



EXPLANATORY GUIDE Au2

Overview of the Auditing and Assurance Standard Setting Process

Issued July 2011

This Explanatory Guide outlines the due process that will be followed by the New Zealand Auditing and Assurance Standards Board (NZAuASB), a sub-Board of the External Reporting Board (XRB), in developing and issuing auditing and assurance standards.

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Issued by the External Reporting Board

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Roles of the XRB and NZAuASB

- 1 The External Reporting Board (XRB) is an independent Crown Entity established under section 22 of the Financial Reporting Act 1993 (the Act) and subject to the provisions of the Crown Entities Act 2004. Under the Act the XRB is responsible for financial reporting strategy, developing and issuing accounting standards, developing and issuing auditing and assurance standards (including professional and ethical standards for auditors), and giving directions and guidance about accounting policies that have authoritative support in New Zealand. For the purposes of this Explanatory Guide the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.
- 2 The XRB Board has established a sub-Board, the New Zealand Auditing and Assurance Standards Board (NZAuASB). The NZAuASB is responsible for developing and issuing auditing and assurance standards. The NZAuASB operates under delegated authority from the XRB Board.
- 3 While responsibility for the setting of auditing and assurance standards has been delegated to the NZAuASB, the XRB Board is concerned to ensure that appropriate due process is used in the promulgation of standards. The XRB Board considers due process to be an essential part of an effective standard setting process and important to achieving the XRB's outcome goal of *contributing to the creation of dynamic and trusted markets through the establishment of an accounting and assurance standards framework that engenders confidence in New Zealand financial reporting, assists*

entities to compete internationally, and enhances entities' accountability to stakeholders. Due process is also a statutory obligation.¹

- 4 The XRB Board has established a minimum set of due process requirements to be followed by the NZAuASB in undertaking its responsibilities. Those requirements are outlined in this Explanatory Guide. The publication of this Guide is designed to ensure that the standard setting process is clear and transparent to the constituency, and to indicate where the constituency may contribute to the process.

NZAuASB Standard Setting Process

Context

- 5 In broad terms the NZAuASB issues two types of standards: New Zealand equivalents to international standards developed and issued by international standards-setting bodies, notably the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC); and domestic standards.
- 6 The XRB Board supports the adoption of international standards where they are applicable. The Board notes that the majority of current auditing and assurance standards are converged with their international equivalent. Accordingly, a significant part of the work of the NZAuASB will be to develop New Zealand equivalents to international standards and other pronouncements, including any amendments thereto.
- 7 In developing New Zealand equivalents to international pronouncements the due process followed by the IAASB and the IESBA needs to be taken into account – these are described in *IFAC's Standards-setting Public Interest Activity Committees' Due Process and Working Procedures – March 2010*.²
- 8 In addition the XRB is strongly committed to harmonising New Zealand and Australian auditing and assurance standards. This harmonisation work will also impact on the process followed in developing and adopting auditing and assurance standards.

General Process

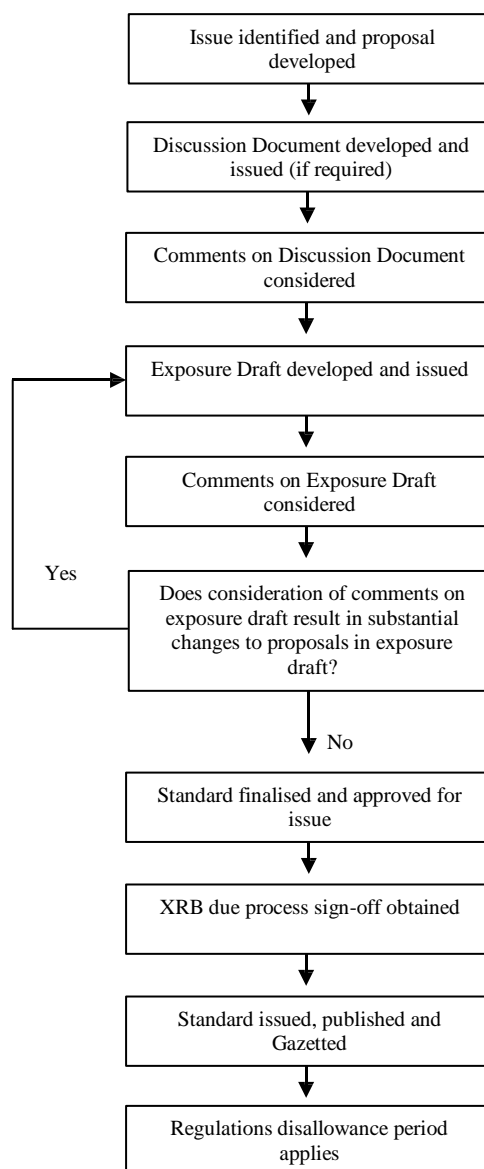
- 9 The general process followed by the NZAuASB in developing auditing and assurance standards³ is illustrated in Figure 1.

