



BOARD MEETING AGENDA

9.30am to 3.30pm Thursday 5 March 2020, XRB Office

| Est. Time | Item | Paper | Page |
|------------------------------|---|-------|------|
| A: NON-PUBLIC SESSION | | | |
| 10.30 am | Morning Tea | | |
| 11.45-12.45pm | Lunch | | |
| 1:00pm | Teleconference | | |
| B: PUBLIC SESSION | | | |
| 1:30pm | For Approval | | |
| | 4.0 Amendment to XRB Au1 Legislative Update | | |
| | 4.1 Cover memo | Paper | |
| | 4.1.1 Invitation to comment and ED XRB Au1 Application of Auditing and Assurance Standards (Legislative Update) | Paper | |
| | 4.1.2 ED XRB Au1 | Paper | |
| | 4.1.3 Delegation to NZAuASB | Paper | |
| C: NON-PUBLIC SESSION | | | |
| 3.30 pm | Close | | |

Next Meeting: Thursday 14 May 2020 in Wellington



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE: 21 February 2020
TO: Members of the External Reporting Board
FROM: Misha Pieters
SUBJECT: Amendments to XRB Au1 Legislative Update

Purpose and introduction

1. The purpose of this agenda item is to:
 - a. **Seek the XRB Board's approval** to issue ITC and ED *2020 Amendments to XRB Au1 Application of Auditing and Assurance Standards (Legislative Update)* (the ED);
 - b. Seek approval of an amended delegation to the NZAuASB.
2. In November 2019, the Regulatory Systems (Economic Development) Amendment Act 2019 was issued, which will amend the wording of section 20 of the Financial Reporting Act 2013. These amendments broaden the mandate of the XRB to enable the Board to issue related services standards, including a standard on agreed upon procedures.
3. An agreed upon procedures engagement is not an assurance engagement. However, an assurance practitioner is required by some regulation to perform an agreed upon procedures engagement in addition to the audit of the financial statements.

Background

4. The New Zealand Auditing and Assurance Standards Board (NZAuASB) discussed the draft exposure draft at its February 2020 meeting. The key matters discussed included:
 - a. Consideration of whether and how to define related services within XRB Au1.
 - b. Consideration of the definition of assurance practitioner.

The NZAuASB recommended that XRB Au1 be amended to incorporate definitions for both of these terms. The NZAuASB considered that the definition of "related services" align with the definition in law, which differs from the definition used by the International Auditing and Assurance Standards Board (IAASB). **The IAASB's** definition includes compilations, however the NZAuASB does not consider that compilations are engagements generally performed by an assurance practitioner, and therefore does not fall within the updated mandate.

5. Two explanatory guides issued by the XRB Board will also require updating to reflect the amended mandate. These explanatory guides do not need to be exposed. We will seek approval of the amended explanatory guides once we have received feedback from stakeholders on the amendments to XRB Au1.

Recommendation

6. We recommend that the XRB Board APPROVES for issue the ITC and ED *Amendments to XRB Au1 Application of Auditing and Assurance Standards (Legislative Update)*.
7. We recommend that the XRB Board APPROVES an updated Delegation to the NZAuASB to enable the NZAuASB to issue related service standards. Staff will ensure that this broadened mandate is reflected throughout the XRB governance manual as appropriate.

Attachments

Agenda item 4.1.1 and 4.1.2 ITC and ED *Amendments to XRB Au1 Application of Auditing and Assurance Standards (Legislative Update)*

Agenda item 4.1.3 Delegation to the New Zealand Auditing and Assurance Standards Board



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

EXPOSURE DRAFT

AMENDMENTS TO XRB AU1 APPLICATION OF AUDITING AND ASSURANCE STANDARDS (LEGISLATIVE UPDATE)

Invitation to Comment

March 2020

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External Reporting Board
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Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

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Information for Respondents

Invitation to Comment

The External Reporting Board (XRB) is seeking comments on the specific matters raised in this Invitation to Comment. Responses to this Invitation to Comment will be considered by the XRB which will then make final decisions about the amendments to XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions or issues that are relevant to you.

