

Board Meeting Agenda

9 April 2020

8:50 am to 4:45 pm

By Video conference ONLY

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
10:45 am	4	<u>2410</u>			
	4.1	Board meeting summary paper	Note	Late Paper	
	4.2	Draft minutes of joint sub-committee meeting	Note	Late Paper	
	4.3	Summary of key issues and resolutions	Note	Late Paper	
	4.4	Draft NZ SRE 2410 (subject to AUASB approval)	Approve	Late Paper	
11.15 am	5	<u>Meeting with Lyn Provost</u>			
	5.1	Discussion on IAASB matters	Discuss	Verbal	
11:45	6	<u>EER assurance Exposure draft</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Draft consultation plan	Approve	Paper	
	6.3	Issues Paper	Consider	Paper	
	6.4	Results of combined survey	Consider	Paper	
12:15 pm	<i>Lunch</i>				
1.00 pm	7	<u>Part 2 of the Code</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	NZ ED and ITC	Approve	Paper	
1.30 pm	8	<u>NAS and Fees</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	Draft submission fees	Approve	Paper	
	8.3	Draft submission NAS	Approve	Paper	
2.30 pm	9	<u>Illustration of AUASB digital standard</u>			
	9.1	Board meeting summary paper	Note	Paper	
2.45 pm	10	<u>NZ guidance on use of experts</u>			
	10.1	Board meeting summary paper	Note	Paper	
	10.2	AUASB guidance	Consider	Paper	
3:00pm	<i>Afternoon tea</i>				
3.15pm	11	<u>NSS initiative</u>			
	11.1	Board meeting summary paper	Note	Paper	200
	11.2	NASS audit evidence update	Consider	Paper	202
	11.2.1	IAASB Audit Evidence gathering	Consider	Paper	212

Est. Time	Item	Topic	Objective		Page
	11.3	PIE definition project	Consider	Paper	
	11.4	NSS Collaboration project update	Note	Paper	
	11.5	Signing partner project survey	Note	Paper	
3.45 pm	12	<u>ISA 600 revision</u>			
	12.1	Board meeting summary paper	Note	Late Paper	
	12.2	Issues paper	Consider	Late Paper	
	12.3	IAASB ED ISA 600	Note	Late Paper	
4.15 pm	13	<u>Environmental Scanning</u>			
	13.1	International monitoring update	Note	Paper	
	13.2	Domestic monitoring update	Note	Paper	
C: NON-PUBLIC SESSION					

Next meeting: 3 June 2020, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	9 April 2020
Subject:	IAASB Consultation Paper-Extended External Reporting (EER) Assurance
Date:	26 March 2020

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Agenda Item Objectives

To:

- CONSIDER the International Auditing and Assurance Standard Board (IAASB)'s consultation paper on EER assurance
- CONSIDER a draft consultation plan
- PROVIDE feedback to be included in developing the NZAuASB's submission

Background

1. The IAASB has issued its [consultation paper on EER assurance](#). Submissions are sought by 13 July 2020.
2. The Consultation Paper is on the full combined updated phase 1 and phase 2 draft non-authoritative guidance: *Special Considerations in Performing Assurance Engagements on Extended External Reporting*. The Consultation Paper also invites comments on two supplementary documents, should respondents wish to comment on their content, structure and relationship to the draft guidance document – *Supplement A: Credibility and Trust Model and Background and Contextual Information* and *Supplement B: Illustrative Examples*.

New Zealand views

3. The NZAuASB provided feedback to the IAASB's consultation paper on Phase 1 of its EER non-authoritative guidance document in June 2019. The submission is available [here](#).
4. We have included the exposure draft on the XRB website and are seeking feedback from New Zealand stakeholders by 12 June, just after the June meeting of the Board.
5. In conjunction with the AUASB, practitioners from both Australia and New Zealand were surveyed to gain further insight into the EER challenges and innovative approaches being

WELLINGTON OFFICE Level 7, 50 Manners St, Wellington • **AUCKLAND OFFICE** Level 12, 55 Shortland St, Auckland
POSTAL PO Box 11250, Manners St Central Wellington 6142, New Zealand • PH +64 4 550 2030 • FAX +64 4 385 3256

applied. The results of this survey are available at agenda item 6.4. We note there was a very low response rate in New Zealand, even though we approached more than 12 practitioners.

6. In addition, Proxima has released its latest research into EER reporting practices in New Zealand, [Towards Transparency](#). While there has been a large increase in the number of sustainability-related reports published in New Zealand (54 in 2018 up to 112 in 2018) the growth in reporting did not translate to increased external assurance of reports. Only 9% of reporters undertook assurance (down from 24% in 2018).

Matters to consider

7. We have developed a draft consultation plan and seek feedback from the Board on this plan. (Agenda item 6.2)
8. In the issues paper at agenda item 6.3, we seek feedback from the board on a number of matters to inform the development of a draft submission for consideration and approval at the June meeting.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Draft consultation plan
Agenda item 6.3	Issues Paper
Agenda item 6.4	Results of combined survey

Issues paper: EER Assurance Consultation Paper

1. In June 2019, the NZAuASB commented on Phase 1 of the project. The NZAuASB has not yet commented on certain matters that were developed under Phase 2.
2. In the table below, we summarise the key matters raised by the NZAuASB in Phase 1 and comment on how these matters have been addressed by the IAASB in the draft consultation paper (CP).

	Comment from NZAuASB submission	IAASB’s response
	General	
1	<p>The developing draft runs the risk of growing into a lengthy, complex document, targeting all types of users in one place, which may pose a barrier to meeting its objectives.</p> <p>Continue to streamline the guidance to make it more user friendly, with a focus on robust and relevant examples. In addition, reducing the amount of repetition of ISAE 3000 (Revised) may help.</p> <p>The guidance could benefit by reducing the amount of repetition on ISAE 3000 (Revised) with a focus on application material and illustrative examples.</p>	<p>To keep the guidance as short and concise as possible, only practical guidance on performing EER engagements is included in the guidance itself. Contextual information and detailed examples have been moved to separate supplementary material.</p> <p>The Guidance is intended for use by practitioners performing assurance engagements, although preparers or users may find the guidance useful to understand respective roles and responsibilities.</p>
2	<p>Use of technology may be one way to link the guidance to the underlying standard effectively, enabling less repetition of the standard in the guidance.</p>	<p>When finalised the cross references in the “PDF” Guidance and supplements will be enhanced by using hyperlinks between the introduction and chapters, between the guidance and the requirements in ISAE 3000, and possible use of pop-up boxes to access definitions or explanations.</p>
3	<p>Clarify the delineation between the preconditions for an assurance engagement and performing the engagement by setting a clear expectation as to the work effort required at each stage, i.e. how much is enough when determining whether the preconditions have been met.</p> <p>This should also recognise that considerations related to internal control and suitable criteria are iterative and may in some circumstances be informed by procedures performed after accepting the engagement.</p> <p>A flowchart diagram may be useful to emphasise the more iterative nature of this evaluation. (An example of such a flowchart, developed for NZ AS 1, is attached as appendix 1, for illustrative purposes).</p>	<p>The work effort pre- and post- acceptance in relation to the entity’s system of internal control has been clarified. The IAASB has explained that when an engagement is an initial or more complex engagement, more extensive consideration may be needed before accepting the engagement.</p> <p>Consider G102 – G111 and Diagram 6 on page 89</p>

	Comment from NZAuASB submission	IAASB's response
4	Avoid establishing too high a hurdle that may result in the assurance process becoming a barrier to the development of EER.	
Preconditions and system of internal control		
5	Need for clarification on the delineation between the preconditions and performing the engagement, i.e. how much is enough when determining whether the preconditions have been met.	The work effort pre and post acceptance have been clarified in relation to suitability of criteria and internal controls. When an engagement is an initial engagement or a more complex engagement, more extensive consideration may be needed before accepting the engagement.
6	These challenges almost “require” an assurance readiness assessment as part of the determination as to whether the preconditions have been met. If such an assessment is not performed separately, in many instances it is unclear how, practically, a practitioner would be able to determine whether the preconditions have been met. This may imply that EER engagements are expected to be recurring engagements, which may not be a valid assumption, or that an assurance readiness assessment will lead to an assurance engagement which may not be the case. It may also imply that meeting the preconditions may get easier over time, which again may not be a valid assumption, given that each year the entity may be reporting on variable subject matter. The entity’s internal controls may therefore always have some lack of maturity, and the developing draft may imply that an assurance engagement may therefore never be appropriate.	The updated guidance sets out several options as to how to obtain preliminary knowledge and gives guidance on: <ul style="list-style-type: none"> • Readiness assessments • Independence considerations • What to do if the preparer is not ready for assurance Chapter 3 has been updated to address the interrelationships between all of the preconditions.
Suitable criteria		
7	Supportive of draft but encouragement to provide even more specific examples. Including additional practical guidance on how to balance between the characteristics where the framework is highly principled based. The NZAuASB expressed explicit support for guidance on how to evaluate both the overarching criteria and the detailed selected measurement and evaluation criteria with a request for examples that demonstrate highly principled frameworks that need to be supplement by entity	The updated guidance clarifies that a set of published criteria is seldom likely to be sufficient on its own to meet the test of suitable criteria and also considers what it means to make the criteria available. Longer examples are illustrated in supplementary material. The consultation paper, in some places in chapter 6 refers to “criteria to identify reporting topics”. We seek views from the Board as to whether this terminology is clear? (We understand that this explicitly describes

	Comment from NZAuASB submission	IAASB's response
	specific measurement or evaluation criteria would be well received.	another layer in the consideration of the suitability of criteria).
8	The NZAuASB has raised concern on the draft guidance (G118) example of a public sector assurance engagement on service performance information, noting that the assurance practitioner would not be able to include any reference to ISAEs in their report and an inconsistency with the approach in NZ AS 1.	There is a difference between the ISAs and the ISAEs. The ISAs note that if additional explanation in the auditor's report can't mitigate possible misunderstanding then no reference can be made to the ISAs. The ISAEs doesn't allow for any additional explanation. (i.e. there is a difference here).
	Materiality process	
9	Mixed views around terminology used to describe the entity's process for developing and applying criteria as the "materiality process". The NZAuASB expressed support for separating the terms and highlighting the difference as helpful	The term "materiality process" has been replaced with "the entity's process to identify reporting topics" to avoid confusion with "materiality" as commonly understood. Clarifies that while the practitioner is not required to consider the entity's process to identify reporting topics, understanding the process may provide useful evidence about the suitability of criteria.
10	Caution against the assurance guidance requiring an entity's materiality process to be disclosed. Other submissions sought clarification from the IAASB as to whether the materiality process should be disclosed.	There is not generally a requirement for the process to identify the reporting topics to be disclosed, although some frameworks do require this. Even if there is no such requirement, users may find it helpful if the process were disclosed and the guidance explicitly notes that.
	Materiality of misstatements	
11	Guidance on performance materiality would be challenging. Significant judgement is needed to determine the implications of a single misstatement (i.e. is the practitioner effectively providing assurance on each measure separately or collectively over the information as a whole.	Developed under phase 2 – consider chapter 8, G.287-298)
	Narrative and future oriented information	
12	Clarification is needed on what constitutes "other information"	Chapter 11 clarifies what is meant by "other information" and gives guidance on steps that may be taken when information that does not result from applying the criteria is included in the EER Report.
13	Further examples and practical guidance	Developed under phase 2 – consider chapter 12
	Terminology	
14	Suggested some clarification of terminology including suggestions for "preparer" and "qualities"	Simplified way in which underlying subject matter is described by referring to 'aspects' of the underlying subject matter.
	Structure	

	Comment from NZAuASB submission	IAASB's response
15	A flowchart to link the stages of the engagement and show the iterative nature of the considerations would be helpful	Diagram 1 illustrates the stages of an assurance engagement, the requirements under the standard and how the guidance links to those requirements

3. In seeking feedback from the assurance reference group, on the developing IAASB meeting papers, practitioners were supportive of getting the guidance issued and seeing how things evolve.
4. The length of the material is still of some concern however use of technology in the final product may assist to make the guidance more user friendly.
5. The Board is asked to provide views on the following matters to inform the development of the submission. Page number references are to the pages of the consultation paper, not the NZAuASB agenda papers. This includes a high level initial analysis on some of the issues which will be developed further in a draft submission through feedback from the Board and outreach with our key stakeholders.

General comments

6. **Do you find the guidance useful and specific to EER (i.e. are there any places where you consider the guidance may still be overly generic or could benefit from a reduction in length specifically?**
For example, Chapter 1 on Competence and Capabilities, Chapter 2 on professional scepticism and professional judgement or Chapter 8 Obtaining Evidence).
7. **Are there any diagrams or examples you find particularly helpful or any that may be overly complex, or have suggestions for clarity?**
For example, diagram1 (page 60 – in response to the suggestion for a flowchart), diagram 4 (page 70), diagram 5 – Acceptance and Continuance (page 74).
8. **Do you find the use of icons helpful?** Are there paragraphs where these icons may be missing?
9. **Is the guidance structured in a way that is easy for practitioners to understand and use?** The guidance is structured in a manner that reflects the flow and stages of the engagement, rather than around the ten challenges.

Changes made to address previous comments raised

10. **Do you consider that the IAASB has addressed the key comments identified by the NZAuASB in Phase 1?**
Refer to table above.

Specific comments on the Chapters developed under phase 2:

Applying appropriate skills (Chapter 1)

11. **Do you consider that Chapter 1 adequately addresses the challenge?**
On the developing drafts discussed by the IAASB we separately commented that this is useful, although may be somewhat generic with too much repetition of ISQC 1. In finalising the Consultation paper, we find the addition of diagrams and examples, together with less repetition of ISQC 1 has further enhanced the chapter. **Are there any suggestions for practical EER examples that could be added?**

Exercising professional judgement and professional scepticism (Chapter 2)

12. Do you consider that Chapter 2 adequately addresses the challenge?

Our initial analysis is that this chapter seems somewhat generic to all assurance engagements (i.e., not EER specific). Diagram 4 for example highlights factors that we consider apply in any assurance engagement.

Agreeing the Scope of the engagement (Part of Chapter 3 pages 80-83)

Our analysis is that Chapter 3, on preconditions more broadly (together with the development of more specific detailed examples in the supplementary material) relating to the preconditions will be very useful in practice and builds out many of the issues the NZAuASB explored in the development of the standard on auditing service performance information (NZ AS 1).

Diagram 5 however is somewhat complex. We have not identified specific ways in which it could be simplified. Paragraph 70 should probably move to above the diagram.

13. Do you consider these paragraphs adequately address the challenge regarding the scope?

Our initial analysis is that the paragraphs on scope will be useful in practice and reflect EER specific examples of current practice.

Guidance on performance materiality

14. Do you consider chapter 8, G.287-298 adequately addresses the challenge?

The NZAuASB has previously commented that guidance on performance materiality would be challenging to develop but that it is a key area in need of guidance. On developing drafts, staff have separately commented that the material under development was overly complex. In finalising the Consultation Paper, we consider that these paragraphs will be useful in addressing the challenge. We seek views on any suggestions or examples that could be used to demonstrate these ideas (if needed).

Preparing the assurance report (Chapter 10)

15. Do you consider that Chapter 10 adequately addresses the challenge?

Our initial analysis is that this Chapter will be very useful in addressing the challenge. This chapter explores a number of issues that the NZAuASB explored in developing NZ AS 1. We seek views as to whether there are other points of emphasis from the NZ AS 1 project that the Board consider would be worth emphasising more.

The completed chapter on narrative information (Chapter 11)

16. Do you consider that Chapter 11 adequately addresses the challenge?

We seek views as to whether there are any suggestions for this chapter.

The completed chapter on future-oriented information (Chapter 12)

17. Do you consider that Chapter 12 adequately addresses the challenge?

We seek views as to whether there are any suggestions for this chapter.

18. Do you have any comments on the matters previously identified in the NZAuASB submission for further consideration under Phase 2:

- i. How to make criteria available to intended users (G179-G183 page 97 and G347-355 page 136-138) Our initial analysis is that this material will be very useful.
- ii. Other information (G407-G410 page 152)

19. Do you have any comments on Supplement A?

We wonder if it is worth seeking feedback on supplement A from the NZASB?

20. Do you have any comments on the detailed examples in Supplement B?

Our initial analysis is that these examples will be very useful in practice. We also find that separating these from the guidance may be a useful way of providing the examples without bulking up the guidance document.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	9 April 2020
Subject:	Amending PES 1 to Include Part 2 of the IESBA Code
Date:	25 March 2020
Prepared by:	Sharon Walker

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Agenda Item Objectives

1. The objective for this agenda item is for the Board to:
 - (i) to CONSIDER and APPROVE as an exposure draft ED NZAuASB 2020-1, *Proposed Amendments to Professional and Ethical Standard 1: Part 2, Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm*

Background and Issue

2. Part 2 of the IESBA Code sets out requirements and application material for professional accountants in business when applying the conceptual framework. Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.
3. At the Board's December 2019 we presented new thinking to the Board about the inclusion of Part 2 into PES 1. Current thinking is that inclusion of Part 2 of the IESBA Code, as it relates to assurance practitioners, does fit within the mandate of the NZAuASB and that it is appropriate to include it within PES 1. This was confirmed by the Board at its February 2020 meeting.
4. The Board further agreed to:
 - (i) incorporate Part 2 in its entirety; and
 - (ii) not include NZ specific content included in the NZICA Code on the basis that either the content is guidance rather than requirement, or the change is not consistent NZAuASB contextual changes. The Board requested that the Board's rationale be included in the invitation to comment.

5. The Board agreed that use of the term “assurance practitioner” in Part 2 is confusing and requested staff to consider alternatives. The term “professional accountant” was not considered to be an appropriate alternative.
6. We considered using the term “practitioner” in Part 2 rather than “assurance practitioner” and while not defined in the glossary, to describe in proposed paragraph NZ 200.4 the term “practitioner” as an individual who is an assurance practitioner when performing professional activities pursuant to the assurance practitioner’s relationship with the assurance practitioner’s firm, whether as a contractor, employee or owner.” However, after making the necessary changes throughout the draft ED, on reflection, using a term other than “assurance practitioner” didn’t seem to be the best approach when you consider the Code as a whole, taking into account the mandate of the NZAuASB.
7. Instead of changing the term used throughout Part 2, in paragraph NZ 200.4 we have added some wording that we believe helps to clarify the context of the application of Part 2 to assurance practitioners. (see italicised wording below)

NZ 200.4 In this Part, the term “assurance practitioner” refers to an individual who is an assurance practitioner when performing professional activities pursuant to the assurance practitioner’s relationship with the assurance practitioner’s firm, whether as a contractor, employee or owner. *The provisions in Part 2 deal mainly with matters that are relevant to professional activities that occur internally within the employing organisation. A number of those provisions may be less relevant to an assurance practitioner. The assurance practitioner uses professional judgement when determining which of those provisions are relevant to the assurance practitioner.* More information on when Part 2 is applicable to assurance practitioners is set out in paragraphs R120.4, R300.5 and 300.5 A1.

8. Does the Board agree with the use of the term “assurance practitioner” throughout Part 2 given the wording added in NZ 200.4 to describe the context?

Exposure Period and Effective Date

9. Although we recognise that Part 2 is based on the IESBA Code, we recommend a comment period of 90 days in line with the NZAuASB’s process for setting domestic standards¹. We believe that this will give stakeholders the necessary time to fully consider the impact of the changes in New Zealand.
10. We propose Part 2 be effective on 15 December 2020. A limited implementation period is proposed on the basis that assurance practitioners are currently required to comply with ethical requirements to address the circumstances addressed by the inclusion of Part 2.
11. This timetable would require consideration of comments and approval by the Board at either the September or October Board meeting.

¹ EG Au2 Overview of the Auditing and Assurance Standard Setting Process, paragraph 32

12. Does the Board agree that:

(i) A 90 day comment period is appropriate?

(ii) A limited implementation period is appropriate with the proposals becoming effective on 15 December 2020?

Matters to Consider

13. The Board is asked to CONSIDER and APPROVE NZAuASB ED 2020-1, *Proposed Amendments to PES 1: Part 2 – Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm* and the related invitation to comment.

Material Presented

Agenda item 7.1

Board Meeting Summary Paper

Agenda item 7.2

Draft ITC and ED (for approval)



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

EXPOSURE DRAFT NZAuASB 2020-1

PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: PART 2, ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

(ED NZAuASB 2020-1)

Invitation to Comment

April 2020

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**ED NZAuASB 2020-1 Proposed Amendments to PES 1: Part 2,
Assurance Practitioners Performing Professional Activities Pursuant
to Their Relationship with the Firm**

Information for respondents

Invitation to comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising amendments to Professional and Ethical Standard 1.

If you want to comment, please supplement your opinions with detailed comments, whether supportive of 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 at

[insert link]

The closing date for submission is 31 July 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, therefore, it may be released in part or in 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 to be withheld, and the ground 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).

¹ The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

NZAuASB	New Zealand Auditing and Assurance Standards Board
ED	Exposure Draft
IESBA	International Ethics Standards Board for Accountants
IESBA Code	International Code of Ethics for Professional Accountants (Including International Independence Standards)
ITC	Invitation to Comment
NOCLAR	Non-compliance with laws and regulations
PAIB	Professional Accountant in Business
PAPP	Professional Accountant in Public Practice
PES	Professional and Ethical Standard
XRB	External Reporting Board

Summary of questions for respondents

1. Do you agree with the proposal to include Part 2 of the IESBA Code in PES 1 as it relates to assurance practitioners? If not, please explain why not.
2. Do you agree with the NZAuASB that the NZICA modifications do not meet the compelling reasons test? If not, please explain why not.
3. Do you agree with the proposed consequential amendments to PES 1? If not, please explain why not.
4. Do you agree with the proposed effective date? If not, please explain why not.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek comments on the proposals in ED NZAuASB 2020-1 *Proposed Amendments to Professional and Ethical Standard 1: Part 2, Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm*.

1.2 Background

2. In 2018, the NZAuASB issued its revised Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. In line with the XRB's strategic objective, the NZAuASB adopted the IESBA's revised and restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* excluding Part 2 *Professional Accountants in Business* as Part 2 was deemed to be outside the mandate of the XRB.
3. At the international level, questions have been asked about whether the provisions applicable to professional accountants in business (PAIB) should also apply to professional accountants in public practice (PAPP). When finalising the revised and restructured IESBA Code, the IESBA sought to clarify the applicability, recognising that in certain circumstances the provisions for PAIBs may be relevant to PAPPs.
4. It is the intent of the IESBA that the provisions in the Code should be considered and applied in a holistic manner. It is a PAPP's responsibility to consider the context in which an ethics issue has occurred, and then consult the relevant provisions in the IESBA Code, irrespective of where those provisions are located within the IESBA Code.²
5. The provisions in Part 2 deal mainly with matters that are relevant to professional activities that occur internally within the employing organisation. A number of those provisions may be less relevant to an assurance practitioner. There are also provisions in Part 2 that are duplicative of material dealt with in Part 3 of the Code. For example, both Part 2 and Part 3 deal with NOCLAR and conflicts of interest.

² [IESBA Basis for Conclusions, Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice](#)

6. In developing the exposure draft, the NZAuASB considered whether to incorporate Part 2 as a whole, or exclude those provisions in Part 2 that appear to be of less relevance to an assurance practitioner.
7. A key strategic objective set by the XRB Board for the NZAuASB is to adopt auditing and assurance standards, including the professional and ethical standards, in New Zealand unless there are strong reasons not to. Modifications for the application in New Zealand may be acceptable provided such modifications consider the public interest, and do not conflict with or result in lesser requirements than the international standards.
8. Excluding some of the provisions of Part 2 requires judgement in determining those that are not relevant to an assurance practitioner.
9. Incorporating Part 2 as a whole creates duplication resulting in a longer and more complex Code than is necessary to address the issues that may be relevant to assurance practitioners pursuant to their relationship with the firm. However, this is expected to be beneficial to all assurance practitioners by providing all ethical requirements in one place.
10. PES 1 requires the assurance practitioner to comply with any other ethical provisions that apply when performing assurance services pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner³. Given the holistic nature of the revised and restructured IESBA Code, the NZAuASB believes that it is appropriate to amend PES 1 to incorporate Part 2 in its entirety.