¹ Section 26(1) of the Financial Reporting Act 1993 (as amended by the Financial Reporting Amendment Act 2011) requires that, before a standard or an amendment to a standard is issued, the External Reporting Board must take reasonable steps to consult with persons or organisations, or their representatives, who in the opinion of the Board, would be affected by the issue of the standard or the amendment.

² Available at http://web.ifac.org/download/PIAC-Due_Process_and_Working_Procedures.pdf

³ The due process followed in developing auditing and assurance standards also applies to amendments to auditing and assurance standards and the development of other auditing and assurance related pronouncements where relevant.

Figure 1: General Process for Developing Auditing and Assurance Standards



- 10 While the process used follows this general approach, the exact process is dependent on the type of standard being developed and relevant circumstances. For example, where comments on an exposure draft overwhelmingly propose a substantial change, that change need not be re-exposed.

Process for International Standards

- 11 The IAASB and IESBA periodically issue due process documents, such as consultation papers, discussion papers, exposure drafts and requests for views. The NZAuASB will typically expose for comment in New Zealand all relevant IAASB and IESBA due process documents concurrently with their international exposure period. Interested parties will be notified of the issue of these due process documents. Where appropriate, forums might be staged or other arrangements made to enable further discussion and exchange of opinion.

- 12 Constituents' comments will generally be sought on:
 - (a) the proposals set out in the international exposure draft;
 - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the international standard; and
 - (c) issues relating to the Privacy Act 1993.
- 13 The international due process documents will generally be open for comment for a period of three months, but this may be a longer or a shorter period depending on the complexity of the topic and the period of the international exposure. Proposed changes that result in only minor amendment to an issued international standard may be progressed in a shorter period.
- 14 Individuals and organisations, as well as National Standard Setters, are able to make submissions to the IAASB or the IESBA on their due process documents.
- 15 As the National Standard Setter, the NZAuASB will make submissions to international standard setters where it considers it worthwhile to do so. The XRB is strongly committed to the international convergence and international harmonisation of standards. It considers commenting on due process documents as well as contributing to the development of those documents where appropriate is an important way for it to reflect its support for the work of the IAASB and the IESBA.
- 16 The NZAuASB will take into account constituents' comments when developing the New Zealand response to the relevant international standard-setting body.
- 17 Constituents are encouraged to comment directly to the relevant international standard-setting body where the topic is a matter of interest to them. Constituents are requested to forward a copy of their submission to the IAASB or the IESBA to the NZAuASB so that it can consider those comments in preparing its own submission.
- 18 International standards per se are not issued in New Zealand. Accordingly, the NZAuASB's involvement in the process of issuing international standards ceases when the exposure draft submission process is completed. However, the NZAuASB will notify the constituency when a new international standard is issued.

Process for New Zealand Equivalents to International Standards

- 19 Over recent years New Zealand has adopted the international auditing and assurance standards (the so called "clarified standards") by way of New Zealand equivalents to those standards, for example ISA (NZ). The New Zealand equivalents are in most cases substantively identical to the international standards on which they are based.
- 20 This approach is consistent with the XRB's strategy of adopting international standards where it appropriate to do so. The XRB Board recognises that in doing so it is committing to using that set of standards as a whole. This means that the failure to adopt any particular standard would remove the ability of assurance providers in New Zealand to assert compliance with those standards.
- 21 In light of these factors, the XRB Board does not expect the NZAuASB will very often issue a New Zealand equivalent to an IAASB standard or an IESBA standard that is substantively different from a (pure) IAASB or IESBA standard. Provided that this is the case, a separate due process for a new or amended New Zealand equivalent to an international standard is not required because it is covered by the due process for

the international standard itself. The NZAuASB will therefore proceed to issue a New Zealand equivalent once an international auditing or assurance standard (that has been subject to due process) has been issued.

