

**Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB), and to the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code)**

**and**

**Harmonisation with the standards of the Australian Auditing and Assurance Standards Board (AUASB)**

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**Harmonisation with the standards of the Australian Auditing and Assurance Standards Board (AUASB)**

**Application Date**

1. The policies detailed in this paper apply from 1 July 2014.

**Introduction**

2. The Financial Reporting Act 2013 requires the External Reporting Board (XRB) to prepare and issue auditing and assurance standards, including the professional and ethical standards that govern the professional conduct of auditors. The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue these auditing and assurance standards. All of these standards have legal status under the Financial Reporting Act 2013.

**Objectives**

3. The key strategic objectives set by the XRB Board for the NZAuASB include:
  - to adopt international auditing and assurance standards, including the professional and ethical standards, in New Zealand unless there are strong reasons not to (which the Board describes as “compelling reasons”); and
  - to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.

**Policies**

4. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand under either of those objectives. The XRB Board considers such modifications acceptable provided that they consider the public interest<sup>1</sup>, and do not conflict with or result in lesser requirements than the international standards.
5. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with Australian standards to be used as the framework for the standard setting process of the NZAuASB.

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<sup>1</sup> IFAC defines the public interest as “*The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy*”. Refer IFAC Policy Position 5 *A Definition of the Public Interest*, June 2012

6. It is expected that this paper will be revised from time to time to take account of changes to the XRB's financial reporting framework.
7. The principles of convergence set out in this paper adhere to the principles set out in the IAASB Policy Position, *Modifications to International Standards of the IAASB- A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications* (July 2006).
8. The principles of convergence to the IAASB and IESBA standards are set out in a flowchart in Appendix 1, and the principles of harmonisation with the Australian standards are set out in a flowchart in Appendix 2.

### **Overarching principles of convergence with international standards**

9. The international standards should be adopted, and should be modified only if there are compelling reasons to do so.
10. In the case of an international standard that is being reviewed for the purpose of adoption in New Zealand, the compelling reasons test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with:
  - a. the New Zealand regulatory arrangements; or
  - b. principles and practices that are considered appropriate in New Zealand (including in the use of significant terminology).
11. Where the international standard does not reflect, or is not consistent with the New Zealand regulatory arrangements, the following criteria have to be met before the standard is modified:
  - (1) the standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in New Zealand; and
  - (2) the modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than the international standard.
12. Where the international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in New Zealand, the following criteria have to be met before the standard is modified:
  - (1) the standard can be modified so as to result in a standard that:
    - a. the application of which results in compliance with principles and practices considered appropriate by the NZAuASB;
    - b. is clear and promotes consistent application by all practitioners in New Zealand;

- c. promotes significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment; and
- (2) the relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and the cost of differing from international standards and the Australian standards, and benefit primarily relating to audit/assurance quality); and
- (3) the modification to the standard does not result in a standard that:
- a. conflicts with, or results in lesser requirements than the international standard;
  - b. is overly complex and confusing; or
  - c. inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in New Zealand than necessary.