1.4 Timeline and next steps

11. Submissions on ED 2020-1 are due by 31 July 2020. Information on how to make submissions is provided on page 3 of this Invitation to Comment.
12. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue amendments to PES 1.

2. Overview of ED NZ 2020-1

³ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, paragraph NZ R300.5

2.1 Key Changes

13. The NZAuASB is proposing to amend PES 1 to include Part 2⁴ of the IESBA Code. It is possible for assurance practitioners to find themselves in ethically problematic circumstances that do not involve clients and hence face the same issues and ethical dilemmas as PAIBs. Examples of such circumstances include, potential conflicts an assurance practitioner may face when performing work for an employing organisation, facing undue pressure from within the firm, or facing pressure from within the firm to offer inducements. Circumstances such as these are currently addressed in PES 1 by reference to other ethical requirements⁵.
14. It is proposed that Part 2 will apply to assurance practitioners when performing assurance services pursuant to their relationship with the firm, whether as a contractor, employee or owner.
15. Certain contextual changes have been made to “New Zealandise” the IESBA wording. These changes do not necessitate use of the NZ prefix.

Question for respondents

- 1. Do you agree with the proposal to include Part 2 of the IESBA Code in PES 1 as it relates to assurance practitioners? If not, please explain why not.**

2.2 New Zealand Specific Content

16. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand where there are compelling reasons to do so. The XRB Board considers such modifications acceptable provided they consider the public interest, and do not conflict with or result in lesser requirements than the

⁴ International Code of Ethics for Assurance Practitioners (including International Independence Standards), Part 2, *Professional Accountants in Business*

⁵ PES 1, paragraph NZ R300.5 states, “When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical provisions that apply to these circumstances.”

international standards. In considering whether modifications are necessary, the NZAuASB considers the compelling reasons test.

17. In the case of an international standard that is being reviewed for the purpose of adoption in New Zealand, the compelling reasons test⁶ 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 the use of significant terminology).
18. 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:
 - 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 of New Zealand; and
 - The modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than the international standard.
19. 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:
 - 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 improvements in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment; and

⁶ See [*Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board, and to the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants*](#), paragraphs 10-12.

- The relative benefits of modifying the standard outweigh the costs (with cost being primarily compliance cost and the cost of differing from international standards and the Australian standards, and benefit primarily relating to audit/assurance quality); and
 - 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.
20. In considering possible modifications to be made in New Zealand, the NZAuASB considered changes made by the Accounting Professional and Ethical Standards Board in Australia to APES 110⁷. The NZAuASB did not identify any modifications that would be appropriate in New Zealand.
21. While not part of its convergence protocols, the NZAuASB also considered modifications to Part 2 made by the New Zealand Regulatory Board in revising the [NZ Code of Ethics](#) ("NZICA Code"), which applies to all members of Chartered Accountants Australia and New Zealand in New Zealand.
22. Four New Zealand paragraphs were noted in the [NZICA Code](#).
- Paragraphs NZ220.10 A1 and NZ270.3 A3 change the term "professional standards" to "technical and professional standards". Ordinarily, the NZAuASB would change the term "technical and professional standards" used in the IESBA Code to "standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board." The words "professional standards" on their own are not a contextual change for purposes of the NZAuASB and generally are not changed.

⁷ APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*

Accordingly, the NZAuASB has retained the term “professional standards” in the exposure draft.

- In paragraph NZ210.8 A1, the words “in writing” have been added to subparagraphs (a) and (b), encouraging the member to disclose conflicts of interest in writing and the obtain consent in writing. This NZ modification is not a requirement in the NZICA Code, rather it is an amendment to an application paragraph. The IESBA Code encourages documentation of disclosure and consent when such disclosure or consent is not in writing (refer paragraph 210.8 A3). Equivalent paragraphs in Part 3 of PES 1⁸ require disclosure of conflicts of interest and consent to be in writing. The NZAuASB has not proposed to make this change in the exposure draft.
 - NZ210.8 A4 is application material encouraging the member to document all matters set out in this section. This paragraph has been added; there is no equivalent paragraph in the IESBA Code. The NZAuASB does not generally add paragraphs encouraging documentation. Accordingly, this paragraph has not been added in the exposure draft.
23. The identified NZ paragraphs in the NZICA Code all modify application paragraphs. They do not establish additional requirements. The NZAuASB is of the view that these amendments do not meet the compelling reasons test as described in paragraphs 17-19.

Question for respondents

3. Do you agree with the NZAuASB that the NZICA modifications do not meet the compelling reasons test? If not, please explain why not.

2.3 Consequential Amendments

24. The inclusion of Part 2 in PES 1 necessitates consequential amendments to PES 1. These include amendments to:
- the Guide to the Code to include a description of Part 2;
 - the NZ Preface to delete the reference to specific parts of the IESBA Code;
 - the Glossary to add definitions that relate to Part 2; and

⁸ See PES 1, paragraphs NZ R310.9.1 and NZ R310.9.2

- sections 120 and 300 to remove the New Zealand paragraph and replace with the text of the IESBA Code. Inclusion of Part 2 in PES 1 eliminates the need for New Zealand specific requirements relating to its applicability.

Question for respondents

3. Do you agree with the proposed consequential amendments to PES 1? If not, please explain why not.

2.4 Effective Date

25. The NZAuASB proposes the revisions be effective on 15 December 2020.
26. The NZAuASB proposes a limited implementation period on the basis that assurance practitioners are currently required to comply with other ethical requirements to address the circumstances addressed by the inclusion of Part 2.

Question for respondents

4. Do you agree with the proposed effective date? If not, please explain why not.

EXPOSURE DRAFT NZAuASB 2020-1

Proposed Amendments to Professional and Ethical Standard 1: *Part 2 Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm*

CONTENTS

A: INTRODUCTION

B: PART 2, ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

C: CONSEQUENTIAL AMENDMENTS

D: EFFECTIVE DATE

A: INTRODUCTION

This document sets out proposed amendments to Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

Section B of this document amends Professional and Ethical Standard 1 to include Part 2 of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the IESBA.

Section C of this document proposes consequential amendments to other parts of Professional and Ethical Standard 1 that are necessary to reflect the inclusion of Part 2. Amended paragraphs are shown with new text underlined and deleted text struck through.

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B: PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM.

Introduction

- 200.1 This Part of the Code sets out requirements and application material for assurance practitioners, performing professional activities pursuant to their relationship with the firm, when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of assurance practitioners. Assurance practitioners might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organisations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 An assurance practitioner might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organisation. The legal form of the relationship of the assurance practitioner with the employing organisation has no bearing on the ethical responsibilities placed on the assurance practitioner.
- 200.4 *[Amended by the NZAuASB]*
- NZ 200.4 In this Part, the term “assurance practitioner” refers to an individual who is an assurance practitioner when performing professional activities pursuant to the assurance practitioner’s relationship with the assurance practitioner’s firm, whether as a contractor, employee or owner. The provisions in Part 2 deal mainly with matters that are relevant to professional activities that occur internally within the employing organisation. A number of those provisions may be less relevant to an assurance practitioner. The assurance practitioner uses professional judgement when determining which of those provisions are relevant to the assurance practitioner. More information

on when Part 2 is applicable to assurance practitioners is set out in paragraphs R120.4, R300.5 and 300.5 A1.

Requirements and Application Material

General

- R200.5** An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.
- 200.5 A1 An assurance practitioner has a responsibility to further the legitimate objectives of the assurance practitioner's employing organisation. The Code does not seek to hinder assurance practitioners from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.
- 200.5 A2 Assurance practitioners may promote the position of the employing organisation when furthering the legitimate goals and objectives of their employing organisation, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.
- 200.5 A3 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, assurance practitioners are expected to encourage and promote an ethics-based culture in the organisation. Examples of actions that might be taken include the introduction, implementation and oversight of:
- Ethics education and training programs.
 - Ethics and whistle-blowing policies.
 - Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

- 200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for an assurance practitioner when undertaking a professional activity:
- (a) Self-interest Threats
- An assurance practitioner holding a financial interest in, or receiving a loan or guarantee from, the employing organisation.
 - An assurance practitioner participating in incentive compensation arrangements offered by the employing organisation.
 - An assurance practitioner having access to corporate assets for personal use.

- An assurance practitioner being offered a gift or special treatment from a supplier of the employing organisation.
- (b) Self-review Threats
- An assurance practitioner determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) Advocacy Threats
- An assurance practitioner having the opportunity to manipulate information in a prospectus in order to obtain favourable financing.
- (d) Familiarity Threats
- An assurance practitioner being responsible for the financial reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial reporting of the organisation.
 - An assurance practitioner having a long association with individuals influencing business decisions.
- (e) Intimidation Threats
- An assurance practitioner or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - The application of an accounting principle.
 - The way in which financial information is to be reported.
 - An individual attempting to influence the decision-making process of the assurance practitioner, for example with regard to the awarding of contracts or the application of an accounting principle.

Evaluating Threats

- 200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.
- 200.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.
- 200.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:
- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
 - Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.

- Policies and procedures to implement and monitor the quality of employee performance.
- Systems of corporate oversight or other oversight structures and strong internal controls.
- Recruitment procedures emphasising the importance of employing high calibre competent personnel.
- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and code of conduct policies.

200.7 A4 Assurance practitioners might consider obtaining legal advice where they believe that unethical behaviour or actions by others have occurred, or will continue to occur, within the employing organisation.

Addressing Threats

200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.

200.8 A2 In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for an assurance practitioner to resign from the employing organisation.

Communicating with Those Charged with Governance

R200.9 When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the employing organisation's governance structure with whom to communicate. If the assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.9 A1 In determining with whom to communicate, an assurance practitioner might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

200.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

R200.10 If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.

200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organisation, for example, a small business where a single owner manages the organisation and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the assurance practitioner has satisfied the requirement to communicate with those charged with governance.

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SECTION 210

CONFLICTS OF INTEREST

Introduction

- 210.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 210.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) An assurance practitioner undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
 - (b) The interest of an assurance practitioner with respect to a particular matter and the interests of a party for whom the assurance practitioner undertakes a professional activity related to that matter are in conflict.
- A party might include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.
- 210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

Requirements and Application Material

General

- R210.4** An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.
- 210.4 A1 Examples of circumstances that might create a conflict of interest include:
- Serving in a management or governance position for two employing organisations and acquiring confidential information from one organisation that might be used by the assurance practitioner to the advantage or disadvantage of the other organisation.
 - Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the assurance practitioner to assist them to dissolve their partnership.
 - Preparing financial information for certain members of management of the assurance practitioner's employing organisation who are seeking to undertake a management buy-out.
 - Being responsible for selecting a vendor for the employing organisation when an immediate family member of the assurance practitioner might benefit financially from the transaction.
 - Serving in a governance capacity in an employing organisation that is approving certain investments for the company where one of those investments will increase

the value of the investment portfolio of the assurance practitioner or an immediate family member.

Conflict Identification

R210.5 An assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

R210.6 An assurance practitioner shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Threats Created by Conflicts of Interest

210.7 A1 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

Disclosure and Consent

General

210.8 A1 It is generally necessary to:

- (a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organisation affected by a conflict; and
- (b) Obtain consent from the relevant parties for the assurance practitioner to undertake the professional activity when safeguards are applied to address the threat.

210.8 A2 Consent might be implied by a party's conduct in circumstances where the assurance practitioner has sufficient evidence to conclude that the parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

210.8 A3 If such disclosure or consent is not in writing, the assurance practitioner is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

Other Considerations

210.9 A1 When addressing a conflict of interest, the assurance practitioner is encouraged to seek guidance from within the employing organisation or from others, such as a professional body, legal counsel or another assurance practitioner. When making such disclosures or sharing information within the employing organisation and seeking guidance of third parties, the principle of confidentiality applies.

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SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

- 220.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 220.3 A1 Assurance practitioners at all levels in an employing organisation are involved in the preparation or presentation of information both within and outside the organisation.
- 220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:
- Management and those charged with governance.
 - Investors and lenders or other creditors.
 - Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organisation's state of affairs and in making decisions concerning the organisation. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
 - Decision support analyses.
 - Budgets and forecasts.
 - Information provided to the internal and external auditors.
 - Risk analyses.
 - General and special purpose financial statements.
 - Tax returns.
 - Reports filed with regulatory bodies for legal and compliance purposes.
- 220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

R220.4 When preparing or presenting information, an assurance practitioner shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgement to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature of business transactions or activities; and
 - (iii) Classify and record information in a timely and proper manner; and
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgements. The assurance practitioner shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the assurance practitioner shall exercise professional judgement to identify and consider:

- (a) The purpose for which the information is to be used;

- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgements.

220.6 A2 The assurance practitioner might also consider clarifying the intended audience, context and purpose of the information to be presented.

Relying on the Work of Others

R220.7 An assurance practitioner who intends to rely on the work of others, either internal or external to the employing organisation, shall exercise professional judgement to determine what steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

Addressing Information that Is or Might be Misleading

R220.8 When the assurance practitioner knows or has reason to believe that the information with which the assurance practitioner is associated is misleading, the assurance practitioner shall take appropriate actions to seek to resolve the matter.

220.8 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the assurance practitioner's superior and/or the appropriate level(s) of management within the assurance practitioner's employing organisation or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organisation (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.8 A2 The assurance practitioner might determine that the employing organisation has not taken appropriate action. If the assurance practitioner continues to have reason to believe that the information is misleading, the following further actions might be

appropriate provided that the assurance practitioner remains alert to the principle of confidentiality:

- Consulting with:
 - A relevant professional body.
 - The internal or external auditor of the employing organisation.
 - Legal counsel.
- Determining whether any requirements exist to communicate to:
 - Third parties, including users of the information.
 - Regulatory and oversight authorities.

R220.9 If after exhausting all feasible options, the assurance practitioner determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the assurance practitioner shall refuse to be or to remain associated with the information.

220.9 A1 In such circumstances, it might be appropriate for an assurance practitioner to resign from the employing organisation.

Documentation

220.10 A1 The assurance practitioner is encouraged to document:

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the assurance practitioner attempted to address the matter(s).

Other Considerations

220.11 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.11 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.11 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

Introduction

- 230.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R230.3** An assurance practitioner shall not intentionally mislead an employing organisation as to the level of expertise or experience possessed.
- 230.3 A1 The principle of professional competence and due care requires that an assurance practitioner only undertake significant tasks for which the assurance practitioner has, or can obtain, sufficient training or experience.
- 230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if an assurance practitioner has:
- Insufficient time for performing or completing the relevant duties.
 - Incomplete, restricted or otherwise inadequate information for performing the duties.
 - Insufficient experience, training and/or education.
 - Inadequate resources for the performance of the duties.
- 230.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- The extent to which the assurance practitioner is working with others.
 - The relative seniority of the assurance practitioner in the business.
 - The level of supervision and review applied to the work.
- 230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Obtaining assistance or training from someone with the necessary expertise.
 - Ensuring that there is adequate time available for performing the relevant duties.
- R230.4** If a threat to compliance with the principle of professional competence and due care cannot be addressed, an assurance practitioner shall determine whether to decline to perform the duties in question. If the assurance practitioner determines that declining is appropriate, the assurance practitioner shall communicate the reasons.

Other Considerations

230.5 A1 The requirements and application material in Section 270 apply when an assurance practitioner is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

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SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING

Introduction

- 240.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R240.3** An assurance practitioner shall not manipulate information or use confidential information for personal gain or for the financial gain of others.
- 240.3 A1 Assurance practitioners might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.
- 240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the assurance practitioner or an immediate or close family member:
- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
 - Holds a direct or indirect financial interest in the employing organisation and the value of that financial interest might be directly affected by decisions made by the assurance practitioner.
 - Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the assurance practitioner.
 - Holds, directly or indirectly, deferred bonus share rights or share options in the employing organisation, the value of which might be affected by decisions made by the assurance practitioner.
 - Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximise the value of the employing organisation's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
 - All relevant interests.
 - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

SECTION 250

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

- 250.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 250.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.
- 250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires an assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

- 250.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
 - Hospitality.
 - Entertainment.
 - Political or charitable donations.
 - Appeals to friendship and loyalty.
 - Employment or other commercial opportunities.
 - Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

- R250.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the assurance practitioner encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

250.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behaviour

R250.7 An assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the assurance practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

R250.8 An assurance practitioner shall not accept, or encourage others to accept, any inducement that the assurance practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

250.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for an assurance practitioner in considering what constitutes unethical behaviour on the part of the assurance practitioner and, if necessary by analogy, other individuals.

250.9 A2 A breach of the fundamental principle of integrity arises when an assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

250.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgement. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organisation, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the inducement.
- Whether the assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organisation.

- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of Further Actions

250.10 A1 If the assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R250.7 and R250.8 are met.

250.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management or those charged with governance of the employing organisation of the assurance practitioner or the offeror regarding the offer.
- Amending or terminating the business relationship with the offeror.

Inducements with No Intent to Improperly Influence Behaviour

250.11 A1 The requirements and application material set out in the conceptual framework apply when an assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

250.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

250.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the assurance practitioner has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
 - An assurance practitioner is offered part-time employment by a vendor.
- Familiarity threats
 - An assurance practitioner regularly takes a customer or supplier to sporting events.
- Intimidation threats
 - An assurance practitioner accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

250.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 250.9 A3 for determining intent.

250.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.

- Transferring responsibility for any business-related decision involving the counterparty to another individual who the assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

250.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management or those charged with governance of the employing organisation of the assurance practitioner or of the counterparty about offering or accepting an inducement.
- Registering the inducement in a log maintained by the employing organisation of the assurance practitioner or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the assurance practitioner with respect to the individual or organisation from which the assurance practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R250.12 An assurance practitioner shall remain alert to potential threats to the assurance practitioner's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the assurance practitioner to a counterparty with whom the assurance practitioner has a professional relationship; or
- (b) To an immediate or close family member of the assurance practitioner by a counterparty with whom the assurance practitioner has a professional relationship.

R250.13 Where the assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the assurance practitioner or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the assurance practitioner shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the assurance

practitioner or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The assurance practitioner and the immediate or close family member;
- (b) The immediate or close family member and the counterparty; and
- (c) The assurance practitioner and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the assurance practitioner by a counterparty with whom the assurance practitioner is negotiating a significant contract might indicate such intent.

250.13 A2 The application material in paragraph 250.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty even if the immediate or close family member has followed the advice given pursuant to paragraph R250.13.

Application of the Conceptual Framework

250.14 A1 Where the assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the assurance practitioner pursuant to paragraph R250.13; or
- (b) The assurance practitioner does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty exists.

250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 250.13 A1.

Other Considerations

250.15 A1 If an assurance practitioner is offered an inducement by the employing organisation relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 apply.

250.15 A2 If an assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organisation, the requirements and application material set out in Section 260 apply.

250.15 A3 If an assurance practitioner faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 apply.

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 260.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation's financial statements; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:
- (a) To comply with the principles of integrity and professional behaviour;
 - (b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

260.5 A1 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The assurance practitioner’s employing organisation;
- (b) Those charged with governance of the employing organisation;
- (c) Management of the employing organisation; or
- (d) Other individuals working for or under the direction of the employing organisation.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R260.6 In some jurisdictions, there are legal or regulatory provisions governing how assurance practitioners are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

- 260.6 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.
- 260.7 A1 This section applies regardless of the nature of the employing organisation, including whether or not it is a public interest entity.
- 260.7 A2 An assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organisation, its stakeholders and the general public.
- 260.7 A3 This section does not address:
- (a) Personal misconduct unrelated to the business activities of the employing organisation; and
 - (b) Non-compliance by parties other than those specified in paragraph 260.5 A1.
- The assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Employing Organisation's Management and Those Charged with Governance

- 260.8 A1 The employing organisation's management, with the oversight of those charged with governance, is responsible for ensuring that the employing organisation's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:
- (a) The employing organisation;
 - (b) An individual charged with governance of the employing organisation;
 - (c) A member of management; or
 - (d) Other individuals working for or under the direction of the employing organisation.

Responsibilities of All Assurance Practitioners

- R260.9** If protocols and procedures exist within the assurance practitioner's employing organisation to address non-compliance or suspected non-compliance, the assurance practitioner shall consider them in determining how to respond to such non-compliance.
- 260.9 A1 Many employing organisations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.
- R260.10** Where an assurance practitioner becomes aware of a matter to which this section applies, the steps that the assurance practitioner takes to comply with this section shall

be taken on a timely basis. For the purpose of taking timely steps, the assurance practitioner shall have regard to the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or the general public.

Responsibilities of Senior Assurance Practitioners

260.11 A1 Senior assurance practitioners are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other assurance practitioners within the employing organisation. This is because of senior assurance practitioners' roles, positions and spheres of influence within the employing organisation.

Obtaining an Understanding of the Matter

R260.12 If, in the course of carrying out professional activities, a senior assurance practitioner becomes aware of information concerning non-compliance or suspected non-compliance, the senior assurance practitioner shall obtain an understanding of the matter. This understanding shall include:

- (a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;
- (b) The application of the relevant laws and regulations to the circumstances; and
- (c) An assessment of the potential consequences to the employing organisation, investors, creditors, employees or the wider public.

260.12 A1 A senior assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a level of understanding of laws and regulations greater than that which is required for the assurance practitioner's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.12 A2 Depending on the nature and significance of the matter, the senior assurance practitioner might cause, or take appropriate steps to cause, the matter to be investigated internally. The assurance practitioner might also consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

Addressing the Matter

R260.13 If the senior assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall, subject to paragraph R260.9, discuss the matter with the assurance practitioner's immediate superior, if any. If the assurance practitioner's immediate superior appears to be involved in the matter, the

assurance practitioner shall discuss the matter with the next higher level of authority within the employing organisation.

260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.

R260.14 The senior assurance practitioner shall also take appropriate steps to:

- (a) Have the matter communicated to those charged with governance;
- (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
- (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
- (d) Reduce the risk of re-occurrence; and
- (e) Seek to deter the commission of the non-compliance if it has not yet occurred.

260.14 A1 The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfil their responsibilities.

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior assurance practitioner shall determine whether disclosure of the matter to the employing organisation's external auditor, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior assurance practitioner's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

Determining Whether Further Action Is Needed

R260.16 The senior assurance practitioner shall assess the appropriateness of the response of the assurance practitioner's superiors, if any, and those charged with governance.

260.16 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior assurance practitioner's superiors, if any, and those charged with governance include whether:

- The response is timely.
- They have taken or authorised appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R260.17 In light of the response of the senior assurance practitioner's superiors, if any, and those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.

260.17 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the employing organisation.
- Whether the senior assurance practitioner continues to have confidence in the integrity of the assurance practitioner's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organisation, investors, creditors, employees or the general public.

260.17 A2 Examples of circumstances that might cause the senior assurance practitioner no longer to have confidence in the integrity of the assurance practitioner's superiors and those charged with governance include situations where:

- The assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

R260.18 The senior assurance practitioner shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the assurance practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the assurance practitioner has acted appropriately in the public interest.

260.18 A1 Further action that the senior assurance practitioner might take includes:

- Informing the management of the parent entity of the matter if the employing organisation is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Resigning from the employing organisation.

260.18 A2 Resigning from the employing organisation is not a substitute for taking other actions that might be needed to achieve the senior assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the assurance practitioner. In such circumstances, resignation might be the only available course of action.

Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgements, the senior assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

260.20 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

260.20 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The employing organisation is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The employing organisation is regulated and the matter is of such significance as to threaten its license to operate.
- The employing organisation is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organisation's securities or pose a systemic risk to the financial markets.
- It is likely that the employing organisation would sell products that are harmful to public health or safety.
- The employing organisation is promoting a scheme to its clients to assist them in evading taxes.

260.20 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.

- Whether there are actual or potential threats to the physical safety of the senior assurance practitioner or other individuals.

R260.21 If the senior assurance practitioner determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

Imminent Breach

R260.22 In exceptional circumstances, the senior assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organisation, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Documentation

260.23 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior assurance practitioner is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the assurance practitioner's superiors, if any, and those charged with governance and other parties.
- How the assurance practitioner's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R260.17.

Responsibilities of Assurance Practitioners Other than Senior Assurance Practitioners

R260.24 If, in the course of carrying out professional activities, an assurance practitioner becomes aware of information concerning non-compliance or suspected non-compliance, the assurance practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

260.24 A1 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a

level of understanding of laws and regulations greater than that which is required for the assurance practitioner's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.24 A2 Depending on the nature and significance of the matter, the assurance practitioner might consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

R260.25 If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the assurance practitioner's immediate superior appears to be involved in the matter, the assurance practitioner shall inform the next higher level of authority within the employing organisation.

R260.26 In exceptional circumstances, the assurance practitioner may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the assurance practitioner does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

Documentation

260.27 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the assurance practitioner's superior, management and, where applicable, those charged with governance and other parties.
- How the assurance practitioner's superior has responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

- 270.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 270.2 Pressure exerted on, or by, an assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R270.3 An assurance practitioner shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- (b) Place pressure on others that the assurance practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 An assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organisation, for example, from a colleague or superior.
- An external individual or organisation such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the assurance practitioner's employing organisation to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
 - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
 - Pressure from colleagues to misstate income, expenditure or rates of return

to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
 - Pressure from superiors to inappropriately reduce the extent of work performed.
 - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
 - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to inducements:
 - Pressure from others, either internal or external to the employing organisation, to offer inducements to influence inappropriately the judgement or decision making process of an individual or organisation.
 - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
 - Pressure to structure a transaction to evade tax.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organisation including the extent to which they reflect or emphasise the importance of ethical behaviour and the expectation that employees will act ethically. For example, a corporate culture

that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.

- Policies and procedures, if any, that the employing organisation has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the assurance practitioner's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organisation, including when appropriate, explaining any consequential risks to the organisation, for example with:
 - Higher levels of management.
 - Internal or external auditors.
 - Those charged with governance.
- Disclosing the matter in line with the employing organisation's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
 - A colleague, superior, human resources personnel, or another assurance practitioner;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties so that the assurance practitioner is no longer involved with the individual or entity exerting the pressure.

Documentation

270.4 A1 The assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

DRAFT

C: CONSEQUENTIAL AMENDMENTS

C1: GUIDE TO THE CODE

Paragraph 4 in the section *Guide to the Code* is amended to include reference to Part 2

How the Code is Structured

4. The Code contains the following material:
- Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework.
 - ~~[Part 2 – *deleted by the NZAuASB*]~~ Part 2 – *Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm*, is applicable to individuals who are assurance practitioners when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.
 - Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, which sets out additional material that applies to assurance practitioners when providing assurance services.
 - *International Independence Standards (New Zealand)*, which sets out additional material that applies to assurance practitioners when providing assurance services, as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.
 - *Glossary*, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code.

...

C2: NEW ZEALAND PREFACE

Amended paragraphs are shown with new text underlined and deleted text struck through.

The New Zealand Preface is amended to remove reference to the individual parts of the IESBA Code.

Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, (“the Code”), issued by the NZAuASB is based on ~~Parts 1, 3, 4A and 4B~~ of the International Code of Ethics for Professional Accountants (including International Independence Standards (“the International Code”). The International Code is issued by the International Ethics Standards Board for Accountants. It is published by the International Federation of Accountants (IFAC) and used with permission of IFAC, as it applies to assurance practitioners in New Zealand.

New Zealand additions and deletions are prefixed with NZ in the Code.

The Code is based on a number of fundamental principles that express the basic tenets of professional and ethical behaviour and conduct. Assurance practitioners must abide by these fundamental principles when performing assurance engagements.

The International Independence Standards (New Zealand) set out requirements that apply to all entities and all assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements. Many of the examples provided of actions that might reduce the threat may not be available to small entities and small firms. For example, involving individuals within the firm who are not members of the assurance team in, for example, providing non-assurance services to an assurance client, may not reduce the threats to independence to an acceptable level given the likely closeness of relationships of staff within small firms.

C3: PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

Paragraph 120.3 A1 is amended to include Part 2. Paragraph NZ R120.4.1 is deleted and replaced with R120.4

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

Requirements and Application Material

General

R120.3 The assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- (a) Part 2 – Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm;
- (b) Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*; and
- (c) *International Independence Standards (New Zealand)*, as follows:
 - (i) Part 4A – *Independence for Audit and Review Engagements*; and
 - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

R120.4 ~~*[Amended by the NZAuASB. Refer to NZ R120.4.1]*~~ When dealing with an ethics issue the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

~~**NZ R120.4.1** ——— When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical standards that apply to these circumstances.~~

C4: PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

Paragraph NZ R300.5 is deleted and replaced with R300.5 and paragraph 300.5 A1 is amended to include references to relevant sections in Part 2.

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK

Requirements and Application Material

General

R300.4 An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 ~~*[Deleted by the NZAuASB. Refer to NZ R300.5]*~~ When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

~~**NZ R300.5** — When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical provisions that apply to these circumstances.~~

300.5 A1 Examples of such situations in which the provisions in Part 2 apply to an assurance practitioner include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the assurance practitioner might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the assurance practitioner's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Preparing or presenting financial information for the assurance practitioner's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary

tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.

- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

DRAFT

C5: GLOSSARY

Definitions used in Part 2 are added to the Glossary.

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Non-compliance with laws and regulations (practitioners performing professional activities pursuant to their relationship with the firm) *Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

- (a) An assurance practitioner’s employing organisation;*
- (b) Those charged with governance of the employing organisation;*
- (c) Management of the employing organisation; or*
- (d) Other individuals working for or under the direction of the employing organisation*

This term is described in paragraph 260.5 A1.

Non-compliance with laws and regulations (assurance practitioners performing professional activities pursuant to their relationship with the firm) *Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

- (a) A client;*
- (b) Those charged with governance of a client;*
- (c) Management of a client; or*
- (d) Other individuals working for or under the direction of a client.*

This term is described in paragraph 360.5 A1.

Senior practitioner *Senior practitioners are directors, offices or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation’s human, financial, technological, physical and intangible resources.*

This term is described in paragraph 260.11 A1

Substantial harm *This term is described in paragraphs 260.5 A3, 360.5 A3.*

D: EFFECTIVE DATE

Part 2 will be effective on 15 December 2020.

Early adoption is permitted.

DRAFT

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1

Meeting date: 9 April 2020

Subject: IESBA – Non- Assurance Services and Fees

Date: 24 March 2020

Prepared By: Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to:
 - NOTE outreach activities undertaken
 - CONSIDER the draft submissions on the IESBA exposure drafts.

Background

2. The IESBA released two exposure drafts, approved in December 2019:
 - [Proposed Revisions to the Non-Assurance Services \(NAS\) Provisions of the Code](#)
 - [Proposed Revisions to the Fee-Related Provisions of the Code](#)
3. The EDs are aimed at strengthening the non-assurance services and fee-related independence provisions of the International Code of Ethics for Professional Accountants, including International Independence Standards.
4. Key changes proposed to the NAS provisions are:
 - A prohibition on providing NAS to an audit client that is a public interest entity if a self-review threat to independence will be created;
 - Further tightening of the circumstances in which materiality may be considered in determining the permissibility of a NAS;
 - Strengthened provisions regarding auditor communication with those charged with governance, including, for public interest entities, a requirement for NAS pre-approval by those charged with governance; and
 - Stricter requirements regarding the provision of some NAS, including certain tax and corporate finance advice.

5. Key changes proposed to the fee-related provisions include:

- A prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client;
- In the case of public interest entities, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period; and
- Communication of fee-related information to those charged with governance and to the public to assist their judgements about auditor independence.

6. Submissions on the exposure drafts are due on 4 May 2020.

Outreach Activities

7. We have interviewed representatives from each of the large firms, the Office of the Auditor-General and the Financial Markets Authority, as well as a roundtable with a variety of stakeholders. Notes from these discussions are included in Appendix 1.
8. We have also reached out to our XRAP members with a short survey to obtain views from the preparer/user/those charged with governance communities. Our survey questions are in Appendix 2.
9. Our draft submissions are based on the feedback received from stakeholders.
10. In general, stakeholders were supportive of both the NAS and fees proposals, in particular, the prohibition on providing a NAS to a PIE audit client where a self-review threat is created, noting this is a good start. Some stakeholders would prefer the proposals to go further.
11. There is a perception in the market that provision of NAS (and the related fees generated by such services) by the auditor of the entity impairs independence. This perception is fuelled by entity and audit failures. The Code establishes a set of principles against which the auditor determines independence. Often those accusing the auditor of a lack of independence due to other relationships do not have a full understanding of the Code. However, stamping out perception will require bold change to the way in which the auditor considers independence. The proposals are unlikely to achieve such change.
12. The draft proposals at agenda items 8.2 and 8.3 present bullet point responses to each of the questions asked by the IESBA. We are seeking the Board's feedback to the indicative direction of comments. Following the Board discussion and feedback, we will provide draft submissions to the Board for consideration and approval out of session.

Recommendation

13. We recommend that the Board note the outreach activities and provide feedback on the indicative direction of the submissions. Are there any key messages the Board would like us to emphasise in the submission?

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Draft submission NAS
Agenda item 8.3	Draft submission Fees

Feedback received from large firms, FMA, OAG and roundtable

ED: Non-Assurance Services

General

- The OAG makes no distinction for PIEs/non-PIEs. Same independence standards apply to all engagements.
- Can't get global consistency without a consistent global definition of PIE.
- Support strengthening the provisions.
- Provision of NAS is getting less common, but still has not completely disappeared.
- Proposals are light on documentation requirements. Need to be clear on documentation required.

Prohibition on NAS that will cause a Self-review threat for PIEs

- General support for the NAS prohibitions, however noted there may be unintended consequences particularly in group audit situations. Examples include: (1) when a NAS is provided to a subsidiary or other related entity of the PIE audit client where the PIE auditor (group auditor) does not rely on the audit of the related entity; (2) preparation of financial statements for an immaterial subsidiary of a PIE audit client where either the basis of accounting is different to the PIE audit client and/or the financial statements of the subsidiary are prepared after the filing of the PIE audit client annual report.
- There has been a decrease over time of NAS performed by the audit firm. This is being self-regulated to some extent. The type of work being done is generally difficult for the non-auditor to perform.
- General agreement with prohibition on NAS that create a self-review threat. Self-review threat is difficult to manage.
- 600.11 A2 – PBE context is broader – not just financial statements but general purpose financial report.
- Understand the basis for restrictions on NAS; adds clarity.
- Not sure there is any reason for NZ to be different from the global position.
- Multi-discipline firm preferred.
- Self-review is relatively easy to apply. Good way of defining it.
- Some challenges in application – for example, where does licensing of software products fit within the Code? New technology needs to be considered.
- Helpful to have some NAS blacklisted.
- 600.11 A2 ICFR is quite broad; most things find their way into the financial statements. Expect most practitioners should be able to work it out.
- General concern about what these proposals mean for PIEs in the NZ context. We have a much broader definition of PIE. The OAG has proposed much stronger restrictions, prohibiting non-assurance services. OAG clients are often interrelated – there may be possible unintended consequences of such restrictions.
- Prohibition on NAS for PIEs is an improvement, but why is it limited to only self-review threat?
- Need to more actively consider independence in appearance – reasonable and informed third party (RITP) test – would a RITP distinguish between the different types of threats

to independence? Would the RITP distinguish between independence of mind and independence in appearance? Need to have a greater focus on independence in appearance.

- Self review threat on a pedestal. Often users are more interested in the cosy relationship with the auditor – familiarity, advocacy.
- May be targeting the wrong place.
- Far greater risk for self-review threat.
- May need more discussion of other threats.
- Auditors may think if there is no self-review threat, then ok to provide the NAS.
- For advocacy threats, the illustrative safeguard is to have separate teams. This won't always work. Would be good to have other examples of how to eliminate the threat or apply safeguards to reduce the threat to an acceptable level.
- Self-review threat is generally the threat that most investors have issues with. Struggle a little with advocacy. Generally see multiple threats occur. Self-review is generally documented on audit file.
- Software licensing – you should not do this. Use of standard software goes straight to preparation of the financial statements.

Providing Advice and recommendations

- Need clearer illustrations of when advice and recommendations affect the financial statements. Materiality becomes important. Withdrawal of the materiality qualifier is generally ok but there may be unintended consequences in some group audit situations.
- Accounting treatment changes over time – need to be clear that doubts about the treatment are at the time the advice is given.
- Guidance for regulated entities could be clearer – what are we concerned about in terms of regulation?
- it's not clear where paragraph 600.12 A1 fits. Might fit better with guidance on assuming a management responsibility? Also not clear how a by-product report fits, e.g., management letter – would this be considered advice/recommendations?
- Quite broad. Practitioners provide recommendations when providing a number of services. Ultimately the client needs to consider and decide on the recommendations. How direct is the link to the self-review threat? For example, if the firm undertakes an engagement to review an entity's treasury policy and makes recommendations to change the policy, ultimately the change in policy will affect the financial statements. Would this create a self-review threat? Need greater clarification of causation between the action and the self-review threat.
- Another example could be for a call centre. If a client is concerned about controls at their call centre, as a by-product of the audit, they may contract a separate service (not financial reporting) but is providing advice and recommendations on how call centre monitor's calls.
- An experienced practitioner would work it out.
- Consistent with current firm practice. Would not provide advice that would be relied upon to an audit client.
- Consider there is a lack of clarity in terms of tax. Difficult area to enforce because of the grey.
- Not sure how much separation there is in some firms.

- Some jurisdictions have much stronger rules.
- Don't understand the exemption on tax services – see that as a self-review threat. Difficult to explain to users/investors why it is permitted.
- Strong boards usually have a separate tax adviser.

Project on Definitions of Listed Entity and PIE

- NZ definition of PIE is wider than international. Wide application is problematic. Some don't see the logic behind the NZ PIE definition. The scale of entities caught in the NZ PIE definition are not big in an economic sense.
- In the NZ context there are more entities that are caught within the PIE definition.
- PIE definition – in NZ definition is broad. Address where entities are taking money from the public. Standard needs to be consistent across all entities. PIEs have an obligation to the stakeholder.
- General concern about what these proposals mean for PIEs in the NZ context. We have a much broader definition of PIE. The OAG has proposed much stronger restrictions, prohibiting non-assurance services. OAG clients are often interrelated – there may be possible unintended consequences of such restrictions.

Materiality

- Materiality qualifier – the proposed application may be challenging where there is a PIE/non-PIE transition.
- Without materiality qualifier there will be practical implementation challenges in a group audit situation.
- Prefer not to have materiality qualifiers. What's fine in year one might not be fine in year two, might not be evaluated appropriately. Materiality is a difficult concept to apply – how do you balance quantitative vs qualitative considerations? The nature of the service may be a more significant consideration than the fee received.
- NZ is a small market. May be specialisation. Removal of materiality qualifier may create practical challenges. Difficult to know how to apply the materiality assessment. Lack of consistency in practice.
- Appreciate further tightening on materiality.

Communication with TCWG

- Not current practice on most engagements. May occur for a few engagements.
- Far more boards now have a framework for consideration.
- Agree in principle but there needs to be guidance for practical implementation.
- TCWG play an oversight role.
- Communications with TCWG – expect most listed entities have a process in place. May be different by sector. The standard is imposing requirements on governance. Who is TCWG in more unusual structures? May be practical issues in NZ – NFP sector?
- May be challenges implementing the proposals at a multi-national level.
- Consider Brydon recommendations.
- Expect most listed entities have a process in place. May be different by sector. The standard is imposing requirements on governance. Who is TCWG in more unusual structures? May be practical issues in NZ – NFP sector?

- Responsibility for the financial statements rests with TCWG. Their obligation to ensure that the services don't impair independence. Critical part of the proposal is clear communication and agreements. Make TCWG part of the discussion. Often the most difficult discussion revolves around why the auditor cannot perform a requested engagement. Box on page 17 of the explanatory memo summarising the matters to discuss with TCWG is helpful. Provides a good framework for the discussion.
- In NZ this is already in place for a number of entities at the top end of town. There is a gap for smaller entities.
- Communication with TCWG, first consideration for the professional accountant should be to satisfy themselves that the NAS engagement is acceptable. Professional accountant needs to make the decision, TCWG concur. Think this is the intent of the requirements but could be clearer.
- The role of TCWG is to act in the best interests of the entity, role of auditor to act in the public interest. Can't put public interest role on TCWG.
- Enhanced communications between professional accountant and TCWG is positive.
- Good practice for both PIEs and non-PIEs.
- Good to put onus to think about NAS on those charged with governance.
- May be a case to have a requirement for non-PIEs in NZ.
- Address NAS in audit engagement letter to TCWG.
- No requirement for concurrence by TCWG to be in writing. Want evidence/documentation in the audit file.
- Communications with TCWG often template driven – not clear on the independence threats.
- Need to make communications specific – understand what the threats are, what the safeguards that are applied are. Visibility on the audit file that safeguards have been applied, e.g., how do you check that the corporate finance team only did what was in the engagement letter? How do you check on the separation of the service from audit?

Period during which independence is required (Paragraph R400.32)

- The last two bullet points of R400.32 are not practical.
- There needs to be some consideration of materiality for transitional period.
- Proposal requires 18 months lead in – this is a challenge with auditor rotation.
- R400.32 – materiality should be a factor. Don't like language of second bullet – EQR is a specific role. For a NAS that might not be material this could be challenging. How does the second bullet point work in a component situation? E.g., would the review only be performed around the component rather than the whole group? What are the transition rules around the acquisition of a practice?
- Transition – there is no materiality limiter on the transition – you don't always know when you will be appointed auditor. The provisions to transition all come at a cost, e.g., appoint someone from outside the firm to perform the equivalent of an EQR or entity engage a firm to take responsibility for the NAS work performed. Question whether there should be materiality limiter.
- Practical challenge with timing. More complicated where mandatory firm rotation is required. Should be some consideration of materiality. Not clear what standards the non-member is complying with? Or the scope of the review?

- Time is a factor – audit can be quite some time after the financial year ends and NAS might be performed early in the year. How does this apply with the successor auditor requirements, i.e., performing procedures on opening balances?
- Need to default back to the conceptual framework – can't be fundamental to the financial statement or cannot accept the engagement; apply safeguards to reduce the threat to an acceptable level, e.g., no members of the engagement team involved; disclose to TCWG and obtain pre-approval.
- Queried whether fee caps would be an option, but tricky to apply around the world and also tricky to apply on global clients.
- Responses are not practical. Challenges where there is mandatory rotation. Need to carefully manage services provided to client.
- Prescriptive, could be more conceptual
- EQR equivalent review can work. Has been done in practice.
- Not something that is seen often.

Withdrawal of exemption permitting the firm to provide certain accounting and bookkeeping services

- Needs to be some consideration for exceptions, e.g.; financial statements prepared on a different basis of accounting and filed after the audit.

ED: Fee-Related Matters

Evaluating threats created by Fees Paid by the Client (client payer model)

- Don't see the issue with the client/payer model. The fee is agreed upfront.
- Audit client – payer model, bigger risk in a small firm. Separating the audit practice of a firm may make the issue more prevalent. Day to day it's not the fee that is driving decisions, it's risk.
- No way around audit-client payer model. No appetite for FMA to set audit fees.
- Limiting other services anyway.
- Assume firms are already identifying and evaluating threats to independence, including re-evaluation where appropriate. The level of NAS requires careful consideration.
- Quality issue on fees rather than an independence issue. In NZ, we don't have a partner employed full time on an audit client.
- Responses are not practical. Challenges where there is mandatory rotation. Need to carefully manage services provided to client.
- Agree with client/payer model premise.
- May not be practical to re-evaluate threats as circumstances change, for example, on a large, complex audit engagement. Not clear from guidance what would trigger need to re-evaluate.
- Independent committee that advises the firm on governance matters that might impact the firm's independence performs a valuable function – if such committee exists. Not required in NZ.

Impact of Services other than Audit to an audit client

- Firm shall not allow the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client – this is the case now.
- The perception that audit is a loss leader is not true.
- Scope for abuse of guidance that requirement that audit fee not be influenced by other services is not intended to prohibit cost savings that can be achieved as a result of experience derived from provision of services other than audit to the audit client.
- May receive a level of audit comfort from other services.

Fee dependency – non PIEs

- Five years is a long time for fee dependency of 30% of firm fees to exist.
- Difficult to maintain independence when working for only one or two clients.
- Fee dependency might arise in situation of a new firm getting established – would not expect such fee dependency to last.

Fee Dependency for PIE audit clients

- This is a theoretical situation for a large firm. It is more likely to affect a smaller practitioner performing a PIE engagement. EQR is the only viable safeguard.
- 5 years seems a long time to permit a fee dependency issue to continue for a PIE client.
- Have concerns over use of the term EQR. From a practical perspective, if you are the reviewer and you find an issue, what would you do? What is your responsibility?
- Fee dependency – have never seen this for a PIE. Only seen where small firm is performing the engagement. South Canterbury Finance example. Not an issue in the FMC space.

Transparency of Fee-related information for PIE audit clients

- Fee disclosure – need better consistency in fee disclosures. The right place to require disclosure is through the financial reporting framework (not the auditor's ethical standards).
- The theme of independence in appearance doesn't come through strongly in the fees provisions.
- Require disclosure of audit fees in NZ, provides transparency to TCWG, stakeholders.
- RITP test – is based on facts and circumstances. How does the shareholder get to the same place as the RITP? Difficult to disclose in a way that deals with facts and circumstances.
- New Zealand additional disclosures in the audit report may have helped in this regard.
- No clear guidance on what should be included.
- Certain disclosures of fees (and relationships) is already required in NZ
- The AG has removed the fee cap. Additional work is limited to work of an assurance nature.
- Fees for engagements of an assurance nature can be significant and over a number of years (for example, an IT system implementation assessment against good practice).
- Transparency makes users/TCWG more aware of the cost of these other services. Firms will reflect more if there is greater disclosure.

- Need clarity around what is included in audit fee, i.e., does audit fee include only the fee for the year end audit? Is required quarterly/half yearly reporting part of the audit fee? Also need further thought about categories of disclosures.
- IESBA getting into accounting standard setting area.
- Disclosures should come from entity not auditor.
- Not clear where/how disclosures are to be made.
- What prevails if the FRF disclosures conflict with Code disclosures?
- NZ requires disclosure of audit fee and fees for other services performed during the reporting period.
- Would like to see additional disclosure – how long the audit firm has audited the entity.

IESBA NAS and Fees – questions for investors/users/those charged with governance

Introduction

The International Ethics Standards Board for Accountants (IESBA) has proposed new requirements relating to non-assurance services and fees related matters that further reinforce independence.

We are interested in obtaining your feedback to develop the NZAuASB’s submission to the IESBA. In addition, your feedback will help the NZAuASB in its consideration of whether these proposals are appropriate for New Zealand.

Background

The International Code of Ethics identifies the following threats to independence:

Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgement or behaviour.

Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgement made; or an activity performed by the accountant, or by another individual within the accountant’s firm, on which the accountant will rely when forming a judgement as part of performing a current activity:

Advocacy threat – the threat that a professional accountant will promote a client’s position to the point that the accountant’s objectivity is compromised.