Comments should be submitted electronically using our 'Open for comment' page.

Please indicate whether the comments are made on your own behalf, on behalf of a group of people, or on behalf of an entity.

The closing date for submissions is **Monday 8 June 2020**.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

| | |
|---------|--|
| AUP | Agreed upon procedures |
| CAANZ | Chartered Accountants Australia & New Zealand |
| ED | Exposure Draft |
| IAASB | International Auditing and Assurance Standards Board |
| NZAuASB | New Zealand Auditing and Assurance Board of the External Reporting Board |
| XRB | External Reporting Board |

Questions for Respondents

1. Are the proposals for amending XRB Au1 to take account of the legislative changes clear?
2. Do you have any other comments on ED *Amendments XRB Au1 Application of Auditing and Assurance Standards (Legislative Update)* (please be specific)?
3. Do you agree that the amended standard become effective two months after the issue of the updated standard?

1. Introduction

1.1 Background

1. The [Regulatory Systems \(Economic Development\) Amendment Act 2019](#) (the Act) now incorporates related services within the mandate of the External Reporting Board. This provides the legal mandate for the NZAuASB to issue an agreed upon procedures (AUP) standard (and other related services standards).
2. The amended wording of Section 20 of the Financial Reporting Act 2013 is as follows:
 - (2) Auditing and assurance standards may (without limitation) include—
 - (a) professional and ethical standards that govern the professional conduct of audit or assurance practitioners;
 - (b) standards for related services.
 - (3) In this section,—

audit or assurance practitioner means a person who is appointed or engaged to carry out audits or other assurance engagements

related services means services to perform—

 - (a) agreed-upon procedures; or
 - (b) other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.
3. The Act comes into force immediately after the expiry of the 2-month period starting 13 November 2019 (i.e., 13 January 2020).
4. This is timely given that the IAASB is in the process of finalising a revised international AUP standard, expected to be issued in the first half of 2020. The NZAuASB intends to seek feedback on the adoption of the revised international AUP standard for use in New Zealand in due course.
5. Currently in New Zealand, members of CAANZ are required to apply APS 1 (Revised) *Agreed Upon Procedures Engagement to Report Factual Findings* released by the New Zealand Regulatory Board in August 2018.
6. It is expected that APS 1 (Revised) will remain in place during the transition period until the NZAuASB has completed its due process consultation under the updated legislative mandate and the NZAuASB standard comes into effect.
7. This Invitation to Comment and Exposure Draft propose amendments to XRB Au1 *Application of Auditing and Assurance Standards* to reflect the legislative change. The XRB propose that the effective date be two months after the issue of the updated XRB Au1.

1.2 Purpose of this Invitation to Comment

8. The purpose of this Invitation to Comment is to seek feedback from the constituency on Exposure Draft *Amendments XRB Au1: Application of Auditing and Assurance (Legislative Update)*.

1.3 Timeline and Next Steps

9. Submissions on the exposure draft are due by **Monday 8 June 2020**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
10. The XRB Board will consider the submissions received immediately after the consultation period ends. Subject to the content of that feedback, the XRB Board hopes to issue *Amendments to XRB Au1 (Legislative Update)* no later than mid July 2020.

2. Overview of Exposure Draft *Amendments to XRB Au1: Application of Auditing and Assurance Standards (Legislative Update)*