#### **Overarching principles of harmonisation with Australian Standards**

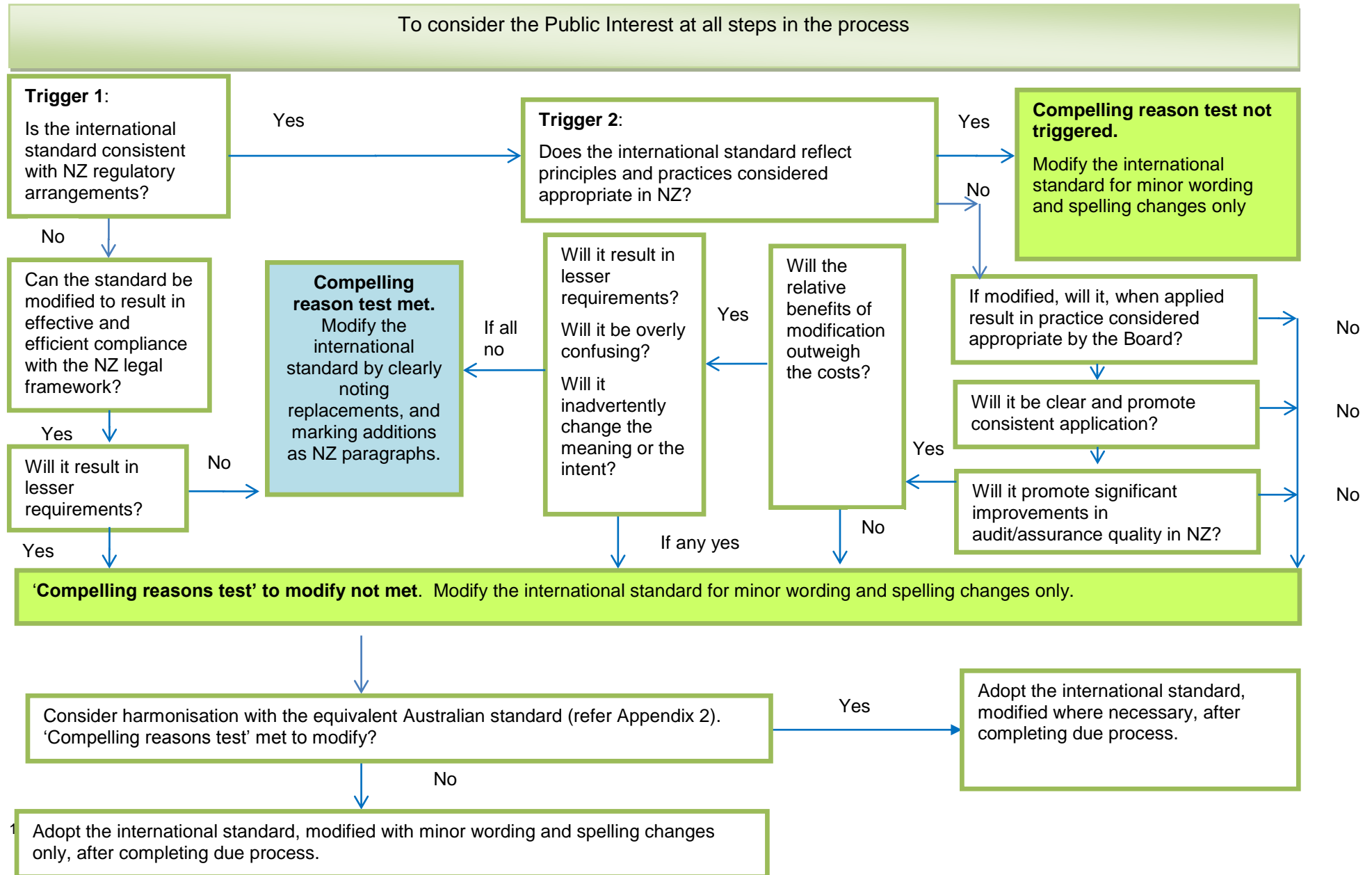
13. When considering harmonisation with an Australian standard, the compelling reasons test for modification of the international standard in the public interest is triggered where the Australian standard covers a matter not covered in the international standard, and that gap is also relevant in the New Zealand standard.
14. Once the compelling reason test has been triggered, the following criteria have to be met before the standard is modified:
- (1) the standard can be modified so as to result in a standard that:
- a. the application of which results in compliance with the legal framework or principles or practices considered appropriate by the NZAuASB;
  - b. is clear and promotes consistent application by all practitioners in New Zealand;
  - c. promotes significant improvements in audit/assurance quality (as described by the IAASB's *Framework for Audit Quality*) in the New Zealand environment; and
- (2) the relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and cost of differing from the international standard and the benefit primarily relating to audit/assurance quality); and
- (3) the modification to the standard does not result in a standard that:
- a. conflicts with, or results in lesser requirements, than the international standard;
  - b. is overly complex and confusing; or

- c. inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in New Zealand than necessary.

## **General**

15. When considering developing a standard for which there is no equivalent international standard, compelling reasons for developing the standard are:
  - a. the standard addresses public interest matters within the New Zealand environment;
  - b. the standard will promote significant improvements in audit/assurance quality in the New Zealand environment; and
  - c. the benefit of applying the standard will outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit/assurance quality).
16. The development of a New Zealand standard should be harmonised with the equivalent Australian standard by adopting the Australian standard, where applicable. Compelling reasons for differences between New Zealand and Australian domestic standards are where:
  - a. different regulatory requirements apply; and/or
  - b. different practices are considered appropriate (including the use of significant terminology).
17. Any deletions from the international standards should be clearly noted, and any additions clearly marked as New Zealand paragraphs.
18. Minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology), where the intent remains the same, need not be reflected in the New Zealand standard as a modification to the international standard.

**Appendix 1: Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards**



**Appendix 2: Flowchart to depict the ‘compelling reasons test’ in the Principles of Harmonisation with the Australian standards**