Familiarity threat – the threat that due to a long or close relationship with a client, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

Questions

Q1 A firm or network firm shall not provide a non-assurance service to an audit client that is a public interest entity if a *self-review threat* will be created in relation to the audit of the financial statements on which the firm will express an opinion.

Strongly disagree	Disagree	Don’t know	Agree	Strongly agree
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Q2. Thinking about the types of threats to independence described, in your opinion, is the self-review threat more important, less important, or about the same as the other threats to independence?

Less important	About the same	More important
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Q3 A firm shall not provide a non-assurance service to an audit client that is a public interest entity unless those charged with governance of the public interest entity concur with:

- a. The provision of that service; and
- b. The firm’s conclusion that any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

Strongly disagree	Disagree	Don't know	Agree	Strongly agree
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Q4 Payment of fees by an audit client to a firm is a practice that is generally recognised and accepted. Do you agree that such practice creates a self-interest threat and might create an intimidation threat to independence?

Strongly disagree	Disagree	Don't know	Agree	Strongly agree
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Q5 When entering into discussions or negotiations on audit fees and fees for services other than audit with an audit client, there are many factors that could influence the total fees charged for that particular client. Nevertheless, the provision of other services by the firm to the audit client should not influence the audit fee.

Strongly disagree	Disagree	Don't know	Agree	Strongly agree
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Q6 Enhanced transparency of audit fees can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders about the firm's independence. Public disclosure of the following information will help me in my decision making about the audit firm's independence:

- a. The fee for the audit of the financial statements
- b. Fees for services other than audit provided by the firm or a network firm; and
- c. If applicable, in the case of a public interest entity, the fact that the total fees received by the firm from the audit client represent, or are likely to represent more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

Strongly disagree	Disagree	Don't know	Agree	Strongly agree
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4 May 2020

Stavros Thomadakis
Chair
International Ethics Standards Board for Accountants
539 Fifth Avenue
New York, 10017
USA

Dear Stavros,

IESBA Exposure Draft – Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the proposals is limited in this regard.

- General support
- Concerns over practical implementation of some of the proposals
- Do proposals go far enough? The issue the profession is facing is one of perception that the auditor is not independent. How can we change that perception if we don't prohibit NAS? As long as NAS is a permitted service, when things go wrong, the finger will be pointed at a lack of independence of the auditor. Put another way, if the auditor has to justify why it is Ok for the firm to provide a NAS or defend the provision of NAS, is it appropriate for the firm to be performing that service for an audit client?
- Be bold. Can only effect change in perception through radical change. Many of those who judge don't have knowledge of the Code and the principles against which the auditor measures independence. The RITP test is that of an informed third party knowing the same facts and circumstances as the accountant. But when there is an audit failure the profession is not judged by a RITP, rather the profession is judged by

the uninformed masses, often fuelled by media, those who do not take the time to read and understand the code.

Should you have any queries concerning our submission please contact Sylvia van Dyk, Director – Assurance Standards, at sylvia.vandyk@xrb.govt.nz.

Yours sincerely,

Robert Buchanan

Chair

DRAFT

Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Exposure Draft *Proposed Revisions to the Non-Assurance Services Provisions of the Code*

Schedule of Responses to the IESBA's Request for Specific Comments

1. Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14

Response:

- Yes, supportive of prohibition on providing a NAS to an audit client that is a public interest entity when a self-review threat will be created. Research in NZ indicates a reduction over time of NAS performed by the audit firm.
- Self-review threats difficult to manage risk.
- Does singling out self-review threat give it more prominence than the other threats? E.g., is there a risk that the firm will inappropriately accept a NAS when there is for example an advocacy or familiarity threat? May assume if there is no self-review threat, then it's ok to perform the NAS.
- Why limit only to those NAS that create a self-review threat? Can't change perceptions unless provision of all NAS is prohibited.
- May be some unintended consequences, particularly in group audit situations. Examples include: (1) when a NAS is provided to a subsidiary or other related entity of the PIE audit client where the PIE auditor (group auditor) does not rely on the audit of the related entity; (2) preparation of financial statements for an immaterial subsidiary of a PIE audit client where either the basis of accounting is different to the PIE audit client and/or the financial statements of the subsidiary are prepared after the filing of the PIE audit client annual report.

2. Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

Response:

- Agree
- Outreach did not identify any additional factors to be considered.
- Noted that internal controls over financial reporting is very broad – most things find their way into the financial statements.

3. Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

Response:

- Concern that tax advisory and tax planning services are specifically scoped out of the self-review threat.
- Such scoping out seems inconsistent with 604.12 A1 which states, “tax advisory and tax planning services might create a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion.”
- How can we change perceptions if the Code continues to permit such services?

4. **Having regard to the material in section II, D, “Project on Definitions of Listed Entity and PIE,” and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE?**

Response:

- General agreement from stakeholders to retain the distinction in the Code between PIEs and non-PIEs.
- Feedback from outreach focussed on difficulties with broadness of NZ definition of PIE.
- Suggestions?
-

5. **Do you support the IESBA’s proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B “Materiality”)?**

Response:

- Support – materiality is a difficult concept to apply.
- Note that removal of the materiality qualifier may create practical challenges, for example, in group audit situations, when an audit client is transitioning from non-PIE to PIE, and in smaller markets.

6. **Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:**

- **Tax planning and advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?**

- **Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?**

Response:

- Yes

- 7. Do you support the proposals for improved communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?**

Response:

- Note that such communications are already in place in some jurisdictions and this is happening already in NZ to some extent although not consistently.
- Consider there may be challenges implementing proposals, e.g., at a multi-national level, or at in some sectors where there are more unusual governance structures, e.g., NFP sector.
- Responsibility for the financial statements rests with those charged with governance. Their obligation is to ensure that the services don't impair independence. Clear communication and agreement. Documentation of communications and decisions important – either by auditor or TCWG, e.g., concurrence in writing
- Box on page 17 of EM provides a good framework for the discussion.
-

- 8. Do you support the proposal to move the provision relating to assuming management responsibility from Section 600 to Section 400 and from Section 950 to Section 900?**

Response:

- Yes, but see below re R400.32
- Prohibition on assuming a management responsibility is not limited to the provision of NAS. Much better placement.
- Concern about practical challenges around implementing the new requirement in paragraph 400.32. Consider that there needs to be some consideration of materiality of the NAS for the transitional period. Cannot always time appointment to neatly fit the requirements of the paragraph. In small markets, there are already challenges in terms of managing services provided to clients. This will become more difficult if mandatory rotation of auditors is introduced.
- Consider the requirement could be less prescriptive, more principles based, following the conceptual framework.

9. Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

Response:

- Yes

10. Do you support the proposed revisions to subsections 601 to 610 including:

- The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?
- The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?
- The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opinion in favour of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?
- The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

Response:

- Yes, in general
- Consider there needs to be some consideration for extant exceptions regarding the withdrawal of the exemption that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met, for example, the financial statements prepared on a different basis of accounting and filed after the audit.

11. Do you support the proposed consequential amendments to Section 950?

Response:

- Consider amendments to section 950 could be more robust. Question why revisions are limited to Part 4A.
- Paragraph 950.7 A1 should be a requirement consistent with R600.10

12. Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

Response:

- Have not identified any other sections of the Code that warrant conforming change as the result of the NAS project.

DRAFT

4 May 2020

Stavros Thomadakis
Chair
International Ethics Standards Board for Accountants
539 Fifth Avenue
New York, 10017
USA

Dear Stavros,

IESBA Exposure Draft – Proposed Revisions to the Fee-related Provisions of the Code

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revision to the Fee-related Provisions of the Code*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the proposals is limited in this regard.

- General support
- In order to provide good information, we need clear requirements. Consider disclosure of audit and audit related fees to other fees will give better information to enable users to make their judgements/assessments.

Should you have any queries concerning our submission please contact Sylvia van Dyk, Director – Assurance Standards, at sylvia.vandyk@xrb.govt.nz.

Yours sincerely,

Robert Buchanan

Chair

DRAFT

Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Exposure Draft *Proposed Revisions to the Fee-related Provisions of the Code*

Schedule of Responses to the IESBA's Request for Specific Comments

1. Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?

Response:

- Yes, support the premise.

2. Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:
 - a) Before the firm accepts an audit or any other engagement for the client; and
 - b) Before a network firm accepts to provide a service to the client?

Response:

- Agree with the requirement that before accepting an audit or other engagement for an audit client, the firm determine whether the threats to independence created by the fees proposed to the client are at an acceptable level.
- Before accepting any engagement, the firm should be determining whether any threats to independence are at an acceptable level, not only those created by the fees proposed. Consider this should be an overarching principle in the independence standards.

3. Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognising as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence?

Response:

- Did not identify further factors through outreach
- Consider where an independent committee exists that advises the firm on governance matters that might impact independence – such a committee would perform a valuable function. While we are aware that some jurisdictions require such a committee, it is not a requirement in NZ.

4. Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

Response:

- Outreach indicates this is the case now
- Perception that audit is a loss leader is not true

5. Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:

- a) Charged by both the firm and network firms to the audit client; and**
- b) Delivered to related entities of the audit client?**

Response:

- Need clarity on terms being used.
- Consider audit and audit-related services should be considered together in determining the proportion of fees for services other than audit.
- Auditor often required to perform services in addition to the audit that require audit knowledge. May be required by a regulator. Does not make sense for another practitioner to perform such services.
- More appropriate to consider assurance fees compared to fees for other services.

6. Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

Response:

- Five years seems long and 30% seems high, however, note that there can be reasons for a high level of dependency, for example, new audit firm entering the market and establishing itself. In new firm situation, would not expect fee dependency to last.
- Difficult to maintain independence when working for only one or two clients.
- Not convinced that setting timelines/establishing numerical thresholds is the best response. Might be qualitative factors to consider also.

7. Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?

Response:

- Proposed actions are to have a professional accountant who is not a member of the firm perform either a pre-issuance or post-issuance review.
- This is one way to address the immediate threat. May not be a tenable solution long term.

8. Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?

Response:

- Outreach indicated that this would be an unlikely situation for the big firms.

9. Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after five consecutive years in the case of a PIE audit client? Do you have any specific concerns about its operability?

Response:

- Agree, although note 5 years is a long time to allow a fee dependency situation to continue. May be too long?

10. Do you support the exception provided in paragraph R410.20?

Response:

- Agree, note sub paragraph (b) refers to a pre-issuance review. Is this intended to be a different type of review than the engagement quality review referred to in paragraph R410.17?

11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

Response:

- In NZ, FRF¹ requires, an entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:
 - a) The audit or review of the financial statements; and
 - b) All other services performed during the reporting period.

An entity is required to describe the nature of other services.

- Concern that IESBA is getting into accounting standard setting.
- Not clear how or where disclosures are to be made if not required by the FRF
- If there is a conflict between the FRF and R410.25, what prevails?
- Need consistency. Clear definition of audit fee. Consider separately audit related activities, i.e., required to be independent and audit knowledge required.

¹ FRS-44 *New Zealand Additional Disclosures* paragraph 8.1

- Comparing audit fee to all fees from the client does not give a clear picture. Keeping assurance fees separate from non-assurance fees will give better picture for decision making.

12. Do you have views or suggestions as to what the IESBA should consider as:

- Possible other ways to achieve transparency of fee-related information for PIE audit clients; and**
- Information to be disclosed to TCWG and to the public to assist them in their judgements and assessments about the firm's independence?**

Response: ‘

- As noted above disclosure of assurance vs non assurance
- Consider also fees paid to other practitioners for both assurance and non-assurance services, e.g., another firm might perform an assurance engagement on the entity's sustainability report.
- To enable users to make good judgements, need to provide good information. The fuller the picture, the better.
- TCWG have a governance role. Good governance practices suggest TCWG should know what is going on.

13. Do you have any views regarding whether the proposals could be adopted by national standard setters of IFAC member bodies (whether or not they have the remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organisations, regulators and competition authorities.

Response:

- We seek Board suggestions on how to response to this question.

14. Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

Response:

- Support the proposed consequential and conforming amendments.
- In relation to overdue fees from an assurance client, consider this needs to be considered on a case by case basis. Payment of overdue fees prior to issuance of the report is certainly desirable.

15. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

Response:

- None identified

DRAFT

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1
Meeting date: 9 April 2020
Subject: Illustration of AUASB digital standard
Date: 27 March 2020
Prepared by: Peyman Momenan

Action Required

For Information Purposes Only

Objectives

1. The objective of this agenda item is for the Board to observe a working example of the AUASB digitalised standards.

Background

2. The AUASB is in the process of digitalising its auditing standards to improve their accessibility. The digitalised standards will be hosted on the AUASB website. These digital standards will accommodate helpful functions such as dynamic searching, navigation between paragraphs, looking up definitions by clicking on any defined term (as opposed to referring to a Glossary of Terms or the definition section of the standards) etc.
3. AUASB staff has kindly agreed to give a brief demonstration of the prototype digitised standard to the NZAuASB to better understand its functionality. Tim Austin, Project Manager of the AUASB will be doing the demonstration.

Material Presented

9.1	The Board Meeting Summary Paper
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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	10.1
Meeting date:	9 April 2020
Subject:	New Zealand Guidance on use of management experts
Date:	23 March 2020
Prepared by:	Peyman Momenan

<input checked="" type="checkbox"/>	Action Required	<input type="checkbox"/>	For Information Purposes Only
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Objectives

1. The objective of this agenda item is to APPROVE the adoption of the AUASB Guidance Statement 005, *Evaluating the Appropriateness of a Management's Expert's Work*, for issuing in New Zealand.

Background

2. In December 2018, the AUASB agreed to update their Guidance Statement 005, *Evaluating the Appropriateness of a Management's Expert's Work* (GS 005). An audit technical group (ATG) established a project advisory group (PAG) to provide input into the revision to GS 005. The AUASB considered the outputs of the ATG and PAG efforts during 2019 and provided their feedback to improve the GS. Finally, in March 2020 the AUASB approved the Revised GS 005.
3. The NZAuASB staff observed the revision process and provided updates to the Board during the revision process. In December 2019, the NZAuASB considered a draft of the revised GS 005 and did not identify any fatal flaws. Furthermore, the Chair reviewed the final draft of GS 005 and requested staff to ensure that further editions by the AUASB to GS 005 (those made subsequent to the December 2019 meeting) are appropriate. The staff found these editions appropriate and the Chair voted for GS 005 approval in the AUASB March 2020 meeting.
4. The Canadian Audit and Assurance Standards Board have also observed the GS 005 revision process and have provided their feedback on GS 005 during this time. CAASB have not identified any fatal flaws or other significant issues.

Action requested

5. The NZAuASB is asked to APPROVE the adoption of GS 005 to be issued as a New Zealand guidance statement.

Next step

6. Subject to the Board's approval, staff will proceed to convert GS 005 to a New Zealand audit guidance statement. It is expected that the conversion will be limited for modifying references to AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication cited in GS 005. Audit guidance statements are not authoritative instruments in New Zealand.

Material Presented

10.1	Board meeting summary paper
10.2	The AUASB Guidance Statement GS 005 <i>Evaluating the Appropriateness of a Management's Expert's Work</i> .

GS 005
(March 2020)

Guidance Statement GS 005
*Evaluating the Appropriateness of a
Management's Expert's Work*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

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ISSN 1833-7600

Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on certain procedural, entity or industry specific matters related to the application of an AUASB Standard(s).

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).

Guidance Statement GS 005 *Evaluating the Appropriateness of a Management's Expert's Work* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Evaluating the Appropriateness of a Management's Expert's Work.* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: 3 March 2020

R Simnett AO
Chair - AUASB

GUIDANCE STATEMENT GS 005

Evaluating the Appropriateness of a Management's Expert's Work

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors when using the work of a management's expert as audit evidence in relation to:
 - (a) the audit of a financial report, in accordance with the *Corporations Act 2001*;
 - (b) the audit of a financial report¹ for any other purpose; and
 - (c) the audit of other historical financial information.
2. This Guidance Statement provides guidance that may be considered and adapted as necessary in the circumstances, to non-historical information assurance engagements but is not a substitute for referring to the requirements and application material contained in *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Issuance Date

3. This Guidance Statement is issued on 3 March 2020 by the AUASB and replaces GS 005 *Using the Work of a Management's Expert*, issued in March 2015.

Introduction

4. This Guidance Statement has been developed to provide guidance on:
 - (a) The circumstances under which a management's expert may be used and the nature of that work;
 - (b) The auditor's considerations in determining whether to use the work of a management's expert as audit evidence in carrying out the responsibilities of the auditor with respect to an entity's financial report or other historical financial information; and
 - (c) The auditor's considerations in determining the information to be used as audit evidence.

Scope of this Guidance Statement

Management or Management's Expert

5. Where the necessary information to prepare the financial report and/or historical financial information is produced by management, ASA 330² requires the auditor to design and perform audit procedures whose nature, timing and extent are based on and are responsive to the risk of material misstatement at the assertion level as identified and assessed by the auditor in accordance with ASA 315³.
6. Where the necessary information to prepare the financial report and/or historical financial information is produced by a management's expert, ASA 500 *Audit Evidence*⁴, establishes

¹ For purposes of this Guidance Statement, where the term financial report is used, this includes reference to a complete set of financial statements for any other purpose. Additionally, reference to 'Company' in this Guidance Statement, includes any entity subject to audit.

² ASA 330, *The Auditor's Responses to Assessed Risks*, paragraph 6.

³ ASA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

⁴ ASA 500, paragraph 8.

mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Guidance Statement is to be read in conjunction with ASA 500. Examples of management's experts are included in paragraphs 16 to 18 of this Guidance Statement.

7. ASA 500⁵ also establishes mandatory requirements and provides application and explanatory material on information obtained from an external information source. This Guidance Statement does not provide guidance on information obtained from an external information source.
8. This Guidance Statement applies to the use of a management's expert's work irrespective of whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.
9. The work of a management's expert is often associated with accounting estimates. ASA 540 *Auditing Accounting Estimates and Related Disclosures*⁶ establishes mandatory requirements and provides application and explanatory material on auditing accounting estimates. This Guidance Statement is to be read in conjunction with ASA 540.

Considerations in Using the Work of an Auditor's Expert

10. It is the responsibility of the engagement partner⁷ to determine that the engagement team has the appropriate competence and capabilities, including sufficient time, to perform an audit engagement in accordance with the Australian Auditing Standards, relevant ethical requirements, and applicable legal and regulatory requirements. When management uses the work of a management's expert to assist the entity in preparing the financial report, the auditor determines whether the involvement of an auditor's expert is required.
11. There is no requirement for the auditor to use an auditor's expert to evaluate the work performed by a management's expert, however, if management uses a management's expert, the auditor determines whether to use the work of an auditor's expert⁸. An auditor who is not an expert in a field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without the use of an auditor's expert. Ways in which this understanding may be obtained include:
 - (a) Experience in auditing entities that require such expertise, for example, an auditor who has not audited in the extractive industry may not have the same level of knowledge and understanding as an auditor who works extensively in this industry;
 - (b) Education or professional development in the particular field which may include formal courses;
 - (c) Discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own competence to deal with matters in that field;
 - (d) Discussion with auditors who have performed engagements in the same or similar industries with the same or similar use of experts for the preparation of a financial report.
12. While an auditor may have obtained knowledge of a field as described in paragraph 11 of this Guidance Statement, the auditor's decision on whether to use an auditor's expert may be influenced by factors included in ASA 620⁹ as well as:
 - (a) The nature and significance of the matter, including its complexity;

⁵ ASA 500, paragraph 7.

⁶ ASA 540 paragraph 30.

⁷ ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 14.

⁸ ASA 620 *Using the Work of an Auditor's Expert*, paragraph 7.

⁹ ASA 620, paragraph A9.

- (b) The risks of material misstatement;
 - (c) The expected nature of procedures to respond to the identified risks, including:
 - (i) the auditor's knowledge and experience with the work of experts in relation to such matters; and
 - (ii) the availability and extent of alternative sources of audit evidence;
 - (d) The extent to which management has used a management's expert; and
 - (e) The management expert's competence, capabilities and objectivity.
13. This Guidance Statement does not provide guidance on the auditor's use of the work of an auditor's expert. *ASA 620 Using the Work of an Auditor's Expert* establishes mandatory requirements and provides application and other explanatory material on using the work of an auditor's expert as audit evidence.

Definitions

14. For the purposes of this Guidance Statement the following items have the meanings attributed in the Australian Auditing Standards and reproduced below:
- (a) Expertise means skills, knowledge and experience in a particular field¹⁰.
 - (b) External information source means an external individual or organisation that provides information that has been used by the entity in preparing the financial report, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management's expert, that individual or organisation is not considered an external information source with respect to that particular information¹¹.
 - (c) Management's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report or other historical financial information¹².

The Auditor's Responsibility for the Conclusion

15. The auditor has sole responsibility for the audit opinion expressed and that responsibility is not reduced by the auditor's use of the work of a management's expert.

Examples of Management's Experts

16. The preparation and presentation of a financial report and/or other historical financial information of an entity is the responsibility of management and those charged with governance. Determination of amounts included in the financial report and/or other historical financial information may require expertise in a field other than accounting or auditing, such expertise may be obtained by management using a management's expert.
17. An individual may possess expertise in accounting or auditing, as well as expertise in a field other than accounting or auditing (for example an actuary may also be an accountant). In these circumstances, the determination of whether that individual is a management's expert depends on the nature of the work performed. For example, an individual with expertise in

¹⁰ ASA 620, paragraph 6(b).

¹¹ ASA 500, paragraph 5(d).

¹² ASA 500, paragraph 5(e).

applying methods of accounting for deferred income tax can often be easily distinguished from an expert in taxation law. The former is not a management's expert for the purposes of this Guidance Statement as this constitutes accounting expertise; the latter is an expert for the purposes of this Guidance Statement as this constitutes legal expertise. Similar distinctions may also be able to be made in other areas, for example:

- (a) Between expertise in methods of accounting for financial instruments, and expertise in complex modelling for the purpose of valuing financial instruments, the former is not considered to be a management's expert as this constitutes accounting expertise;
 - (b) An entity's internal expertise in IT controls is not considered to be a management's expert as management is responsible for the design and implementation of controls that is integral to the functioning of the financial reporting system and preparation of the financial report.
18. Management may engage or employ experts (this may include but is not limited to actuaries, valuers, engineers, environmental consultants, geologists, scientists, health practitioners, taxation specialists, legal advisors and other industry specialists) to obtain the necessary information to prepare the financial report and/or historical financial information. Examples of such expertise include:
- (a) Valuation (for example, high-technology materials or equipment, complex financial instruments, land and buildings, intangibles, investments and environmental liabilities);
 - (b) Determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, mineral reserves, or raw materials stored in stockpiles);
 - (c) Determination of amounts derived by using specialised techniques or methods (for example, actuarial calculations of liabilities associated with insurance contracts or employee benefit plans);
 - (d) Interpretation of technical requirements of contract, laws and regulations. This may be done in some cases by those possessing legal expertise. *ASA 502 Audit Evidence – Specific Considerations for Litigation and Claims* establishes requirements and provides application and other explanatory material regarding considerations by an auditor in obtaining sufficient appropriate audit evidence relating to litigation and claims. The requirement in ASA 502 is for the auditor to consider the applicable requirements and guidance on using the work of an expert contained in ASA 500 before using the work of on in-house or external legal counsel as audit evidence.

Considerations in Determining Whether to Use the Work of a Management's Expert

19. The auditor's decision on whether to use the work of a management's expert as audit evidence may be influenced by:
- (a) The nature and significance of the matter, including its complexity;
 - (b) The risks of material misstatement in the matter;
 - (c) The nature, timing and extent of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the management's experts in relation to such matters and the availability of alternative sources of audit evidence; and
 - (d) The sources and level of detail of information available from the management's expert. Examples of sources of information include, but are not limited to:

- (i) The management expert's report;
- (ii) The management expert's working papers;
- (iii) The management expert's methodologies or systems.