11. The following are the amendments proposed to be made to XRB Au1 arising from legislative changes:
- (i) Add a definition of “assurance practitioner” and “related services”. We note that the proposed definition of “related services” aligns with the definition in law, rather than the definition of related services as defined by the IAASB. **The IAASB’s definition of related services include compilations.** As compilations are not engagements that are generally performed by assurance practitioners, they continue to fall outside of the mandate of the XRB.
 - (ii) Expand **the term “auditing and assurance standards (including professional and ethical standards)”** to include standards for related services. This expansion is made where previously it was noted that auditing and assurance standards include professional and ethical standards.
 - (iii) Clarify that the standards issued by the NZAuASB apply to assurance engagements and related services. This will include an agreed upon procedures standard and other related services as identified by the NZAuASB. It is not intended that the NZAuASB will issue a compilation standard;
 - (iv) Amend the title of Appendix 5. Appendix 5 will be updated to reflect any related services standards when they are issued.
 - (v) Update the diagram in Appendix 6 to reflect that Related services are included with the engagements governed by the Standards of the XRB;
12. In addition, the XRB has taken the opportunity to propose some additional amendments to XRB Au1, deleting references to Audit Guidance Statements and Practice Notes from extant Appendix 5. These guidance statements have no legal status, rather provide guidance. The NZAuASB issues explanatory guidance which similarly has no legal status but is not listed in XRB Au1. For consistency, all reference to explanatory guidance with no legal status will be removed from XRB Au1. This explanatory material is available on the XRB website.



EXPOSURE DRAFT

AMENDMENTS TO XRB Au1 (LEGISLATIVE UPDATE)

This [draft]¹ Standard was issued on [date] by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued to reflect amendments made to the Financial Reporting Act 2013, to include standards for related services within the mandate of the External Reporting Board.

This [draft] Standard, when effective, will supersede XRB Au1 *Application of Auditing and Assurance Standards*.

¹ References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

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EXPOSURE DRAFT

PROPOSED AMENDMENTS TO XRB Au1

This exposure draft uses underlines and strike through to indicate proposed changes to XRB Au1

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Introduction

Reasons for issuing the Standard

- IN 1 This Standard codifies the standards that assurance practitioners are to apply when conducting an assurance engagement or related service in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.
- IN 2 The appendices to this Standard list the auditing and assurance, or related services, standards applicable to different ~~assurance~~ engagements.

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Objective

1. The objective of this Standard is to codify the standards that assurance practitioners are to apply when conducting an assurance engagement or related service in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

Scope

2. This Standard identifies the auditing and assurance standards that shall be applied when conducting different types of assurance engagements or related services in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.
3. Standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board may be applied by an assurance practitioner even if there is no statutory requirement to do so. Even when applied voluntarily, all of the applicable standards should be applied to ensure that the assurance engagement or related service is of appropriate quality.

Definitions

4. For the purposes of this Standard the following term has the meaning attributed below:
 - (a) Assurance Practitioner – a person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services.
 - (b) Related services – services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

Application of Standards

5. Assurance practitioners shall apply the professional and ethical standards listed in Appendix 1 in preparing for and conducting all assurance engagements or related services.
6. Assurance practitioners shall apply International Standards on Auditing (New Zealand) listed in Appendix 2 in conducting audits of historical financial information.
7. Assurance practitioners shall apply Review Engagement Standards listed in Appendix 3 in conducting review engagements.
8. Assurance practitioners shall apply Other Assurance Engagement Standards listed in Appendix 4 in conducting other assurance engagements.
9. ~~Assurance practitioners shall apply Related Services Standards listed in Appendix 5 in conducting agreed upon procedures to information and other related services engagements as specified by the New Zealand Auditing and Assurance Standards Board. Audit Guidance Statements and International Auditing Practice Notes (New Zealand) listed in Appendix 5 are for the guidance of assurance practitioners in relevant circumstances but have no legal status. This non-authoritative material does not impose additional requirements on auditors beyond those included in the International Standards on Auditing (New Zealand), nor do they change the auditor's responsibility~~

~~to comply with all International Standards on Auditing (New Zealand) relevant to the audit. They provide practical assistance to auditors. Depending on the nature of the topic(s) covered they may assist the auditor in:~~

~~Obtaining an understanding of the circumstances of the entity, and in making judgements about the identification and assessment of risks of material misstatement;~~

~~Making judgements about how to respond to assessed risks, including judgements about procedures that may be appropriate in the circumstances; or~~

~~Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.~~

10. A diagrammatic overview of the auditing and assurance standards and the engagements governed by the standards is included in Appendix 6.

Effective Date

11. This Standard is effective for assurance engagements or related services beginning on or after ~~[to be confirmed]~~ 1 January 2013.