- 22 However, should the NZAuASB consider that modifications to an international auditing or assurance standard is required in developing it as a New Zealand equivalent to the international standard (for example to ensure harmonisation with Australian standards), then it will run a specific due process for that NZ equivalent standard. That process will run separately, but (where practical) in parallel, to the due process for the international standard itself. These situations are expected to be relatively rare.
- 23 New Zealand equivalents to international standards that contain modifications from the (pure) international standard will clearly identify the modification from the international standard on which the New Zealand equivalent has been based.

Process for Domestic Standards

- 24 The NZAuASB may develop domestic standards to address matters specific to New Zealand, or which are important to New Zealand but which are not addressed by international auditing and assurance standards. The process for developing such domestic standards will normally follow the process outlined in Figure 1.
- 25 In developing domestic standards, constituents' views will be sought on the need for, and content of, any requirements. For significant projects, the first step may be a Discussion Document identifying the issues that the NZAuASB is considering and the options regarding those issues.
- 26 The NZAuASB will then prepare an Exposure Draft of the proposed standard with accompanying explanatory material that will highlight:
 - (a) the reason for the development of the standard; and
 - (b) existing practice and any relevant guidance.
- 27 Interested parties will be notified of the issue of all due process documents. Where appropriate, forums might be staged or other arrangements made to enable further discussion and exchange of opinion.
- 28 Exposure drafts will generally be open for a three month comment period. Longer comment periods may be appropriate in certain circumstances. Shorter comment periods will be used only for urgent or minor amendments and will never be less than one month.
- 29 Constituents' comments will generally be sought on:
 - (a) the proposed requirements and the need for any further additional requirements;
 - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the standard; and
 - (c) issues relating to the Privacy Act 1993.
- 30 Constituents' comments will be taken into account when finalising the domestic standard. Unless a constituent requests otherwise, constituents' comments will be posted on the XRB's website.

Process for Approval of Standards

- 31 Once the exposure period has been completed and comments (as applicable) considered by the NZAuASB, the NZAuASB will finalise the standard and approve it for issue in accordance with the Act.
- 32 Before approving it for issue the NZAuASB will satisfy itself that reasonable steps have been taken to consult with persons or organisations likely to be affected by the proposed standard, or representatives of such persons or organisations. The NZAuASB will also satisfy itself that the proposed standard is likely to achieve its objectives and that the advantages of the standard are sufficient to justify its issue.
- 33 The NZAuASB is then required to obtain a certificate signed by the XRB Board Chairman, or in his absence another XRB Member so designated, authorising the standard be issued (or amended or revoked). The issuing of the certificate is the last step in the process of issuing a standard.
- 34 The certificate process involves a check that the standard to be issued is consistent with the XRB's financial reporting strategy, that due process has been followed, and that matters raised by the constituency during this process have been adequately considered. This reflects the XRB Board's interest in ensuring due process is followed as outlined in paragraphs 3 and 4.
- 35 Following the signing of the certificate the NZAuASB will issue the standard. This will be notified to the constituency by inclusion in the Gazette, and also by general communication.
- 36 In accordance with the provisions of the Act, all issued standards (and amendments to standards) are subject to the Regulations (Disallowance) Act 1989. This means that the standards are treated as Regulations and must be tabled in Parliament within 16 sitting days of the standard being issued by the NZAuASB. Parliament may, by resolution within 21 sitting days, disallow a standard. The parliamentary process surrounding this involves consideration of the issued standard by the Regulations Review Committee which can recommend disallowance to the House.
- 37 The requirements of existing standards that are affected by the proposals in an exposure draft remain in force until the approval date of the new standard. Subject to the requirements of the standard, a new or revised or amended standard may be applied in advance of the effective date of the standard.

Process for Other Pronouncements

- 38 Pronouncements other than standards may also be issued by the NZAuASB from time to time. Examples of these types of pronouncements include *Guidance Statements and Practice Statements*. Consultation will take place as part of the development of these types of pronouncements although the due process may be less than the due process for standards and framework documents, depending on the topic or where there are minor amendments.