Audit evidence in documentary form is generally more reliable than evidence obtained orally¹³. Where the matter is significant or complex or the risk of material misstatement is high, discussions with the management's expert alone, may not provide an appropriate source of information for obtaining audit evidence.

20. Understanding the sources of audit evidence in relation to the work of a management's expert including sufficient detail to understand the nature, timing, extent of work performed, and conclusions reached by that expert may need to be considered early on in the planning stages of the audit engagement and agreed in the terms of the engagement between the entity and the management expert.
21. When determining the nature, timing and extent of audit procedures in relation to the work of the management's expert, the auditor makes reference to the requirements, application and other explanatory material contained in ASA 500¹⁴.

Considerations in Determining the Information to Be Used as Audit Evidence

22. ASA 500¹⁵ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor, to the extent necessary and having regard to the significance of that expert's work for the auditor's purposes:
- (a) Evaluates the competence, capabilities and objectivity of that expert (Ref: Para. 24-35);
 - (b) Obtains an understanding of the work of that expert (Ref: Para. 36-39); and
 - (c) Evaluates the appropriateness of that expert's work as audit evidence for the relevant assertion (Ref: Para. 40-59).
23. In relation to the work of a management's expert, the auditor obtains more persuasive audit evidence the higher the auditor's assessment of risk¹⁶. The auditor may also consider obtaining more persuasive evidence as:
- (a) The significance of that expert's work on the financial statements increases;
 - (b) The ability of the company to affect the management's expert's judgements increases;
 - (c) The level of competency and capability possessed by the management expert decreases.

Competence, Capabilities and Objectivity of a Management's Expert

24. The auditor makes reference to the requirements, application and other explanatory material contained in ASA 500 and evaluates whether the management's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process, the timing of which may be restricted by management's process for planning and selecting management's experts.

¹³ ASA 500, A35.

¹⁴ ASA 500, paragraph 8.

¹⁵ ASA 500, paragraph 8.

¹⁶ ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

25. Competence, capability and objectivity of a management's expert impacts the degree of reliability of that expert's work as audit evidence, that is, the extent to which the management's expert's work could provide persuasive audit evidence.
26. The nature and extent of procedures to evaluate the management's expert's competence, capability and objectivity depends on the significance of that expert's work to the auditor's conclusion regarding the relevant assertion and the risk of material misstatement of the relevant assertion. As the significance of the management's expert's work and risk of material misstatement increases, the persuasiveness of the evidence the auditor obtains for this evaluation also increases¹⁷.

Competence

27. Competence relates to the nature and level of expertise of the management's expert. The auditor uses professional judgement when determining the competency of a management's expert. When evaluating competence, the auditor may consider the guidance included in ASA 500¹⁸ as well as:
- (a) The management's expert's experience in the type of work performed, including applicable areas of speciality within the expert's field;
 - (b) The reputation and standing of the management's expert, including:
 - (i) Previous experience of the auditor with the work of that expert;
 - (ii) Enquiring of other practitioners who have used that expert or others working in the same industry;
 - (c) The professional certification, license or professional accreditation of the management's expert. Experts in a specific field commonly have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body¹⁹. The auditor's confidence when evaluating the competency of the management's expert may increase with that expert's membership of professional or industry bodies that:
 - (i) Require professional qualification or accreditation;
 - (ii) Subject their members to regulatory requirements/guidance;
 - (iii) Subject their members to a specific set of standards or guidance on the expert's services;
 - (iv) Require continuous professional development; and
 - (v) Require professional obligations to be followed by their members.
28. The auditor's evaluation of the management expert's competence may be influenced by the management's expert's work environment, for example that expert's internal quality control policies and procedures.

¹⁷ ASA 330, paragraph 7(b).

¹⁸ ASA 500, paragraph A48-A51.

¹⁹ For example actuaries are governed by the Institute of Actuaries of Australia, an actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional Standards* and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

Capability

29. Capability relates to the ability of the management's expert to exercise their competency in the circumstances. When evaluating capability, the auditor may consider the guidance included in ASA 500²⁰ as well as:
- (a) Geographic location;
 - (b) Availability of time;
 - (c) Availability of resources;
 - (d) Instructions on scope provided by management.

Objectivity

30. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgement of the management's expert. When evaluating objectivity, the auditor may consider the guidance included in ASA 500²¹ as well as:
- (a) Circumstances that threaten the objectivity of the management's expert; and
 - (b) Whether appropriate safeguards are in place to eliminate those threats or reduce them to an acceptable level.
31. ASA 500 indicates that evidence from external sources is generally more reliable than that generated internally. The auditor may evaluate the relationship to the company of the management's expert, specifically, whether circumstances exist that give the company the ability to significantly affect the management's expert's judgements about the work performed, conclusions or findings. The existence of a relationship between the management's expert and the entity being audited may impair that expert's ability to be objective. The risk that the objectivity of a management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. Where a management's expert is employed by the entity, the auditor needs to consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of that expert that would impact on the objectivity of the management's expert.
32. Circumstances which may threaten the objectivity of the management's expert may include: advocacy threats, familiarity threats, self-review threats and self-interest threats²². Examples include economic dependency of the management's expert on the entity and contingency based fee arrangements.
33. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the management's expert and the significance of that expert's work in the context of the audit. There may be safeguards specific to the audit engagement, however there may be circumstances where safeguards cannot reduce threats to an acceptable level²³.
34. When the management's expert is an employee of the entity, mitigating factors which enhance the ability of the management's expert to be objective, and therefore are safeguards for the lack of independence may include:
- (a) Adherence to the professional standards issued by the expert's regulating body.

²⁰ ASA 500, paragraph A48-A51.

²¹ ASA 500, paragraph A48-A54.

²² ASA 500, paragraph A52.

²³ ASA 620, paragraph A19.

- (b) Formal appointment of the management's expert by those charged with governance and direct access to those charged with governance by that expert.

The basis on which the management's expert is remunerated and/or incentives offered as part of that remuneration may be considered by the auditor when evaluating the management's expert's objectivity.

Consideration of the above may also be relevant in evaluating the objectivity of a management's expert that is external to the entity.

Overall Evaluation of Competence, capability and objectivity of a management's expert

35. When the management's expert has been evaluated by the auditor as not being competent, capable and/or objective, the auditor may consider not using that expert's work as audit evidence. In such circumstances the auditor may consider:
- (a) Suggesting to management to engage a different management's expert;
 - (b) Seek audit evidence from another expert including an auditor's expert; or
 - (c) Changing the nature and extent of other audit procedures.

When the management's expert has been evaluated by the auditor as being competent, capable and/or objective, this is not a substitute for evaluating the appropriateness of that expert's work as audit evidence as required by ASA 500²⁴.

Obtaining an Understanding of the Work of a Management's Expert

36. The auditor makes reference to the requirements, application and other explanatory material in ASA 500 when obtaining an understanding of the management's expert's work to evaluate whether it is appropriate for the purposes of the audit.
37. When obtaining an understanding of the management's expert's work, the auditor, having regard to whether the management's expert is internal or external to the entity, may consider:
- (a) The terms of the engagement between the entity and the management expert, including understanding the nature, timing and extent of work to be performed by the management's expert and the form of any report to be provided by that expert;
 - (b) Whether the auditor has any prior knowledge of the management's expert's field of expertise, or with that expert;
 - (c) The economic and competitive conditions impacting the entity and its operating results;
 - (d) Whether there is evidence of undue management pressure on the management's expert;
 - (e) The existence of controls within the entity over the work of the management's expert (for example whether there are procedures in place to challenge or review that expert's work, such as review by those charged with governance) or controls over the source data used in that expert's assessment;
 - (f) Whether management has authorised their expert to discuss their findings or conclusions with the auditor²⁵;

²⁴ ASA 500, paragraph 8(c).

²⁵ Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, is generally discussed and agreed with management or those charged with governance and the expert at the planning phase of the engagement.

- (g) Whether the management's expert has consented to the auditor's intended use of their findings; and
 - (h) Whether the management's expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).
38. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the management's expert has not consented to the auditor's intended use of their findings, the auditor may consider the guidance as provided in paragraphs 58 to 59 of this Guidance Statement.

Engagement with the Management's Expert

39. As early as practicable during the engagement, the auditor communicates with the management's expert, either directly or indirectly through management, and may consider the management's expert's approach and methodology. The auditor evaluates whether the approach and methodology is an appropriate basis for determination of the matter included in the financial report or other historical financial information. For example where management uses a valuation expert for a purchase price adjustment calculation, the auditor communicates with the management's expert early on in the valuation process so as to understand and agree on the basis for identification of assets and the basis of the valuation methodology.

Evaluating the Appropriateness of the work of a Management's Expert

40. ASA 500²⁶ contains application and other explanatory material that when evaluating the appropriateness of the management expert's work as audit evidence for the relevant assertion, the auditor considers:
- (a) The relevance and reasonableness of the management's expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
 - (b) If the management's expert's work involves the use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods;
 - (c) If the management's expert's work involves significant use of source data, the relevance, completeness and accuracy of that source data; and
 - (d) If the management's expert's work involves the use of information from an external information source, the relevance and reliability of that information.
41. ASA 540²⁷ contains requirements and application material when evaluating the appropriateness of the work of a management's expert as audit evidence in relation to the audit of accounting estimates.
42. In addition, when evaluating the appropriateness of the work of a management's expert, the auditor may consider the accuracy of prior period estimates made by the management's expert. Where the auditor determines that past estimates have not been sufficiently accurate, the auditor may consider obtaining an understanding of the reasons for the inaccuracy and performing additional audit procedures as appropriate to the circumstances.

Determining the necessary audit effort for evaluating the appropriateness of management's expert's work

43. ASA 500 and ASA 540 do not ordinarily require that the auditor reperforms all of the work undertaken by a management's expert. Instead, if information is to be used as audit evidence

²⁷ ASA 540, paragraph 30.

and that evidence has been prepared using the work of a management's expert, the auditor's responsibility is to evaluate whether the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the financial report are in conformity with the relevant financial reporting framework.

44. Consistent with paragraph 23 of this Guidance Statement, factors that may impact the persuasiveness of evidence needed when evaluating the appropriateness of the work of a management's expert include the risk of material misstatement and the significance of the management's expert's work to the auditor's conclusion, include:
- (a) Consistent with ASA 330²⁸, the higher the risk of material misstatement for an assertion, the more persuasive the evidence needed to support a conclusion about that assertion.
 - (b) The significance of a management's expert's work refers to the degree to which the auditor gathers evidence in evaluating the management's expert's work to support the auditor's conclusions about the assertion. Generally, the greater the significance of the management's expert's work to the auditor's conclusion, the more persuasive the evidence from the management's expert's work needs to be. The significance of the management's expert's work stems from:
 - (i) The extent to which the management's expert's work affects the account balances, classes of transactions and disclosures in the financial report. In certain situations that work may be a primary source of audit evidence, while in other situations, the management's expert's work may only be used as a cross-check.
 - (ii) The auditor's approach to testing the relevant assertion and the availability of alternative sources of audit evidence. For example, when a company's accounting estimate is determined principally based on the work of a management's expert, and the auditor plans to test how management made the accounting estimate, the auditor would plan to evaluate the work of the management's expert for evidence regarding the estimate. If the auditor tests an assertion by developing an independent expectation, the auditor would give less consideration to the work of the management's expert.

Methods, Assumptions and Source Data

45. A management's expert's work involves the use of methods, assumptions and source data, the auditor ordinarily does not reperform all of the work undertaken by that expert. The auditor's responsibility is to evaluate that the management's expert's work is appropriate to provide sufficient appropriate audit evidence²⁹ to support a conclusion regarding whether in all material respects the corresponding account balances, classes of transactions or disclosures in the financial report are in conformity with the applicable financial reporting framework. Paragraph 58 of this Guidance Statement provides additional guidance for the auditor where the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes.

Methods

46. When a management's expert's work involves the use of methods, factors relevant to the auditor's evaluation of the appropriateness of methods may include whether they are:
- (a) Generally accepted within the management's expert's field;

²⁸ ASA 330, *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

²⁹ ASA 500, paragraph 8(c).

- (b) Justified as the appropriate valuation methodology;
 - (c) Consistent with the requirements of the applicable financial reporting framework; and
 - (d) Dependent on the use of specialised models.
47. Ordinarily the auditor is not expected to obtain access to proprietary models used by a management's expert. Rather, the auditor's responsibility is to obtain information to evaluate whether the model used is appropriate, robust and capable of producing outcomes that allow conformity with the applicable financial reporting framework. Depending on the model and the factors listed in paragraph 46, this may involve for example one or more of the following:
- (a) Obtaining an understanding of the model;
 - (b) Reviewing descriptions of the model in the management's expert's report;
 - (c) Testing controls over the company's evaluation of the management's expert's work;
 - (d) Evaluating inputs to and outputs from the model or in place of other procedures, the auditor may consider using an alternative model for comparison.
48. If the work of a management's expert involves the use of methods relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or range or related disclosures for inclusion in a financial report, the auditor follows the requirements contained within ASA 540.³⁰

Assumptions

49. When a management's expert's work involves the use of significant assumptions³¹, factors relevant to the auditor's evaluation of the reasonableness of those assumptions may include consideration of:
- (a) The degree of estimation uncertainty associated with the management's expert's underlying assumptions and the degree of stress testing undertaken;
 - (b) Significant changes during the course of the audit that may affect the appropriateness of the assumptions used; and
 - (c) Consistency of those assumptions with relevant information. The following examples may be considered relevant:
 - assumptions generally accepted within the management's expert's field and are they appropriate for financial reporting purposes;
 - industry, regulatory and other external factors, including economic conditions;
 - existing market information;
 - historical or recent experience, along with changes in conditions and events affecting the company;
 - significant assumptions used in other estimates tested in the company's financial report.
50. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an

³⁰ ASA 540, paragraph 30 and A131.

³¹ ASA 540, paragraph A42.

accounting estimate³². In these circumstances, the auditor applies the relevant requirements of ASA 540 to those assumptions.

Source Data Used by the Management's Expert

51. The auditor may consider whether the source data is sufficiently relevant and reliable for their purposes, including procedures relating to establishing the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed. The extent of the auditor's procedures is dependent on the nature and risk of the source data and the materiality of the underlying balance, transaction and/or disclosure to which it relates. When a management's expert's work involves the use of source data that is significant to that expert's work, the auditor may evaluate that expert's work on source data. Procedures for the auditor may include considering how the management's expert determined that the source data was relevant and reliable, including as necessary in the circumstances how the management's expert determined that the source data was complete and accurate.
52. In many cases, the auditor may test the source data directly, particularly where the data is internally produced by the company. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and the involvement of an auditor's expert.
53. If the work of a management's expert involves sources of data relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor may find the requirements and application material of ASA 540³³ helpful.

The Findings and Conclusions of the Management's Expert

54. The auditor may consider the final findings and conclusions in the agreed form of report of the management's expert. The auditor, using their professional judgement, considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert to review some or all of the work of the management's expert. Specific procedures to evaluate the reasonableness of the management's expert's work for the auditor's purposes may include:
 - (a) Enquiries of the management's expert.
 - (b) Comparing the management's expert's final report to the draft report (if a draft report is provided) and understanding and enquiring into material differences and consideration of additional audit procedures as appropriate.
 - (c) Corroborative procedures, such as:
 - observing the management's expert's work;
 - examining published data, such as statistical reports from reputable, authoritative sources;
 - confirming relevant matters with relevant third parties;
 - performing detailed analytical procedures; and/or

³² ASA 540, paragraph A130.

³³ ASA 540, paragraph A131.

- re-performing calculations including sensitivity analysis on key inputs.
 - (d) Consultation with an auditor's expert with relevant expertise when, for example, the findings or conclusions of the management's expert are not consistent with other audit evidence or the findings indicate an error, deviation, deficiency in internal control, or other significant matter or the scope of the engagement or adequacy of evidence is insufficient.
 - (e) Discussion of the management's expert's report with management and if appropriate those charged with governance, including understanding their evaluation of the expert's findings.
55. Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the management's expert from that expert's report, may include whether they are:
- (a) Consistent with the auditor's understanding of the entity and its environment;
 - (b) Clearly expressed, including reference to the objectives agreed with management, the scope of the work performed and standards applied;
 - (c) Consistent with the results of other audit procedures;
 - (d) Cross-checked against one or more other methodologies;
 - (e) Based on an appropriate period/point in time and take into account events occurring after that date, where relevant;
 - (f) Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor; and
 - (g) Based on appropriate consideration of errors, deviations, deficiencies in internal controls or other significant matters identified by the management's expert.

Evaluation of the Work Undertaken by the Management's Expert

56. The auditor evaluates the appropriateness of the management's expert's work as audit evidence for the relevant assertion³⁴.
57. Considerations when evaluating the appropriateness of the management's expert's work may include considering the relevance and reliability of that work including:
- (a) The results of the auditor's procedures over the competence, capability and objectivity of the management's expert;
 - (b) The results of the auditor's procedures over the management's expert's methods, assumptions and source data;
 - (c) The nature of any restrictions, disclaimers or limitations in the management's expert's report;
 - (d) The consistency of the management's expert's work with other evidence obtained by the auditor and the auditor's understanding of the company and its environment.
58. If the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes, or does not address material errors, deviations, deficiencies in internal controls or other material matters, the auditor may agree with management on the nature and extent of further work to be performed by the management's expert; or performs additional

³⁴ ASA 500, paragraph 8.

audit procedures appropriate to the circumstances³⁵. The auditor may communicate this with those charged with governance. If the matter cannot be resolved, this is reported to those charged with governance and it may be necessary for the auditor to express a modified opinion in the auditor's report if the auditor cannot obtain sufficient appropriate audit evidence.

59. When the auditor concludes that the work of the management's expert is appropriate for the auditor's purposes, the auditor may use that expert's findings or conclusions as appropriate audit evidence. The auditor then determines whether the management's expert's findings or conclusions have been accurately reflected in the financial report or other historical financial information including relevant disclosures.

Documentation

60. Although there are no specific documentation requirements in ASA 500, the auditor is required to comply with the documentation requirements of ASA 230³⁶, that requires the auditor when evaluating the extent of documentation, to consider what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand the auditor's:
- (a) Determination of whether to use the work of the management's expert;
 - (b) Evaluation of the competence, capabilities and objectivity of the management's expert;
 - (c) Understanding of the management's expert's work;
 - (d) Evaluation of the appropriateness of the management's expert's work as audit evidence for the relevant assertion.
61. The auditor may include in their documentation relevant extracts from the management's expert's findings, including the conclusions reached.
62. The auditor follows the documentation requirements of ASA 540³⁷ when the management's expert's work is used in the preparation of an accounting estimate.

Reference to the Work of a Management's Expert in the Auditor's Report

63. The auditor does not refer to the work of the management's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor indicates in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.
64. If the auditor makes reference to the work of the management's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor provides a description of the matter giving rise to the modification³⁸ and indicates in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Communication with Those Charged with Governance and Others

65. Due to uncertainties that may be associated with the work undertaken by a management's expert, the potential effects on the financial report and/or other historical financial information of any significant risks are likely to be of governance interest.

³⁵ ASA 500, paragraph 11.

³⁶ ASA 230 *Audit Documentation*.

³⁷ ASA 540, paragraph 39.

³⁸ ASA 705, paragraph 20(b).

66. ASA 260 *Communication with Those Charged with Governance* contains the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. In relation to using the work of a management's expert, the auditor, using professional judgement, may communicate:
- (a) Whether management has engaged a management's expert;
 - (b) Concerns regarding competency or objectivity of the management's expert;
 - (c) Materiality and risk of the subject matter subject to determination by the management's expert;
 - (d) The proposed intended use of the management's expert's work by the auditor;
 - (e) Key findings/conclusions of the management's expert's report including commentary on:
 - Significant assumptions, methods and data used;
 - Degree of subjectivity of assumptions;
 - Whether that expert's work is adequate for audit purposes and obtains appropriate audit evidence; and
 - Significant differences in judgement between the auditor and that expert.

The appropriate timing for communications will vary with the circumstances of the engagement; however, it may be appropriate to communicate significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion.

Conformity with International Pronouncements

67. There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 11.1
Meeting date: 9 April 2020
Subject: NSS Initiative Update
Date: 26 March 2020
Prepared By: Sylvia van Dyk

Action Required **For Information Purposes Only**

Agenda Item Objectives

To :

- Update the Board on the NSS collaboration initiative; and
- Obtain feedback on the following topics:
 - IAASB Audit Evidence outreach
 - PIE definition project

Introduction

1. Good progress continues to be made in the joint project of the New Zealand, Canadian and Australian boards (with the participation also of the Netherlands) to raise the profile of national standard setters in the global standard setting context. The group has now completed a full comparison of respective work programmes and has identified 9 topics of focus for collaboration. Details on the NSS collaboration projects are available at agenda 11.4 for noting.
2. The three board chairs are also continuing to promote the draft Vision statement for NSS collaboration. The Vision and work of the group has been socialized with the US and the UK FRC.
3. We are also continuing our engagement with the IAASB's chair and senior staff to promote effective and timely planning for the NSS meeting, which was due to be held in NYC in May. The in-person meeting is an impossibility now, and we understand that the IAASB and the IESBA are working on alternatives. This could entail a combination of brief virtual sessions in May to get targeted input and a possible in-person session towards the end of the year. At this point in time we are waiting for further details about the outcome of the discussions on decisions regarding the NSS meeting. We will provide a verbal update to the Board on any developments.

Matters to Consider

IAASB Audit Evidence outreach

4. The IAASB has commenced a project to identify and explore issues related to audit evidence throughout the ISAs. The IAASB has requested the NSSs to assist them in collecting feedback from stakeholders in their jurisdictions to progress these issues and develop recommended actions.
5. The Paper at agenda 11.2 provides an update to the Board on the outreach we have conducted and the feedback we have received to date. We are also asking the Board for feedback on the targeted outreach questions.

PIE definition project

6. The IESBA have commenced work on the PIE definition project and will be seeking views on the indicative direction of travel at its March meeting, from the CAG and the Forum of Firms and then again at the NSS meeting.
7. To date the task force has reviewed the development of the PIE definition by the Board and conducted a review of the PIE definition in a number of jurisdictions.
8. We have prepared an issues paper at agenda item 11.3 where we seek preliminary views from the Board on the preliminary direction of travel and the list of categories identified by the IESBA Task Force.

NSS collaboration projects

9. Details on the collaboration project is available at agenda 11.4 for noting.

Signing partner project

10. One of the collaboration projects XRB staff (together with assistance from AUASB staff) is taking the lead on is the “signing partner project.” We have agreed to assist the IAASB in gathering information about the circumstances where an individual, other than the engagement partner signs the audit report, either instead of or on behalf of, the engagement partner, and the reasons why this occur. Lyn Provost is the IAASB lead on the project.
11. The “signing partner project” has been delayed a number of times for various reasons (the most significant reason being competing priorities at the IAASB, NZAuASB and AUASB staff levels.). The survey has been prepared and is ready to go, however given the current circumstances it is highly likely to be further delayed.
12. The survey can be found at agenda item 11.5 for noting. Please note the requested response times will be updated once we have decided on timings.

Recommendations

13. We recommend that the Board:
 - Note the update on the IAASB audit evidence outreach project at agenda 11.2 and provide feedback on the targeted outreach questions.
 - Consider the issues paper on the PIE definition at agenda 11.3 and provide preliminary views on the IESBA’s proposed direction.
 - Note the details on the NSS collaboration project at agenda 11.4.
 - Note the signing partner survey at agenda 11.5.