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Professional and Ethical Standards

This appendix is an integral part of the Standard.

This appendix lists the Professional and Ethical Standards to be applied in preparing for and conducting all assurance engagements or related services.

PES 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

PES 3 (Amended) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements

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International Standards on Auditing (New Zealand)

This appendix is an integral part of the Standard.

This appendix lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

| | |
|---------------------------|---|
| ISA (NZ) 200 | Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand) |
| ISA (NZ) 210 | Agreeing the Terms of Audit Engagements |
| ISA (NZ) 220 | Quality Control for an Audit of Financial Statements |
| ISA (NZ) 230 | Audit Documentation |
| ISA (NZ) 240 | The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements |
| ISA (NZ) 250 (Revised) | Consideration of Laws and Regulations in an Audit of Financial Statements |
| ISA (NZ) 260 (Revised) | Communication with Those Charged with Governance |
| ISA (NZ) 265 | Communicating Deficiencies in Internal Control to those Charged with Governance and Management |
| ISA (NZ) 300 | Planning an Audit of Financial Statements |
| ISA (NZ) 315 (Revised) | Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment |
| ISA (NZ) 320 | Materiality in Planning and Performing an Audit |
| ISA (NZ) 330 | The Auditor's Responses to Assessed Risks |
| ISA (NZ) 402 | Audit Considerations Relating to an Entity Using a Service Organisation |
| ISA (NZ) 450 | Evaluation of Misstatements Identified During the Audit |
| ISA (NZ) 500 | Audit Evidence |
| ISA (NZ) 501 | Audit Evidence – Specific Considerations for Selected Items |
| ISA (NZ) 505 | External Confirmations |
| ISA (NZ) 510 | Initial Audit Engagements – Opening Balances |
| ISA (NZ) 520 | Analytical Procedures |
| ISA (NZ) 530 | Audit Sampling |
| ISA (NZ) 540 (Revised) | Auditing Accounting Estimates and Related Disclosures |
| ISA (NZ) 550 | Related Parties |
| ISA (NZ) 560 | Subsequent events |
| ISA (NZ) 570 (Revised) | Going Concern |

- ISA (NZ) 580 Written Representations
- ISA (NZ) 600 Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)
- ISA (NZ) 610 Using the Work of Internal Auditors
(Revised 2013)
- ISA (NZ) 620 Using the Work of an Auditor’s Expert
- ISA (NZ) 700 Forming an Opinion and Reporting on Financial Statements
(Revised)
- ISA (NZ) 701 Communicating Key Audit Matters in the Independent Auditor’s Report
- ISA (NZ) 705 Modifications to the Opinion in the Independent Auditor’s Report
(Revised)
- ISA (NZ) 706 Emphasis of Matter Paragraphs and Other Matters Paragraphs in the
(Revised) Independent Auditor’s Report
- ISA (NZ) 710 Comparative Information – Corresponding Figures and Comparative
Financial Statements
- ISA (NZ) 720 The Auditor’s Responsibilities Relating to Other Information
(Revised)
- ISA (NZ) 800 Special Considerations – Audits of Financial Statements Prepared in
(Revised) Accordance with Special Purpose Frameworks
- ISA (NZ) 805 Special Considerations – Audits of Single Financial Statements and Specific
(Revised) Elements, Accounts or Items of a Financial Statement
- ISA (NZ) 810 Engagements to Report on Summary Financial Statements
(Revised)

New Zealand Auditing Standards

This appendix is an integral part of the Standard

This appendix lists the New Zealand Auditing Standards to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 The Audit of Service Performance Information

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Review Engagement Standards

This appendix is an integral part of the Standard.

This appendix lists the Review Engagement Standards to be applied in conducting review engagements.

| | |
|----------------|---|
| ISRE (NZ) 2400 | Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity |
| NZ SRE 2410 | Review of Financial Statements Performed by the Independent Auditor of the Entity |

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Other Assurance Engagement Standards

This appendix is an integral part of the Standard.

