁶			•			
MANAGEMENT – RELIANCE						
Consider risk & extending assurance procedures ¹⁰⁷			•		•	
Consider potential bias ¹⁰⁸			•	•	•	
MANAGEMENT – ASSISTANCE						
Discuss with management or those charged with governance ¹⁰⁹						•
REPORTING						
State in the audit report that professional judgment was exercised ¹¹⁰			•			
Take significant judgments into account when considering KAMs ¹¹¹			•			

* AF – The Assurance Framework

¹⁰¹ Assurance Framework par. 94, ISA 200 par. A29, ISA 220 par. 25(c), ISA 230 par. 8(c) and A7-A10, ISA 580 par. A25, ISRE 2400 par. 93, ISAE 3000 par. 79(c), A75 and A193, ISAE 3402 par. 45(c), and ISAE 3410 par. A130. Also the Code par. 290.29 and 291.29.

¹⁰² ISAE 3000 par. A83. See also the Code par. 290.215 and 291.148.

¹⁰³ ISAE 3000 par. 36(b) and ISAE 3410 par. 71. See also the Code par. 290.136 and 291.129.

¹⁰⁴ ISA 540 par. 6(b), ISA 570 par. A24, and ISA 700 par. 12, 13 and A1.

¹⁰⁵ ISA 620 par. A10.

¹⁰⁶ ISA 620 par. A14.

¹⁰⁷ Non-routine management judgments increase the risk of misstatement – see ISAE 3400 par. 17(d). Various factors to consider and procedures are listed in ISA 540. See also ISA 700 par. 12. Obtain written representations from management – see ISA 580 par. A13, ISAE 3402 par. A6, and ISAE 3410 par. A116. The auditor may also consider past history, reasons, ability and other evidence that may be inconsistent – see ISA 580 par. A12.

¹⁰⁸ ISA 540 par. 21, ISA 700 par. 12 and A2, ISRE 2400 par. 70(b) and A111, ISAE 3000 par. A56, and ISAE 3410 par. 74. The need for scepticism also increases – see IAPN 1000 par. 72.

¹⁰⁹ ISRS 4410 par. 30 and A45.

¹¹⁰ ISA 700 par. 39.

¹¹¹ ISA 701 par. 9.

Appendix F About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.