Material Presented

Agenda item 11.1	Board Meeting Summary Paper
Agenda item 11.2	Update on IAASB evidence outreach project
Agenda item 11.3	Pie Definition issues paper
Agenda item 11.4	NSS collaboration project details
Agenda item 11.5	Signing partner survey

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	11.2
Meeting date:	9 April 2020
Subject:	NASS Audit Evidence Outreach
Date:	23 March 2020
Prepared by:	Peyman Momenan



Action Required



For Information Purposes Only

Objectives

1. The objective of this agenda item is to update the Board and receive feedback on the IAASB targeted outreach regarding the revision of ISA 500, *Audit Evidence*.

Background

2. The ISA 500 has been in use for more than 10 years. With current changes in technology and the types of information sources used by auditors it requires a comprehensive revision.
3. Recognizing the need for change, the IAASB formed the Audit Evidence Working Group (AEWG), with the purpose of identifying and exploring issues related to audit evidence throughout the ISAs. The AEWG has developed an initial listing of possible issues related to audit evidence, using information obtained from various sources, such as outreach activities and previous IAASB consultations. However, in order to progress these issues and develop recommended actions, the IAASB needs further input from various stakeholder groups, focused on gaining a better understanding of the issues and how they may be best addressed.
4. As part of this outreach, the IAASB has requested the National Standard Setters to assist them in collecting feedback from stakeholders in their jurisdictions in relation to 15 specific issues the AEWG has identified and included in a background paper. A copy of the IAASB paper is included in agenda item 11.2.1. The feedback is due by 17th of April 2020.
5. Appendix 1 of the paper contains a listing of possible issues identified by the IAASB related to audit evidence across the ISAs. The IAASB is seeking input on the following:
 - (a) Which of the issues in **Appendix 1** are creating the most difficulties in practice, and why is this the case?
 - (b) What other issues are there related to audit evidence that have not been identified in Appendix 1?
 - (c) How are firms, regulators, national standard setters and member bodies currently addressing these issues?

(d) What actions do you believe should the IAASB take, and how urgent are these?

Outreach activities to date

6. We have undertaken the following outreach activities to facilitate the requested feedback to the IAASB.
 - Conducting targeted interviews with practitioners from large and medium sized audit firms as well as the Office of the Auditor- General and the Financial Market Authority.
 - Comparing notes with the AUASB staff responsible for this project.
 - Coordinating outreach activities with the AUASB, CPA Australia and CA ANZ.
7. At the time of this paper, we have interviewed the OAG and 2 practitioners from two mid-tier firms with further interviews scheduled in the upcoming weeks.
8. We will also be sharing our outreach activities and feedback received with the national standard setters in Australia, Canada and the Netherlands, as this is one of the activities we have identified to collaborate on (Refer agenda item 11).

Feedback to date

9. We have received the following feedback to date on the questions raised by the IAASB in its outreach:
 - (a) Which of the issues in **Appendix 1** are creating the most difficulties in practice, and why is this the case?
 - The feedback to date shows that practitioners find the changing nature and sources of information as audit evidence (in particular items 5 and 6) and new technologies (item 12) create the most difficulties in practice. These difficulties are contributed to:
 1. Digitalisation of processes means that many entities either do not maintain any form of “source documents” or where they still maintain physical source documents less care is accorded to them. This lack of reliable physical source documents has significant implications for what audit procedure are practical. This would also signify the importance of internal controls over information systems.
 2. As noted by the paper, the traditional notion that external information tends to be more reliable than information prepared by the entity is no longer valid. The whole notion of what is “reliable” information needs a reconsideration specially in relation to data (i.e. information maintained in electronic format).
 3. The complexity involved in auditing accounting estimates in particular causes significant challenges, specially in relation to the work effort required to be spent on the data and information used by management experts.
 4. The volume of available information creates new challenges for auditors, including potential scope and liability issues in future.
 5. The practitioners agree that it is becoming increasingly more difficult to determine when an information source is a service provider. Also, practitioners raise concern that the reports under ISA 402, *Audit Considerations Relating to an*

Entity Using a Service Organisation have a limited scope and are not very helpful in practice. It may be prudent to reconsider the objective and scope of ISA 402 reports as part of revising ISA 500.

6. Data Analytics (DA) are inadequately addressed in the ISAs in general. DA have a potential beyond risk assessment analytical procedures and substantive analytical procedures. For example, DA can be used for test of operating effectiveness of internal controls or to test 100% of a population. It is therefore important that DA is adequately addressed.
7. Documentation of assessing reliability (in particular completeness of certain types of information) continues to be a significant challenge in practice.

(b) What other issues are there related to audit evidence that have not been identified in Appendix 1?

- The received feedback has not identified any other relevant issues.

(c) How are firms, regulators, national standard setters and member bodies currently addressing these issues?

- Firms main method for addressing these challenges is via their audit methodology and training. Also, investment in new technologies such as Data Analytics is being considered. Larger firms are increasingly involving data professionals in their audits to help improve their use of non-financial information in their audits.
- National standard setter main activities include interacting with assurance community stakeholders, conducting targeted research in New Zealand and monitoring closely the international development in this area. New Zealand also works closely with Australia and Canada. Providing guidance when needed is the New Zealand response.

(d) What actions do you believe should the IAASB take, and how urgent are these?


- Revising ISA 500 must be a priority. Specific guidance about use of Data Analytics and how to assess reliability of information from other sources are important issues to address in near future as well.

Does the Board have any feedback on the following questions:

- (a) Which of the issues in **Appendix 1** are creating the most difficulties in practice, and why is this the case?
- (b) What other issues are there related to audit evidence that have not been identified in Appendix 1?
- (c) How are firms, regulators, national standard setters and member bodies currently addressing these issues?
- (d) What actions do you believe should the IAASB take, and how urgent are these?

Material Presented

11.2	The update
11.2.1	IAASB Audit Evidence Information Gathering Activities – NSS and IFAC Member Bodies



**Audit Evidence
Information
Gathering and
Targeted Outreach
Activities**

January 2020

**IFAC Member
Bodies & NSS**

IAASB

**International Auditing
and Assurance
Standards Board**

Introduction

About the IAASB

The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality auditing, assurance, and other related standards which are generally accepted worldwide. The IAASB also facilitates the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

Outreach Activities – Audit Evidence in an Audit of Financial Statements

Obtaining sufficient appropriate audit evidence is one of the foundations of an audit. International Standard on Auditing (ISA) 500, *Audit Evidence*, deals with the auditor's responsibilities to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. There are also other ISAs that involve audit evidence. While ISA 500 has been in use for more than 10 years the world has evolved with rapid changes in technology and the types of information sources used by auditors.

Recognizing these changes, the IAASB formed the *Audit Evidence Working Group* (AEWG), with the purpose of identifying and exploring issues related to audit evidence throughout the ISAs. The AEWG has developed an initial listing of possible issues related to audit evidence, using information obtained from various sources, such as outreach activities and previous IAASB consultations. However, in order to progress these issues and develop recommended actions, the IAASB needs further input from various stakeholder groups, focused on gaining a better understanding of the issues and how they may be best addressed.

The IAASB is gathering this input through a variety of outreach activities. The purpose of this document is to provide background information to stakeholders participating in the outreach activities.

Why is the IAASB initiating this targeted outreach?

1. Auditors play a key role in contributing to the credibility of the financial statements on which they are reporting and are therefore crucial to supporting financial stability. However, high levels of reported poor results of external inspections and recent high-profile corporate failures in some jurisdictions have resulted in decreasing confidence and declining trust in audits. The reasons for inspection results vary, while corporate failures arise from a variety of sources.
2. As the global auditing standard setter, the IAASB has a public interest responsibility to develop standards and guidance for auditors to facilitate high-quality audits being achieved and maintained – which in turn builds public trust and confidence in financial statements and financial reporting more broadly. The IAASB recognizes the need for the International Standards on Auditing to remain relevant in the face of continually changing circumstances in diverse jurisdictions.

What does the IAASB's outreach address?

3. The IAASB is focused on the topic of audit evidence as contemplated by ISA 500, and its possible impact **throughout the ISAs**, as appropriate. ISA 500 explains what constitutes audit evidence in an audit of financial statements and sets out requirements pertaining to:
 - Sufficient appropriate audit evidence;
 - Information to be used as audit evidence;
 - Selecting items for testing to obtain audit evidence; and
 - Inconsistency in, or doubts over reliability of, audit evidence.
4. ISA 500 was issued in December 2008 as part of the IAASB's improvements to clarify the ISAs. In 2018, as part of the ISA 540 (Revised)¹ project, conforming and consequential amendments were made to ISA 500 to include material addressing external information sources. The IAASB's [Handbook](#) includes the latest version of ISA 500 that reflects these amendments.
5. While ISA 230² requires the documentation of audit evidence obtained, the IAASB is not exploring documentation-specific matters related to ISA 230 or any other ISAs in the context of this targeted outreach.

What does the IAASB want to learn from the outreach activities?

6. The objective of the IAASB's outreach activities is to:
 - Further explore the issues already identified by the IAASB. In particular, the IAASB would like to understand which of the issues are creating the most difficulties in practice (and the reasons for this).
 - Identify whether there are any other issues creating difficulties in practice that have not been identified by the IAASB.

¹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

² ISA 230, *Audit Documentation*

- Explore how individual issues may be best addressed in the context of the IAASB's remit³ (i.e., whether the IAASB can take further action, such as standard-setting or some other action, such as guidance).

What are the Issues that have been Identified by the IAASB?

7. There are three main factors that have been identified by the IAASB that are stimulating the need to consider whether enhancements to ISA 500 and possible related standards are necessary:
 - (a) Professional skepticism;
 - (b) Changes in the information that is being used in the audit, including the source of the information and how the information is processed, communicated and used; and
 - (c) Continual developments in technology.



Professional Skepticism

8. The IAASB's standards explicitly recognize the fundamental importance of professional skepticism.⁴ Professional skepticism includes being alert to, for example, audit evidence that contradicts other audit evidence obtained, or information that brings into question the reliability of documents or responses to inquiries to be used as audit evidence.
9. Some audit failures have highlighted concerns about the extent of professional skepticism exercised by auditors when making professional judgments. As a result, in 2015 the IAASB issued the [Invitation to Comment, Enhancing Audit Quality in the Public Interest \(ITC\)](#), to solicit input, among other matters, on how to reinforce the fundamental concept of professional skepticism throughout the audit.
10. Feedback to the ITC pertaining to professional skepticism included the following themes:
 - Professional skepticism is about the appropriate attitude of the auditor; concerns over a lack of professional skepticism in audits cannot be fixed in isolation by changing the definition of professional skepticism or making changes to the IAASB's International Standards.
 - A sufficient knowledge of the entity's business enables an auditor to ask probing questions, more effectively question management, and identify when evidence is contradictory.
 - Professional skepticism is about *behavior*. This gives rise to questions about how auditors can be encouraged to engage in behaviors that support the exercise of professional skepticism through the IAASB's International Standards. For example, could changes to certain auditing standards more effectively direct auditors to what is expected (e.g., the approach taken in ISA

³ Refer to IAASB website: [About IAASB](#)

⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, defines professional skepticism as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

240).⁵ How does the culture of the firm influence and encourage the appropriate exercise of professional skepticism?

- Additional guidance on exercising professional skepticism in particular circumstances (e.g., when auditing highly judgmental areas) would be helpful to enhance practice.

11. Professional skepticism is a key focus area for the IAASB across all of its current projects and the IAASB's approach is to embed the expectations that underlie the exercise of professional skepticism into the requirements of the auditing standards. In the context of audit evidence, professional skepticism is exercised in:

- Designing and performing audit procedures to obtain sufficient appropriate audit evidence;
- Considering the relevance and reliability of information to be used as audit evidence;
- Dealing with inconsistency in, or doubts about, the reliability of audit evidence; and
- Concluding on whether sufficient appropriate audit evidence has been obtained to support the audit opinion.

The IAASB's Professional Skepticism Activities to Date Include:

- [Feedback from the consultation](#) on the IAASB's *Strategy for 2015-2019* and *Work Plan for 2015-2016*
- Observations of the [IAASB-IAESB-IESBA Professional Skepticism Working Group \(Aug 2017\)](#)
- [FAQ – Professional Skepticism in an Audit of Financial Statements \(Feb 2012\)](#)
- IAASB Communiqué: [Professional Skepticism Lies at the Heart of a Quality Audit \(Oct 2018\)](#)
- IAASB Communiqué: [Focus on Professional Skepticism \(Feb 2019\)](#)

IAASB's [Professional Skepticism Project Page](#)

12. Accordingly, in the spirit of the IAASB's efforts to enhance the exercise of professional skepticism throughout its standards, consideration is needed about how to reinforce professional skepticism in ISA 500 (and related ISAs, as applicable). For example, this may include how ISA 500 could address auditors bias towards obtaining audit evidence that may be corroborative and not biased towards excluding audit evidence that may be contradictory.

Nature and Sources of Information

13. The world of information is transforming at a rapid pace, largely as a result of the evolution of technology. Changes brought about by factors such as big data and social media have affected the sources and volume of information available to entities and auditors. This has impacted the manner in which entities obtain, process, manage, use and communicate information, and has also influenced how, and from where, auditors obtain audit evidence.

14. As a result, the IAASB has identified that consideration may be needed about whether ISA 500, and the extent to which it relates to other ISAs, remains fit for purpose. For example:

- How the auditor considers the relevance and reliability of information may be affected by the source of the information and the underlying manner in which the information has been prepared (e.g., the use of artificial intelligence software to generate the information or use of blockchain technology).

⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- (b) The increasing variety of sources of information raises questions about whether all information, irrespective of its source, should be considered for reliability, in the same manner as information produced by the entity.
- (c) The availability of more information, and the ability of the auditor to use innovative audit techniques to process such information allow the auditor to process and consider increasing volumes of information and data and thus raises questions about how the auditor determines the sufficiency of audit evidence. Currently, under ISA 500, the sufficiency of audit evidence is viewed through the lens of the quantity of audit evidence.

Technology

15. Over the last decade since ISA 500 was revised, there have been significant changes in the environment in which audits are performed. Developments in technology have affected:

- (a) How entities operate and process information, including the use of artificial intelligence, robotics, blockchain, cloud computing, social networks and new digital currencies and payment platforms.
- (b) How audits are performed, for example, use of automated tools and techniques, such as data analytics, robotics, machine learning and artificial intelligence.

The Request for Input, *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*

Some of the limitations and challenges explored in the Request for Input relevant to audit evidence included:

- (a) The need to have a clear understanding of the data, in particular its relevance to the audit.
 - (b) The extent of work effort in considering the relevance and reliability of external data, including whether external data is complete and accurate.
 - (c) The procedures the auditor is expected to perform over information produced by the entity.
 - (d) The extent of testing needed of general IT controls and application controls, and the impact of deficiencies in general IT controls and application controls.
 - (e) The implications of analyzing a larger portion of a population.
 - (f) How the use of data analytics contributes to obtaining sufficient appropriate audit evidence.
16. In 2016, the IAASB released the Request for Input, [*Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*](#). The paper explored various issues and challenges associated with the use of data analytics in the performance of audits.

17. In January 2018, the IAASB released a [*Feedback Statement, Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*](#), which noted respondents' overall views that the ISAs are not broken and should remain principles based, but need to reflect the digital era in application guidance. Specific views provided by respondents relating to audit evidence included:

- (a) The need to exercise professional skepticism when using data analytics.
- (b) Clarity about how data analytics contributes to the audit evidence model.
- (c) The importance of the source and quality of the data used and challenges in considering the relevance and reliability of both internal and external data.

18. Recognizing the significant impact of technology on both the auditor (performing audit procedures) and those charged with governance (how entities operate and process information), the IAASB recognizes the need to consider the impact of technology in applying ISA 500 and other ISAs, and whether the standards will continue to be appropriate in years to come as technology continues to evolve.

Possible Issues Identified by the IAASB

19. **Appendix 1** contains a listing of possible issues identified by the IAASB related to audit evidence arising from the three main factors outlined above. Specific questions for stakeholders are included in paragraph 25.

The IAASB’s Strategy and Work Plan and Matters Related to Audit Evidence

20. The IAASB released its [Proposed Strategy for 2020–2023 and Work Plan for 2020–2021](#) (Strategy and Work Plan) in February 2019 for public comment. The Proposed Strategy and Work Plan highlighted audit evidence as one of two new initiatives that will progress in earnest in 2020 and beyond.

21. In general, respondents indicated that the IAASB’s Proposed Strategy and Work Plan insufficiently addresses technology, considering the pervasive impact of technology on the future of auditing. As a result, respondents urged the IAASB to place more emphasis on the impact of changing technologies on audits, including giving further consideration to:

- (a) Exploring the development of guidance on how new technologies and related advancements should be audited (e.g. crypto assets).
- (b) Evaluating what changes may be necessary to the suite of audit evidence related standards (e.g. ISA 500, 505,⁶ 520⁷ and 530⁸).

Feedback to IAASB Strategy and Workplan

We encourage the IAASB to focus on a holistic project on audit evidence, and to evaluate the need for enhancements of the standards for areas related to the determination of the level and quality of evidence required, including any related consideration of materiality, audit sampling, and analytical procedures. We also believe the audit evidence standard is an area where the application of professional skepticism could be further enhanced.

(IFIAR – Monitoring Group Member)

22. Recognizing the need to be responsive to its stakeholders, the IAASB has established the Technology Working Group ([Project Page](#)) as well as the Audit Evidence Working Group ([Project Page](#)). Although there are areas of overlap, technology is only one of the factors that underpin or drive issues related to audit evidence, and therefore each working group has its own workstream plan. It is important to note that the scope of the outreach activities on audit evidence are intended to obtain input over and beyond technology, as also highlighted in paragraph 6.⁹

Activities of Other National Standard Setters

23. In 2018 the AICPA Auditing Standards Board (ASB) initiated a project to revise AU-C section 500, *Audit Evidence*.¹⁰ The ASB issued their [Exposure Draft](#) on June 20, 2019 and the comment period closed on

⁶ ISA 505, *External Confirmations*

⁷ ISA 520, *Analytical Procedures*

⁸ ISA 530, *Audit Sampling*

⁹ The short-term focus of the Technology Working Group is to address technology issues where there is an opportunity to address the issue through guidance. These issues are excluded from **Appendix 1**.

¹⁰ AU-C section 500 is largely aligned to ISA 500.

September 18, 2019. Preliminary analyses of comment letters received (41) indicate broad general support for the proposed revisions to modernize AU-C section 500.

24. The IAASB continues to receive updates on the progress of the ASB's project as well as those of other National Standard Setters, and such work has provided useful information to the IAASB's considerations of issues related to audit evidence.

Questions for Stakeholders

25. **Appendix 1** contains a listing of possible issues identified by the IAASB related to audit evidence across the ISAs. The IAASB is seeking input on the following:
- (a) Which of the issues in **Appendix 1** are creating the most difficulties in practice, and why is this the case?
 - (b) What other issues are there related to audit evidence that have not been identified in Appendix 1?
 - (c) How are firms, regulators, national standard setters and member bodies currently addressing these issues?
 - (d) What actions do you believe should the IAASB take, and how urgent are these?

Issues Related to Audit Evidence Identified by the IAASB

This Appendix presents a summary of key issues related to audit evidence and is categorized by the following drivers:

- Professional skepticism
- Nature and Sources of information
- Technology

Some issues may overlap with more than one driver, in which case the issue has been categorized by the driver that may have the greatest effect on audit evidence. However, the alternative driver(s) has been identified with an asterisk (*), as applicable.

Note: The IAASB recently approved ISA 315 (Revised)¹¹ in September 2019, and an exposure draft of ISA 220 (Revised)¹² was issued in February 2019. Furthermore, the IAASB currently has a project to revise ISA 600. All of these projects have considered, or are considering, the impact of technology and accordingly references to these extant standards are not included in the itemization below.

#	Description of Issue
Professional Skepticism	
<i>ISA 500, Audit Evidence</i>	
1.	<p><i>Sufficient appropriate audit evidence</i></p> <p>Auditors are required to exercise professional judgment in concluding whether sufficient appropriate audit evidence has been obtained, and, if not, when to seek further evidence from additional sources. Given concerns about auditors appropriately exercising professional skepticism, questions have arisen about whether ISA 500 could more robustly address the need for professional skepticism when making such judgments.</p>
2.	<p><i>Information to be used as audit evidence</i></p> <p>Auditors are required to exercise professional judgment in considering the reliability of information to be used as audit evidence. Given concerns about</p>

¹¹ Approved ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

¹² Exposure Draft – Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

#	Description of Issue
	auditors appropriately exercising professional skepticism , questions have arisen about whether ISA 500 could more robustly address the need for professional skepticism when making such judgments.
3.	<p><i>Inconsistency in audit evidence</i></p> <p>Certain audit failures highlight concerns about the appropriateness of professional skepticism exercised by auditors. This includes concerns about the lack of the appropriate exercise of professional skepticism by the auditor resulting from a lack of objectivity and therefore bias towards seeking evidence to support management’s assertions (consistent or corroborating evidence) rather than evidence that is inconsistent with management’s assertions.</p>
Nature and Sources of Information	
ISA 500, <i>Audit Evidence</i>	
4.	Questions have arisen about the purpose of ISA 500 in the context of the other ISAs, in particular whether ISA 500 is intended to be a performance standard. ¹³
5.	<p><i>Sufficient appropriate audit evidence</i></p> <p>The evolution in the number and nature of sources of information and use of technology* to perform audit procedures have raised questions about the factors that are considered by the auditor in concluding whether sufficient appropriate audit evidence has been obtained. It brings into question:</p> <p>(a) Whether the definitions of appropriateness of audit evidence and sufficiency of audit evidence¹⁴ are appropriate.</p> <p>(b) What factors are considered by the auditor in concluding whether sufficient appropriate audit evidence has been obtained.</p>

¹³ For example, the objective of ISA 500 indicates that “the objective of the auditor is to design and perform audit procedures”, and paragraph 6 requires the auditor to “design and perform audit procedures.”

¹⁴ Paragraph 5(e) of ISA 500 describes the sufficiency of audit evidence as the measure of the quantity of audit evidence.

#	Description of Issue
6.	<p data-bbox="191 240 653 269"><i>Information to be used as audit evidence</i></p> <p data-bbox="191 285 1304 315">(a) The evolution in the nature and number of sources of information has brought into question:</p> <ul data-bbox="264 331 1944 444" style="list-style-type: none"> <li data-bbox="264 331 1944 399">• The appropriateness of certain statements in the standards about information obtained internally and externally.¹⁵ In some instances, there may be overreliance on certain information sources without appropriate professional skepticism* being exercised. <li data-bbox="264 412 1944 444">• The differentiation in work effort regarding the reliability of information between information produced by the entity and other information sources.¹⁶ <p data-bbox="191 461 1944 558">(b) Questions have arisen regarding whether all information to be used as audit evidence should be subject to the same rigor when considering the relevance and reliability of such information. For example, should information to be used in risk assessment procedures be subject to the same level of consideration as information to be used in a substantive analytical procedure?</p> <p data-bbox="191 574 1944 643">(c) The evolution in technology and the nature and number of sources of information has created challenges in considering the reliability of internal and external information. For example:</p> <ul data-bbox="264 659 1944 886" style="list-style-type: none"> <li data-bbox="264 659 1944 727">• Considering the reliability of information from an external source is challenging in certain circumstances given access issues. In this case, considering the credibility of the source may be the only option available to the auditor. <li data-bbox="264 740 1944 837">• There may be confusion as to when the information source is a service organization, and therefore when ISA 402¹⁷ applies. For example, in the case of information generated through a blockchain, questions have arisen about whether the blockchain could be considered a third-party service organization and whether it forms part of the entity's information system relevant to financial reporting. <li data-bbox="264 854 1944 886">• Auditors lack appropriate expertise in the algorithms underlying new technology that is used to generate information.