This appendix lists the Other Engagement Standards to be applied in conducting other assurance engagements.

| | |
|-----------------------------|--|
| ISAE (NZ) 3000 (Revised) | Assurance Engagements other than Audits or Review of Historical Financial Information |
| ISAE (NZ) 3402 | Assurance Reports on Controls at a Service Organisation |
| ISAE (NZ) 3410 | Assurance Engagements on Greenhouse Gas Statements |
| ISAE (NZ) 3420 | Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus |
| SAE 3100 <u>(Revised)</u> | Compliance Engagements |
| SAE 3150 | Assurance Engagements on Controls |

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**Audit Guidance Statements and International Auditing Practice Notes
(New Zealand) Related Services Standards**

This appendix is an integral part of the Standard.

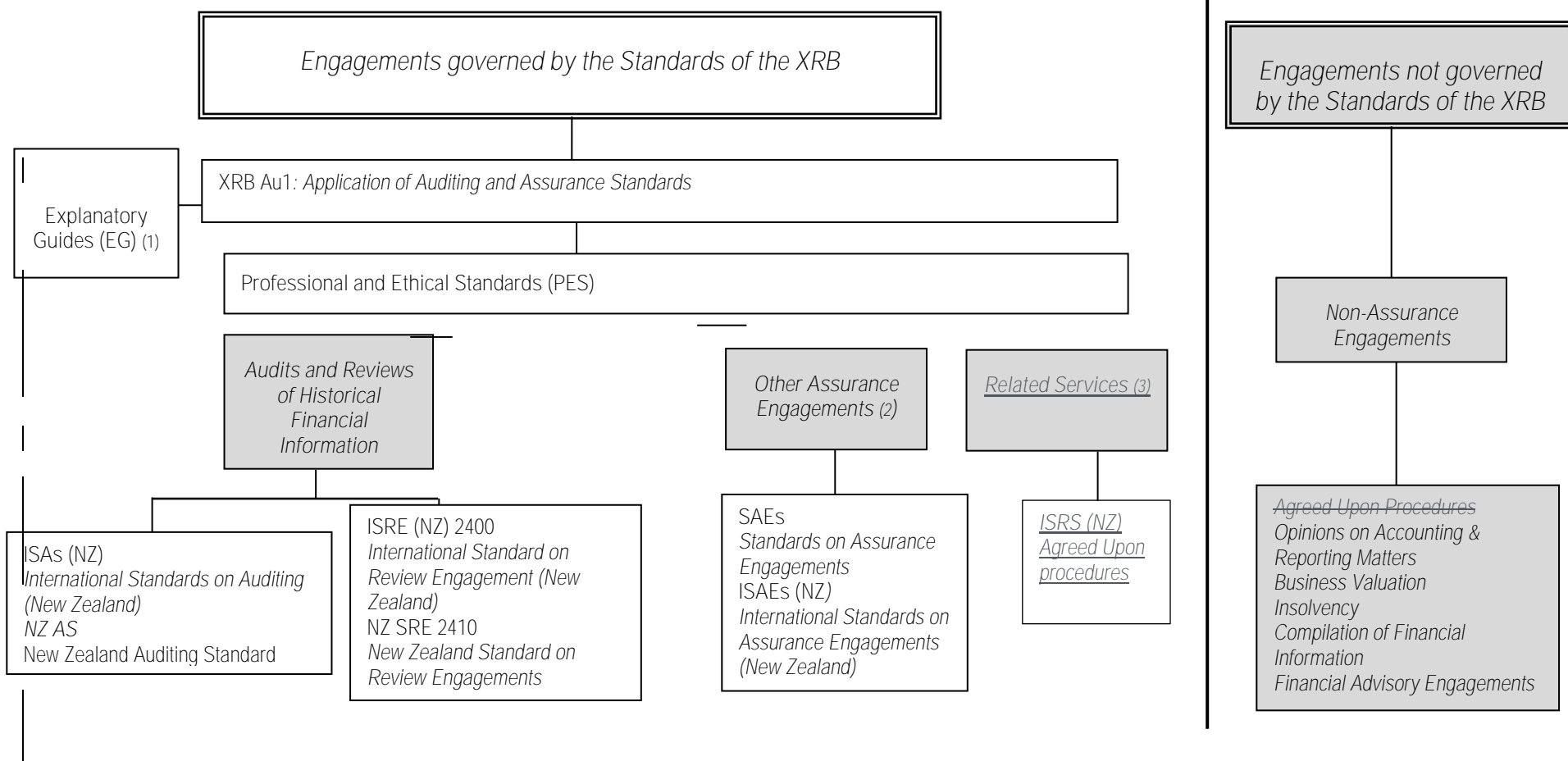
This appendix lists the Related Services Standards to be applied in conducting agreed upon procedures to information and other related services as specified by the New Zealand Auditing and Assurance Standards Board.