¹⁵ For example, paragraph A31 of ISA 500 includes statements that may no longer be appropriate in today's environment, such as: '*The reliability of audit evidence is increased when it is obtained from independent sources outside the entity*'

¹⁶ Paragraph 7 of ISA 500 indicates that when designing and performing audit procedures, the auditor shall **consider the relevance and reliability** of the information to be used as audit evidence. However, paragraph 9 imposes additional responsibilities when using information produced by the entity; it requires the auditor **to evaluate whether the information is sufficiently reliable** for the auditor's purposes. It is also notable that paragraph 5(b) of ISA 520 requires the auditor to **evaluate the reliability of data** from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation.

¹⁷ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

#	Description of Issue
	<p>(d) The evolution in the nature and number of sources of information has brought into question the auditor’s responsibilities in circumstances when there is information that contradicts management’s assertions but the reliability of that information may not be determinable, for example, because of its source (e.g., social media).</p> <p>(e) The factors considered in the evaluation of the reliability of information are different in ISA 500 compared to ISA 520, which creates confusion about the attributes of information that affect the reliability of information.¹⁸</p> <p>(f) The standards use the terms “information” and “data”, and this raises questions about whether they are different and should be subject to different considerations.</p>
7.	<p><i>Use of management’s expert</i></p> <p>The evolution in the nature and number of sources of information and introduction of new application material dealing with external information sources has raised questions about the distinction between a management’s expert and an external information source.</p>
Other ISAs	
8.	<p><i>ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i></p> <p>Evolution in technology* and the nature and number of sources of information raises questions about whether ISA 200 should be updated to reflect new technology and information sources. For example, the application material related to control risk, inherent risk and detection risk could discuss factors arising from technology that affect these risks.</p>
9.	<p><i>ISA 210, Agreeing the Terms of Audit Engagements</i></p> <p>Evolution in technology* and the nature and number of sources of information raises questions about whether ISA 210 should be updated to reflect new technology and information sources. For example, the application material discussing the content of the engagement letter could include technology-related issues, such as the availability of algorithms and audit trails, access to key sources of internal and external data, security over data and arrangements with service providers (e.g., data warehouses).</p>

¹⁸ Paragraph 9 of ISA 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor’s purposes, including, as necessary in the circumstances (a) obtaining audit evidence about the accuracy and completeness of the information; and (b) evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes. Paragraph 5(b) of ISA 520 describes the evaluation of the reliability of data as taking account of source, comparability, and nature and relevance of information available, and controls over preparation.

#	Description of Issue
10.	<p><i>ISA 560, Subsequent Events</i></p> <p>Evolution in the nature and number of sources of information raises questions about whether ISA 560 should be updated to reflect new technology and information sources, for example, new types of information sources may provide information about subsequent events (e.g., social media).</p>
11.	<p><i>ISA 570 (Revised), Going Concern</i></p> <p>Evolution in the nature and number of sources of information raises questions about whether ISA 570 (Revised) should be updated to reflect new technology and information sources, for example, new types of information sources may provide an indication of whether events or conditions exist that could cast doubt on the entity's ability to continue as a going concern.</p>
Technology	
ISA 500, Audit Evidence	
12.	<p><i>Audit procedures</i></p> <p>(a) Evolution in technology and the nature and number of sources of information* has resulted in descriptions in ISA 500 becoming outdated,¹⁹ and raised questions as to whether ISA 500 should be updated to reflect new technology and information sources.</p> <p>(b) New technologies have given rise to confusion about whether certain technological tools (e.g. pictures from a drone) are audit procedures in their own right, or whether they provide information that the auditor performs audit procedures on. For example, there may be a lack of clarity on the differences between</p> <ul style="list-style-type: none"> • “Information” (to be used as audit evidence), • “Evidence” in general as used in IAASB standards other than the ISAs, • “Audit evidence;” and • “Audit procedures”.

¹⁹ For example, paragraph 5(a) of ISA 500 describes accounting records as the records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

#	Description of Issue
	<p>(c) New technologies have raised questions about where audit procedures performed using new technologies fit within:</p> <ul style="list-style-type: none"> • The categories of audit procedures (i.e., inspection, observation, inquiry etc.); and • The nature of audit procedures (i.e., risk assessment, tests of controls, tests of details). <p>(d) The use of new technology to perform audit procedures has raised questions about whether an audit procedure can be both a risk assessment procedure and a substantive procedure at the same time, i.e., a procedure that serves a dual purpose. This is particularly the case for certain data analytic tools.</p> <p>(e) The use of new technology to perform audit procedures has raised questions about whether the auditor exercises appropriate professional skepticism* when evaluating whether the audit procedure is designed in a manner that provides the audit evidence needed about the relevant assertion being tested. For example, there may be overreliance on an audit procedure because of the use of technology in performing the procedure (i.e., a lack of due care or objectivity that impairs the exercise of professional skepticism).</p>
13.	<p><i>Selecting items for testing</i></p> <p>The use of new technologies brings into question whether the requirements and application material dealing with the selection of items for testing are relevant and appropriate for certain types of audit procedures.</p>
Other ISAs	
14.	<p><i>ISA 330, The Auditor's Responses to Assessed Risks</i></p> <p>(a) Evolution in technology has increased the risk of auditors over-relying on controls over the preparation of information and heightened the need for the standard to emphasize considerations about the relevance and reliability of information used in performing audit procedures.</p> <p>(b) Evolution in technology has increased the risk of auditors over-relying on technology used to perform audit procedures, and heightened the need for the standard to emphasize that the auditor should consider whether the audit procedures are responsive to the risks of material misstatement and the assertions being tested.</p> <p>(c) The use of technology that enables the analysis of larger populations has raised questions about whether the auditor is required to follow up all exceptions identified, or whether the auditor is able to perform further testing only on a selection of exceptions, provided that the risk of material misstatement in the remaining population is at an acceptably low level.</p> <p>(d) Evolution in technology raises questions about whether ISA 330 should be updated to reflect new technology. For example:</p> <ul style="list-style-type: none"> • Paragraphs A4–A8 could be enhanced to describe how technology may affect the nature, timing and extent of further audit procedures.

#	Description of Issue
	<ul style="list-style-type: none"> • Paragraph A24 could be updated to include more modern examples of when substantive procedures alone may not provide sufficient appropriate audit evidence. • The requirement in paragraph 10 regarding the nature and extent of tests of controls to obtain evidence about the operating effectiveness of controls may need updating for an automated environment, and may need to include factors such as the underlying data used to support the functioning of the control and the algorithms used in the technology. • Paragraph A29 dealing with the consistency of IT processing may be outdated. • The requirements and application material dealing with audit evidence obtained in previous audits may need reconsideration, in particular the requirement in paragraph 13 that describes the factors to be considered in determining whether it is appropriate to use previous evidence. <p>(e) Evolution in technology and the nature and number of sources of information* has given rise to questions about the testing of information used by the auditor in performing audit procedures to respond to the risk of material misstatement</p>
15.	<p><i>ISA 501, Audit Evidence—Specific Considerations for Selected Items</i></p> <p>Evolution in technology and the nature and number of sources of information* raises questions about whether ISA 501 should be updated to reflect new technology and information sources, for example:</p> <p>(a) Paragraph 4 requires attendance at physical inventory counting, which may, in some circumstances, be undertaken remotely using new technology, such as drones. The application material also appears outdated in this regard.</p> <p>(b) New types of information sources may provide information about litigation and claims, and the procedures described in paragraph 9 may inadvertently limit the extent to which auditors seek information from other sources.</p>

PIE definition

1. The IESBA have commenced work on the PIE definition project and will be seeking views on the indicative direction of travel at its March meeting, from the CAG and the Forum of Firms and then again at the NSS meeting in May.
2. To date the task force has reviewed the development of the PIE definition by the Board and conducted a review of the PIE definition in a number of jurisdictions.
3. The Task force’s preliminary view is that is it not possible to develop a single definition of a PIE at a global level that can be consistently applied by all jurisdiction without significant modification. They have identified two possible ways forward:

Approach 1	A short narrow list of categories, similar to the current PIE definition, to which local regulators may continue to add
Approach 2	A longer and more broadly defined list which local regulators may modify by tightening definitions, setting size criteria and adding or exempting certain types of entities

4. The task force recommendation was a preference for approach 2 and has developed the following list of categories based on its review:
 - a. An entity whose shares, stock or debts are publicly traded
 - b. Any entity whose main function is to take deposits from the public
 - c. An entity one of whose main functions is to provide insurance to the public
 - d. Any entity whose function is to provide post-employment benefits
 - e. An entity that pools money from the public to purchase shares, stock and debts
 - f. An entity specified as such by law or regulation.
5. The definition of a “listed entity” is also under consideration with questions raised about a “recognised stock exchange” and a “regulated market”. Developments around the world and new forms of capital raising such as crowd funding -and how these are regulated-have raised questions about the ongoing relevance and clarity of the definition.
6. The IESBA also has a technology initiative underway. The TF has identified paragraph 400.8 that states that one of the factors to be taken into account in consideration in determining whether an entity should be treated as a public interest entity is the nature of the business, such as holding of assets in a fiduciary capacity for a large number of stakeholders. The project update includes the following statement:

“In an era of cloud providers, shared technology infrastructure providers, cryptocurrency exchanges, and data protection companies on which the public and government rely, the TWG (Technology working group) considered whether the holding of assets in a fiduciary capacity for a large number of stakeholders would (or should) include the holding of data or intellectual assets.”
7. While stakeholders in New Zealand have commented that the PIE definition in New Zealand is too broad, an FMC reporting entity considered to have a higher level of public accountability seems to capture these types of entities. If the FMA has identified other types of entities as FMC reporting entities having a higher level of public accountability, does this meet the intent of an entity specified

as such by law or regulation? In New Zealand our definition does extend more explicitly to the public sector and the not-for-profit sector. The IESBA Code approach seems to focus less on these other sectors and more on the for-profit sector.

- 8. We seek preliminary views from the Board on the preliminary direction of travel and the list of categories identified by the IESBA Task Force.**

NASS Collaboration Project Details

As at March 14, 2020

Purpose

This paper tracks our progress against the items agreed to as the “short-list” collaboration priorities among the NASS. We will use this as content to help prepare for the May 2020 NSS meeting.

NASS Collaboration Project Details
As at March 14, 2020

Short List of Projects	Objective of project	How we will collaborate	Lead	Approximate Timing	Benefits / Lessons Learned ¹
Information Gathering					
1. EER survey [IN PROGRESS]	Gather information about the prevalence of EER engagements in each of our jurisdictions to provide data about current innovative practices in order to: <ul style="list-style-type: none"> Challenge and inform future standard setting. Provide feedback to the IAASB on ISAE 3000 and/or the discussion paper on EER assurance. Produce professional and academic outputs which inform practice and academic research. 	<ol style="list-style-type: none"> Each jurisdiction will ask stakeholders to complete the AU survey, with an aim to receive 10 responses from each territory. AU to collate responses and publicly issue research paper which includes trends and challenges identified from survey results. The information from (b) would feed into each of our responses to the IAASB's discussion paper. Consider whether there are additional steps to take in each jurisdiction or as a NASS group. 	AU (Marina)	<p>AU – survey sent; survey is closed. Initial results analyzed - 12 responses. NZ - survey sent; survey is closed. Waiting to analyze results - only 3 responses to date. CA –shared with EER Advisory Group and AASB members. Requested them to complete by March 31, 2020. NL – plans to provide one response from a group of specialists.</p> <p>Target - March 2020 for completing analysis of responses. This will depend on when data is made available from CA and NL.</p> <p>May 2020: Share research paper, approach to collaboration, benefits, lessons learned.</p>	
2. Signing Partner Project [IN PROGRESS]	IAASB requested NASSs perform information gathering to provide input into determining the possibility and nature of an international standard setting project or guidance (if any is required). Survey drafted to understand circumstances where an individual, other than the engagement partner, is required to sign the audit report, either instead of or on behalf of, the	<ol style="list-style-type: none"> NZ – draft survey for IAASB approval – complete. NASSs communicate to appropriate stakeholders to ask them to fill out survey (with link). NZ to collate responses and report back to IAASB and NASSs. IAASB to decide what to do with results (support from ISA 600 TF Chair to issue survey). 	NZ (Sylvia / Lyn) / IAASB	<p>Proposal sent for review to IAASB (November 2019).</p> <p>Target – NZ to send survey by January 20, 2020. Delayed – new target date to agree. Survey has been developed and is ready to go.</p> <p>May 2020: Share results of survey, approach to collaboration, benefits, lessons learned.</p>	

¹ To be populated as we get close to completing projects.

NASS Collaboration Project Details

As at March 14, 2020

Short List of Projects	Objective of project	How we will collaborate	Lead	Approximate Timing	Benefits / Lessons Learned ¹
	engagement partner, and the reasons why these occur.	e) NASSs to consider whether further steps are necessary in our jurisdictions.			
3. Audit Evidence [IN PROGRESS]	<p>Consult with stakeholders in each of our jurisdictions to gather information on:</p> <ul style="list-style-type: none"> - the issues creating the most difficulty in practice and the reasons for this; - whether there are any other issues creating difficulties in practice that have not been identified by the IAASB; and - exploring how individual issues may be best addressed in the context of the IAASB's remit (standard-setting or some other action such as guidance). <p>Share results with IAASB WG to help inform the way forward for the IAASB project.</p>	<p>a) NASS to share outreach plans (early February)</p> <p>b) Re-group as NASS after talking to stakeholders in each of our jurisdictions to compare findings (late March).</p> <p>c) Share initial drafts of IAASB responses with each other to coordinate and emphasize key points.</p>	CA (Eric) / IAASB	<p>Individual jurisdictions to respond to the IAASB by April 17, 2020.</p> <p>NASSs to share plans (see Appendix) and re-group on results (April 2/3 meeting).</p> <p>May 2020: Share approach to collaboration, benefits, lessons learned.</p>	
Creating Guidance					
4. Use of managements experts – Guidance [IN PROGRESS]	Using the work of a management's expert has expanded in practice. As a result of these changes the AUASB has become aware that the current guidance on this topic does not reflect current practice in this area, so in order to enhance audit quality in the area of management's experts and provide additional guidance to	<p>a) AU shared draft guidance with CA and NZ for input - complete.</p> <p>b) CA and NZ reviewed and provided feedback on the draft guidance - complete.</p> <p>c) CA, NZ, and NL to consider whether they will issue similar guidance piece.</p>	AU (Rene)	<p>AU working through differences of opinion with regulator on some pieces of the guidance.</p> <p>AUASB approved final guidance in March 2020 and shared it with the NASS group.</p>	<p>Benefits:</p> <ul style="list-style-type: none"> - Gave the AUASB a greater degree of confidence in the number of technical reviewers it went through before

NASS Collaboration Project Details

As at March 14, 2020

Short List of Projects	Objective of project	How we will collaborate	Lead	Approximate Timing	Benefits / Lessons Learned ¹
	practitioners so that there can be consistently rigorous practices among audit firms of all sizes, the AUASB agreed to revise the guidance on using the work of a management's expert.	d) This could also be shared with and published by IAASB if they agreed with the conclusions.		<p>NZAuASB to consider guidance at its April meeting.</p> <p>May 2020: Share approved guidance piece and approach to collaboration, benefits, lessons learned.</p>	<p>coming to the Board.</p> <ul style="list-style-type: none"> - Staff on project interact with counterparts in other jurisdictions and learn.
5. Use of Technology on the Audit [IN PROGRESS]	Share current information and plans for guidance with each other. Monitor plans of the IAASB Technology working group and offer to input on any guidance that overlaps with items planned in our jurisdictions.	<p>a) Cross observation (staff from each jurisdiction observing working group meetings of other jurisdictions) and sharing of outputs from CA and AU technology working groups.</p> <p>b) Sharing guidance on relevant technology topics as they are developed, such as:</p> <ul style="list-style-type: none"> - CA - viewpoints on auditing crypto; - AU - additional guidance on obtaining evidence regarding the reliability of data used to perform data analytics in an audit 	CA (Taryn Abate) / AU (Tim) / NZ (Peyman)	<p>CPA Canada Guidance::</p> <p>Viewpoints (Auditing crypto-assets): Are tests of controls needed regarding the ownership assertion?</p> <p>Viewpoints (Auditing crypto-assets): Relevance and reliability of information from a blockchain</p> <ul style="list-style-type: none"> - Data analytics (currently in outline phase) - targeting August 2020 <p>NB: Timing of AU guidance still to be determined.</p> <p>May 2020: Crypto papers. Approach to collaboration, benefits, lessons learned</p>	<p>Benefits:</p> <ul style="list-style-type: none"> - Cross observation of working groups allows each jurisdiction to not duplicate efforts.
6. Less Complex Entities [NASS Activity yet to commence]	Consider opportunities to contribute to the activities of the IAASB LCE WG.	<p>a) Based on April 2020 IAASB update from LCE WG NASS will evaluate what the opportunities are. For example:</p> <ul style="list-style-type: none"> - Gap assessment against way forward proposed by IAASB and what the NASSs input into the consultation, and 	All (TBD)	<p>Target – late April 2020 to regroup and agree on next steps.</p> <p>May 2020: TBD.</p>	

NASS Collaboration Project Details

As at March 14, 2020

Short List of Projects	Objective of project	How we will collaborate	Lead	Approximate Timing	Benefits / Lessons Learned ¹
		<p>whether we need to work on the gaps.</p> <ul style="list-style-type: none"> - Proof of concept of one or more of the options suggested by the LCE WG and feedback what we learn (our own research and info gathering). - Further consultations with stakeholders, etc. <p>b) Based on (a), agree on next steps (e.g. specific collaboration projects).</p>			
7. ISA 540 implementation [IN PROGRESS]	Developing support materials, and other related activities to assist with the effective implementation of new and revised standards in the initial period after a final standard is published.	<p>a) CPA Canada created ISA 540 Audit Client Briefing that is published by IAASB - complete.</p> <ul style="list-style-type: none"> - available for other jurisdictions to publish or link to. <p>b) CPA Canada drafting ISA 540 Implementation tool that will be published by IFAC (in progress).</p> <ul style="list-style-type: none"> - Share near final tool with NASSs - complete. - Will make tool available if others want to publish. 	CA (Yasmine Hakimpour)	<p>CA - Expect to publish Implementation tool in mid-May 2020.</p> <p>May 2020: Any completed guidance and lessons learned.</p>	<p>Lesson learned:</p> <ul style="list-style-type: none"> - Going forward, would share draft of guidance earlier in process (similar to use of management's expert) to get input from other jurisdictions.
Sharing Local Developments with Global Impact					

NASS Collaboration Project Details

As at March 14, 2020

Short List of Projects	Objective of project	How we will collaborate	Lead	Approximate Timing	Benefits / Lessons Learned ¹
8. NASS Meeting in May 2020 [IN PROGRESS]	Develop ideas for NASS Agenda, for discussion with IAASB.	a) Meet with IAASB in NYC in December to get buy in on NASS helping to shape the agenda for May 2020 – complete ; b) Plan communication with other NASS re: Vision: <ul style="list-style-type: none"> - Develop process to capture feedback early from NASS participants (i.e., CA to reach out to US, AU to reach out to UK FRC, etc.); - Send out materials in advance of meeting for consideration. c) Work on agenda for May together with IAASB. d) Use this document to help flesh out materials for May.	CA (Ken) / NZ (Robert)	a) Complete. b) Vision and work of the G4 has been socialized with the US and the UK FRC. Joint Chairs working on email communication to follow up with Mark Babington. c) Each NSS submitted significant developments in their jurisdictions to the IAASB in February 2020. Expect update from Bev in late March on amount of meeting time available to us. d) May 2020: Meeting materials will need to be finalized at least 2 weeks in advance – April 28.	
Developing Solutions					
9. Collaborate to improve accessibility of Standards [NASS Activity yet to commence]	Whilst it looks like the idea of developing a common tool to access the standards as required in each territory is beyond our reach, there is a strong opportunity to collaborate about our respective plans in each territory in this space. Also, now that the IAASB has started to investigate a solution there is an opportunity for the NASS to take a lead in this area.	a) AU - engaging a consultant to work on this <ul style="list-style-type: none"> - Work on a prototype to commence in late January 2020. - Will involve CA by asking for ideas on functionality. b) NZ is also working on something in this space (to navigate the standards). Will share with the group as available. c) NL has a tool available and is working on further improving accessibility, for instance by developing a high-level overview	AU (Matthew)	Target: AU prototype ready for March 2020. May 2020: Share prototype and approach to collaboration, benefits, lessons learned AUASB staff to present to the NZAuASB at its April meeting on digitized standard.	

NASS Collaboration Project Details
As at March 14, 2020

Short List of Projects	Objective of project	How we will collaborate	Lead	Approximate Timing	Benefits / Lessons Learned ¹
		of the standards leading users to relevant standards.			

NASS Collaboration Project Details

As at March 14, 2020

Appendix – Audit Evidence Consultation Plans

The AEWG has asked for assistance from National Standard Setters in conducting these activities in order to reach a broader group of stakeholders, worldwide. The AEWG has expressed a particular interest in hearing perspectives from the small and medium-sized practices community.

Canada

AASB staff have or will be consulting with the following groups:

Completed consultations	Consultations scheduled	Consultations requested
Auditing and Assurance Standards Board (AASB)	CPA Canada Small and Medium-Practices Advisory Committee	Canadian Securities Regulators
AASB's Audit Evidence Advisory Group	Canadian Public Accountability Board (CPAB)	CPA Quebec Assurance Technical group members
CPA Canada Audit and Assurance Technology Committee	CPA Ontario Small Practices Committee members	Software providers (CaseWare, JazzIt)
Canadian Provincial Body Practice Inspectors	MindBridge AI	
Office of the Superintendent of Financial Institutions (OSFI)		

Early feedback

Key views expressed by the AASB:

- The Audit Evidence Standard should be revised to consider:
 - Evolution in, and new, technologies impacting the descriptions in the standard and whether certain technological tools are audit procedures in their own right (issue #12), as well as the related changes that may be needed in ISA 330, *The Auditor's Responses to Assessed Risks* (issue #14).
 - Whether the definition of audit evidence and sufficiency of audit evidence are appropriate (issue #5).
 - What factors are considered by the auditor in concluding whether sufficient appropriate audit evidence has been obtained (issue #5).
 - The issues relating to information to be used as audit evidence, such as challenges in considering the reliability of internal and external information (issue #6).

NASS Collaboration Project Details

As at March 14, 2020

- Within the existing suite of ISAs, whether the auditor can use technology to gather sufficient appropriate audit evidence in the risk assessment phase to assess risk at the lowest possible level so that the remaining substantive procedures are limited (new issue).
- Guidance on specific industry or tool examples could be developed to supplement the changes in ISA 500, *Audit Evidence*, but there are changes needed to the standard first.

Key views expressed by OSFI:

- Concerned that the standards need to address technology issues; this needs to be given more emphasis and expediated.
- Professional skepticism – encourage the IAASB to consider changes to ISA 500 to emphasize appropriately challenging managements assumptions.

Key views expressed by CPA Canada’s Audit and Assurance Technology Committee:

- Keep the standard principles based and develop non-authoritative guidance with specific tool and technology examples of how you can apply the standard in the changing environment.