~~This appendix lists the Audit Guidance Statements and International Auditing Practice Notes (New Zealand) for consideration by assurance practitioners in relevant circumstances. The Audit Guidance Statements and International Auditing Practice Notes provide guidance on interpreting and applying auditing standards and have no legal status. Audit Guidance Statements and International Auditing Practice Notes do not impose additional requirements on auditors beyond those included in the International Standards on Auditing (New Zealand), nor do they change the auditor's responsibility to comply with all International Standards on Auditing (New Zealand) relevant to the audit. Audit Guidance Statements and International Auditing Practice Notes provide practical assistance to auditors.~~

| | |
|---------------------------|--|
| AGS 1003 | Audit Issues Relating to the Electronic Presentation of Financial Reports |
| IAPN (NZ) 1000 | Special Considerations in Auditing Financial Instruments |

Appendix 6

Overview of the Auditing and Assurance Standards of the XRB, and the Engagements Governed by the Standards



Note (1): The Explanatory Guides are explanatory documents and have no legal status.

Note (2): The XRB’s legislative mandate is restricted to standards relating for use in assurance engagements required by statute. The Board may also issue standards relating to Other Assurance Engagements where there is no statutory requirement for assurance, provided the Minister of Commerce authorises the XRB to do so.

Note (3): The XRB’s legislative mandate includes related services, meaning services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

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Basis for Conclusions on XRB Au1

This Basis for Conclusions accompanies, but is not part of, XRB Au1.

Introduction

BC1 This Basis for Conclusions outlines the rationale for the requirements in this Standard.

Auditing and assurance standards

BC2 This Standard is issued to assist assurance practitioners in identifying the relevant auditing and assurance standards to be used in specific circumstances. It was issued to provide a comprehensive list of the auditing and assurance standards that are to be applied by assurance practitioners when conducting an assurance engagement or related services in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DELEGATION TO THE NEW ZEALAND AUDITING AND ASSURANCE STANDARDS BOARD

The External Reporting Board (XRB Board) has established the New Zealand Auditing and Assurance Standards Board (NZAuASB) as a Committee of the XRB Board in accordance with Schedule 5 of the Crown Entities Act 2004. In accordance with the provisions of that Schedule, the XRB Board may delegate such of its functions as it chooses to the NZAuASB, provided that at least one member of the XRB Board is also a member of the NZAuASB.

The XRB Board hereby delegates to the NZAuASB the authority to develop or adopt, expose, finalise and promulgate:

- Auditing and assurance standards for use in assurance engagements required by statute;
- Professional and ethical standards ~~to be applied by auditors undertaking statutory assurance engagements~~ that govern the professional conduct of audit or assurance practitioners;
- **Other assurance standards within the scope of any “additional assurance standards”** approval provided by the Responsible Minister in accordance with the Financial Reporting Act 1993 or Financial Reporting Act 2013.
- Standards for related services.

The delegation is subject to the requirements of the Terms of Reference for the NZAuASB established by the XRB Board, and any other requirements established from time to time by the XRB Board.

The delegation was approved by the XRB Board at its meeting on 1 July 2011. It stays in effect until amended or revoked by the XRB Board.

Kevin Simpkins
Chairman
1 July 2011

Revised July 2014

Graeme Mitchell
Chairman
1 July 2014

Revised March 2020

Michele Embling
Chair
5 March 2020