New Zealand

NZAuASB staff have or will be consulting with the following groups:

Completed consultations	Consultations scheduled	Consultations requested
The Office of Auditor-General (OAG)	The NZAuASB	PWC NZ
Two mid-tier audit firms	Chartered Accountants Australia and New Zealand (CAANZ)	Deloitte NZ
	KPMG NZ	EY NZ
	The Financial Market Authority (FMA), the Auditor Oversight Department	BDO NZ

Early feedback on Audit Evidence project:

Key views expressed by the OAG and practitioners:

NASS Collaboration Project Details

As at March 14, 2020

1. Digitalisation of processes means that many entities either do not maintain any form of “source documents” or where they still maintain physical source documents less care is accorded to them. This lack of reliable physical source documents has significant implications for what audit procedure are practical. This would also signify the importance of internal controls over information systems.
2. As noted by the paper, the traditional notion that external information tends to be more reliable than information prepared by the entity is no longer valid. The whole notion of what is “reliable” information needs a reconsideration specially in relation to data (i.e. information maintained in electronic format).
3. The complexity involved in auditing accounting estimates in particular causes significant challenges, specially in relation to the work effort required to be spent on the data and information used by management experts.
4. The volume of available information creates new challenges for auditors, including potential scope and liability issues in future.
5. The practitioners agree that it is becoming increasingly more difficult to determine when an information source is a service provider. Also, practitioners raise concern that the reports under ISA 402, *Audit Considerations Relating to an Entity Using a Service Organisation* have a limited scope and are not very helpful in practice. It may be prudent to reconsider the objective and scope of ISA 402 reports as part of revising ISA 500.
6. Data Analytics (DA) are inadequately addressed in the ISAs in general. DA have a potential beyond risk assessment analytical procedures and substantive analytical procedures. For example, DA can be used for test of operating effectiveness of internal controls or to test 100% of a population. It is therefore important that DA is adequately addressed.
7. Documentation of assessing reliability (in particular, completeness of certain types of information) continues to be a significant challenge in practice.

Signing Partner Survey

Request for information to assist the IAASB

Dear National Standard Setters

We need your help!

The International Auditing and Assurance Standards Board (IAASB) wants to get an understanding of circumstances where an individual, other than the engagement partner (“Engagement partner” should be read as referring to “engagement leader” in the public sector), signs the auditor’s report, either instead of or on behalf of, the engagement partner, and the reasons why these occur. This is framed within the context of an auditor’s report on an audit of a complete set of general purpose financial statements (i.e. in accordance with ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, or an equivalent national standard).

Staff from the New Zealand Auditing and Assurance Standards Board and the Australian Auditing and Assurance Standard Setters Board have agreed to assist the IAASB in gathering information about the circumstances described above, by reaching out to you and other National Standard Setters. Your participation will provide valuable insight and a basis for developing informed recommendations for possible further actions to the IAASB.

We are hoping to reach as wide a group as possible in order to obtain relevant information to assist the IAASB to consider whether and, if so, how to address situations where the audit signing partner is not the audit engagement partner (i.e. what gives rise to such situations, why this may be required or necessary, and how this is dealt with in practice). Any related improvement in audit quality is of benefit to us all, and your assistance is highly appreciated.

How are we planning to gather the information?

In addition to planning a general literature search to identify relevant information, we have prepared a short survey that consists of three parts as follows:

- Part 1: To be completed by national standard setters
- Part 2: to be completed by firms and public sector auditors
- Part 3: To be completed by audit regulators or oversight bodies.

Each part should take between 10 - 20 minutes to complete. The completion date of the survey is 1 May 2020.

How can you assist?

We would appreciate it if you would please:

1. complete PART 1 of the survey; and
2. forward a request to firms and public sector auditors, as well as audit regulators or oversight bodies within your jurisdiction to complete Part 2 or Part 3 of the survey, respectively (i.e. the part relevant to them).

The responses received from the survey will be summarized for purposes of providing feedback to the IAASB. Although the results of these information gathering activities may be made public through issues papers and related materials that may be tabled for the IAASB’s consideration in plenary session, there will be no attribution of responses to any individual respondent.

To assist you with our request to reach out to others within your jurisdiction, we have prepared some draft wording that you may use, should you wish to do so, as follows:

Dear [Stakeholder]

Request for information to assist the IAASB

The IAASB needs your help to understand circumstances where an individual, other than the engagement partner, is required to sign the audit report, either instead of or on behalf of, the engagement partner, and the reasons why these occur. This is framed within the context of an auditor's report on an audit of a complete set of general purpose financial statements (i.e. in accordance with ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, or an equivalent national standard).

Your participation will provide valuable insight and a basis for developing informed recommendations for possible further actions to the IAASB.

We, as national standard setter, have been asked to contact firms, public sector auditors and audit regulators or oversight bodies within [jurisdiction] to complete part of a survey, which should take between 10-20 minutes to complete.

The survey consists of three parts:

Part 1: To be completed by national standard setters (the part we will be completing)

Part 2: to be completed by firms and public sector auditors

Part 3: To be completed by audit regulators or oversight bodies

We ask that you please complete the part of the survey relevant to you by **1 May 2020**. This will be of great benefit to the IAASB in considering whether and, if so, how to address situations where the audit signing partner is not the audit engagement partner (i.e. what gives rise to such situations, why this may be required or necessary, and how this is dealt with in practice). Any related improvement in audit quality is of benefit to us all, and your assistance is highly appreciated.

Survey responses will be summarized for purposes of providing feedback to the IAASB. Although the results may be made public through issues papers and related materials that may be tabled for the IAASB's consideration in plenary session, there will be no attribution of responses to any individual respondent.

You can access the survey here:

<https://www.surveymonkey.com/r/SigningPartnerSurvey>

Thank you!

Regards

[National Standard Setter representative]

Thank you very much for assisting with this information gathering project.

Our research results will be available to anyone who is interested on request.

Start the survey here: <https://www.surveymonkey.com/r/SigningPartnerSurvey> or alternatively, click on the "Begin Survey" button below.

Yours faithfully

Sylvia van Dyk | Director Assurance Standards

External Reporting Board (New Zealand)

DDI +64 4 550 2036 **MAIN** +64 4 550 2030 **FAX** +64 4 385 3256 **MOB** +64 21 544 704

EMAIL: sylvia.vandyk@xrb.govt.nz | www.xrb.govt.nz

Level 7, 50 Manners St, Wellington, PO Box 11250 Manners St Central, Wellington
6142

Matthew Zappulla | Technical Director

Auditing and Assurance Standards Board (Australia)

Tel +61 3 8080 7445 **Mobile** +61 412474293

EMAIL: mzappulla@auasb.gov.au | www.auasb.gov.au

Podium Level 14, 530 Collins Street Melbourne VIC 3000

Begin Survey

Please do not forward this email as its survey link is unique to you.

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NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 26 March 2020

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Peyman Momenan

SUBJECT: **International Update**

Introduction

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, February and March 2020.

Covid 19 Guides

Some guidance for auditors and preparers on how to respond to the impacts of SARS 2 virus.

- AUASB and AASB: [The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations](#)
- Accountancy Europe: [Coronavirus crisis: implications on reporting and auditing](#)
- Hong Kong ICPA: [Impact of Coronavirus Outbreak on Audits and Auditors](#)
- ICAEW: [Coronavirus considerations for group audit](#)
- ICAEW: [Coronavirus, going concern and the auditor's report](#)

International Federation of Accountants (IFAC)

1. On 28th of February 2020, IFAC released the latest installment of its Exploring the IESBA Code educational series: [The Conceptual Framework–Step 2, Evaluating Threats](#).

Exploring the IESBA Code is a twelve-month series providing an in-depth look at the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code). Each installment focuses on a specific aspect of the Code using real-world situations in a manner that is relatable and practical. Readers will gain a better understanding of the thought process behind important aspects of the Code through storytelling and expert analysis from professionals involved in developing the standards.

The [first installment](#) of the Series looked at the Code's five Fundamental Principles, which establish the standard of behavior expected of all professional accountants. The [second installment](#) highlighted the Code's Conceptual Framework with a focus on identifying threats, while this third installment focuses on how to evaluate those identified threats.

2. High-quality audits are the backbone of the global financial system. Each year, thousands of audits – including over 40,000 audits of public listed companies – make organizations more transparent and trustworthy, help attract investor capital, help secure jobs, and help economies thrive.

IFAC and the global accountancy profession are committed to continuous improvement and recognize the negative consequences of any audit failure. As audit reviews unfold in various national jurisdictions, [IFAC is setting out its recommendations for achieving high-quality audits](#).

“Audits contribute meaningfully to the functioning of organizations, financial markets, and economies. While many thousands of audits are conducted each year without any issues, improvements are needed to ensure consistent high quality,” said IFAC CEO Kevin Dancey. “This, however, cannot be achieved in a vacuum – all participants in the audit and assurance ecosystem must work together in striving to achieve high-quality audits 100% of the time. It is a vital part of our profession’s public interest mandate.”

In order to achieve high-quality audits, IFAC identifies five essential factors: [the right process](#), [the right people](#), [the right governance](#), [the right regulation](#), and [the right measurement](#).

Anti-Fraud Collaboration (AFC):

The Anti-Fraud Collaboration was formed in October 2010 by the Center for Audit Quality (CAQ), Financial Executives International (FEI), The Institute of Internal Auditors (The IIA), and the National Association of Corporate Directors (NACD). In March 2020 they published: [Assessing Corporate Culture: A Proactive Approach to Deter Misconduct](#). This publication can be very helpful for auditors in understanding entity and its environment.

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1)
2. Organizations are increasingly reporting about their broader performance or impact (“Extended External Reporting” or “EER”) either voluntarily or as required by law or regulation, and there is a growing demand for assurance engagements on such reporting. In response, the International Auditing and Assurance Standards Board (IAASB) has developed for feedback it’s non-authoritative EER Guidance and is requesting public input by July 13, 2020.

The purpose of the IAASB’s Public Consultation on Proposed Guidance, [Extended External Reporting Assurance](#) is to promote consistent high-quality application of ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* so as to:

- Strengthen the influence of EER assurance engagements on the quality of EER reports;
 - Enhance user trust in the resulting assurance reports; and
 - Engender greater confidence in the credibility of, trust in and reliance upon EER reports by their intended users.
 - The draft non-authoritative guidance addresses Special Considerations in Performing Assurance Engagements on Extended External Reporting.
 - The International Auditing and Assurance Standards Board’s (IAASB) Auditor Reporting
3. Implementation Working Group (ARIWG) recently published a project update in the form of a Communiqué, which provides an update on the IAASB’s post implementation review (PIR) of the revised auditor reporting standards. The communiqué also includes other relevant news and information relevant to the IAASB’s PIR.

The Communiqué does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the ISAs or other of the IAASB’s International Standards.

for more info, or to view the Communiqué, click [here](#).

International Ethics Standards Board for Accountants (IESBA)

1. The International Ethics Standards Board for Accountants (IESBA) released its Phase One Report exploring the ethical implications of technology on the accounting, assurance, and finance functions on 27th of February 2020. The report is the culmination of the first phase of fact-finding work the global ethics standard-setting board initiated in recognition of the pace and magnitude of change caused by disruptive technological innovations. The initial phase of the initiative was led by the IESBA's Technology Working Group (TWG).

In its findings, the TWG concluded that, generally, the IESBA's [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) currently provides high level, principles-based guidance for most technology-related ethics issues that professional accountants and firms might encounter. However, the report cites various findings and sets out recommendations grouped into five key topical areas where material in the Code could be enhanced.

The report also includes other recommendations for the next phase of the initiative, including that the IESBA conducts additional information gathering with respect to the ethical implications of other technological developments such as blockchain, cybersecurity and Internet of Things. Click [here](#) for more information.

Accountancy Europe (AE) (former FEE)

1. Non-financial information (NFI) is crucial for companies, investors and other stakeholders to make sound business decisions. Providing independent assurance on the reported NFI enhances its quality and reliability. The demand for assurance on NFI has been growing steadily, but the practice still varies across Member States.

This publication sets out how European countries have transposed the Non-Financial Reporting Directive 2014/95/EU (the NFRD) into national law and the impact on the role of the statutory auditor and independent assurance services provider. AE also look into the voluntary assurance practice beyond legal requirements across Europe.

AE factsheet shows that out of the 26 European countries covered:

- 12 countries apply the minimum requirement for the statutory auditors to check whether NFI has been provided
- 11 countries have an additional requirement to check the consistency of NFI with the financial statements
- 3 countries opted for mandatory independent assurance over the NFI
- 14 countries indicated to have companies seeking voluntary independent assurance

Full report can be accessed [here](#).

Public Interest Oversight Board of IFAC (IPIOB)

1. There have been no significant developments related to audit and assurance to report in the period.

International Integrated Reporting Council (IIRC)

1. There have been no significant developments related to audit and assurance to report in the period.

Global Reporting Initiative (GRI)

1. There have been no significant developments related to audit and assurance to report in the period.

International Forum of Independent Audit Regulators (IFIAR)

1. In February 2020, IFIAR released its eighth annual survey of inspection findings arising from its member regulators' individual inspections of audit firms affiliated with the six largest global audit firm networks. While encouraged by the downward trend, IFIAR urges the GPPC networks and their member firms to continue efforts to achieve improved audit performance as the current inspection findings rates remain high.

Please click [here](#) to access the 2019 Inspection Findings Survey and related documents.

International Organization of Supreme Audit Institutions (INTOSAI)

1. Two interesting articles in [the INTOSAI journal](#):
 - Conducting Remote Audits Using Integrated Information Analysis Systems (pages 8-9)
 - Data, Auditing & Strategy: Unlocking Knowledge in Capitalizing on Opportunities, Addressing Challenges (pages 10 and 11)

International Organization of Securities Commissions (IOSCO)

1. There have been no significant developments related to audit and assurance to report in the period.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. AUASB members discussed and provided input into the proposed Explanatory Memorandum (EM) and Exposure Draft (ED) for ED 01/20 Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures and Engagements (ED 01/20). The AUASB requested changes to the questions for respondents in the EM/ED, additional background information be provided in the EM and an extension of the exposure period to 60 days. A revised draft of the Explanatory Memorandum incorporating these changes will be circulated to the AUASB for review and approval out of session.
2. The AUASB considered ASA 315 Identifying and Assessing the Risks of Material Misstatement for approval and issue, including whether there were any Australian 'compelling reasons' amendments required and whether the standard should be re-exposed. The AUASB determined that the significant matters raised in relation to previous versions of the standard have been addressed in the final standard, and that there were no Australian compelling reason amendments to make to the international equivalent version of the standard (ISA 315). Accordingly, the standard was approved for issue and will not be re-exposed, subject to final quality review by the AUASB Technical Group. The AUASB deliberations noted that ASA 315 is long and complex, and implementation guidance to support practitioners in implementing the new requirements is required. The AUASB directed the AUASB Technical Group to work on a comprehensive communications and engagement plan to address some of the potential implementation risks associated with the revised standard, and this will be presented for AUASB review at a future meeting.
3. The AUASB were provided with an update of GS 008 The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001. The AUASB determined that the guidance relating to materiality in GS 008 needed to be expanded to include examples specific to the audit of a Remuneration Report. The AUASB Technical Group were also directed to further reconsider the wording in the proposed Auditor's Report, including obtaining legal advice (if necessary) to formally establish the basis on which the audit of the Remuneration Report is performed under the Corporations Act 2001 for this purpose.
4. The AUASB received an update on the Parliamentary Inquiry into the Regulation of Auditing in Australia, including that the AUASB had responded to several questions on notice. The AUASB also received an update on Audit Quality surveys being conducted in conjunction with the Financial Reporting Council.

United Kingdom

FRC

1. The Financial Reporting Council (FRC) issued, in March 2020, a discussion paper on [Technological Resources: Using technology to enhance audit quality](#). Building on the FRC's recent thematic review, *The use of technology in the audit of financial statements*, the FRC is seeking further insight into the use of technology and its potential impact on audit quality.

Technology driven innovation has been the subject of significant investment for a number of years, and is increasingly the focus of dialogue between regulators, standard setters and audit practitioners. The FRC recognises that as the UK audit regulator, it has a role in setting expectations regarding the use of technology. As a result, the FRC is keen to engage in dialogue with stakeholders and is seeking opinions on a range of questions relating to technology, data extraction and ethics.

2. The Financial Reporting Council (FRC) launched a [consultation on the proposed adoption in the UK of International Standard on Assurance Engagements \(ISAE\) 3000](#), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. ISAE 3000 was developed by the International Auditing and Assurance Standard Board (IAASB) and contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements, other than audits or reviews of historical financial information^[1].

The FRC is proposing that compliance with ISAE (UK) 3000 will be mandatory only for such types of engagement the FRC specifies. These will ordinarily be particular engagements for which there is a requirement in law or regulation for an assurance report to be provided by an auditor or other assurance practitioner, or where a clear need has been identified to serve the public interest. Voluntary application to other assurance engagements will be permitted unless a subject matter specific standard relevant to the engagement has been issued by the FRC, in which circumstances that subject matter specific standard is required to be complied with.

A small number of edits to the international standard are proposed to reflect that in the UK assurance practitioners are subject to the FRC's Ethical Standard and the ethical pronouncements of their professional body, and that the FRC is not adopting the other, subject matter specific, ISAEs issued by the IAASB. Text related to the International Code of Ethics that remains relevant is being updated to take account of the conforming changes that the IAASB consulted on in 2019. No edits are proposed that would result in non-compliance with the IAASB's requirements in ISAE 3000.

Further information is available [here](#).

3. In a first for the global audit market, the UK audit regulator has signalled its intention to radically overhaul the audit market with a carve-out of the audit businesses of the Big Four firms – PwC, Deloitte, EY and KPMG.
The FRC has written to the top seven firms in the UK, including mid-tier firms, BDO, Grant Thornton and Mazars, telling them to prepare for a major overhaul of their business model. This is phase one of a project which will eventually see the mid-tier firms being forced to restructure once the initial phase has been completed. (read more [here](#))

Institute of Chartered Accountants in England and Wales

1. 13 March 2020: a new ICAEW report argues that auditors play a significant role in detecting and preventing fraud and sets out recommendations for how to do this.
The collapse of several high-profile companies last year not only eroded trust in the audit profession, it also led to increased scrutiny. ICAEW's Audit and Assurance Faculty's latest publication '[Fraudulent financial reporting: fresh thinking](#)' provides some recommendations and encourages further debate to tackle fraud.
While fraud by its very nature is hidden and harder to detect than other irregularities affecting the financial statements, auditors are well placed to use their skills and insights to identify fraudulent financial reporting. Auditors are experts in financial reporting, but their work also involves

interacting with many different and sometimes difficult personalities. They observe how people respond to challenge and gain first-hand experience of the culture of a company. Therefore, auditors are able to routinely look beyond the numbers and use these behavioural and cultural insights to help the company identify areas that may be vulnerable to fraud. This ultimately helps the company to prevent it or detect it if it has already occurred.

The report identifies four key areas to which auditors should pay particular attention:

- (a) Organisational culture: auditors can observe the organisational culture to get a detailed understanding of how employees behave and communicate in the business.
- (b) Management style: a lot can be deduced from observing the management style in terms of what tone is set at the top by senior managers and directors.
- (c) Motivations and pressures: auditors are advised to pay attention to what motivations and pressures can be observed. It will help them to gain insight into what factors might drive relevant individuals to manipulate the numbers.
- (d) Behavioural controls: it's important to get a better understanding of the behavioural controls that may be in place – how does a company promote a culture of honesty and openness?

2. The third major report into reforming the audit market in less than a year proposes a fundamental rethink, but where is the UK audit market heading? (read more [here](#))

The Charity Commission

1. There have been no significant developments related to audit and assurance to report in the period.

Association of Chartered Certified Accountants (ACCA)

1. There have been no significant developments related to audit and assurance to report in the period.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. In light of COVID-19, on March 23 the Board provided audit firms the opportunity to avail themselves of a 45-day relief period, in full or in part, from inspections. We expect to fully resume inspections on May 11, 2020.

American Institute of Certified Public Accountants (AICPA)

1. Remote auditing comes to forefront during pandemic. [This article](#) covers this issue.

Center for Audit Quality (CAQ) - (affiliated with AICPA)

1. One of the biggest disruptors in digital innovation, blockchain is redefining the future of financial reporting, audit, and risk management. This post, part of an emerging technology series from the [Anti-Fraud Collaboration](#), examines the implications of blockchain when it comes to fighting financial reporting fraud. (read more [here](#))

Canada

Canadian Auditing and Assurance Standards Board (AASB)

1. The AASB discussed the International Auditing and Assurance Standards Board's (IAASB) information gathering and targeted outreach activities related to audit evidence, as well as the stakeholder consultation plan for Canada. Issues discussed included matters that the Board believes are causing the most difficulties with audit evidence in practice and how these matters can be best addressed.

2. The AASB provided input to the IAASB members from Canada on possible responses to feedback on the IAASB's Discussion Paper, "Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs." Matters discussed included: two proposed IAASB workstreams to address audits of less complex entities (LCEs); the IAASB's proposed approach to dealing with specific areas within International Standards on Auditing (ISA) that are challenging to implement; and whether there are other matters deserving further consideration by the IAASB. The IAASB plans to discuss the way forward in relation to audits of LCEs at its June 2020 meeting.
3. The AASB provided input to the IAASB members from Canada on issues related to proposed revisions to ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). Issues discussed included:
 - key terms defined in the standard;
 - proposed scope of the standard;
 - requirements and application material related to materiality; and
 - the length of the exposure draft comment period and the planned outreach activities.
 The IAASB expects to approve an exposure draft of proposed ISA 600 (Revised) at its March 2020 meeting. The AASB expects to approve its exposure draft of proposed CAS 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) in April 2020.
4. The AASB provided input to the IAASB members from Canada on issues related to the IAASB's project to revise standards for quality management at the firm and engagement level, including engagement quality reviews.
5. The AASB unanimously approved Canadian Standard on Related Services (CSRS) 4400, *Agreed-upon Procedures Engagements*, including the related conforming amendments to other standards. CSRS 4400 will replace Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information other than Financial Statements*, and Section 9110, *Agreed-Upon Procedures Regarding Internal Control over Financial Reporting*.

The AASB unanimously agreed that re-exposing Canadian amendments is not necessary because the amendments relate to applying the quality control standards in Canada to agreed-upon procedure engagements. The nature and reasons for such amendments are established in the Preface of the CPA Canada Handbook – Assurance, and do not affect a practitioner's compliance with CSRS 4400. Accordingly, the Board concluded that re-exposure would not result in any new information and is not necessary. CSRS 4400 will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed to on or after January 1, 2022. Once the Auditing and Assurance Standards Oversight Council (AASOC) confirms that the AASB followed due process with proper regard for the public interest, it is expected CSRS 4400 will be issued in the CPA Canada Handbook – Assurance in July 2020.

6. The AASB unanimously approved a notice that will be placed in Assurance and Related Services Guideline (AuG) 6, *Examination of a Financial Forecast or Projection Included in a Prospectus or Other Public Offering Document*, and AuG-16, *Compilation of a Financial Forecast or Projection*. This notice was necessary because of the Accounting Standards Board's (AcSB) decision to remove Section 4250, *Future-oriented Financial Information*, from the CPA Canada Handbook – Accounting and retain the content as non-authoritative guidance for future-oriented financial information in the CPA Canada Standards and Guidance Collection. The AASB unanimously agreed not to expose the notice for public comment because it was developed in response to the AcSB's decision and there are no other choices for the AASB. Once AASOC confirms that the AASB followed due process with proper regard for the public interest, it is expected the notice in AuG-6 and AuG-16 will be issued in the CPA Canada Handbook – Assurance in June 2020.

CPA Canada

1. There have been no significant developments related to audit and assurance to report in the period.

Project	Overview of the project and its current status
<p>Quality Control</p> <p>No Update for the period</p>	<p>Objective of the Project: Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p>Background and current status: The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed project proposals for quality control that were presented at the September 2016 IAASB meeting.</p> <p>The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul style="list-style-type: none"> • Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review; • Determining the scope of the engagements subject to an EQC review; and • The execution of an EQC review. <p>At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p>QC-Firm Level</p> <p>In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p>In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

- the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details)
- the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220
- the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer
- the proposed requirements and application material in relation to the eligibility of the EQC reviewer.

The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.

In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.

The Board discussed the exposure draft (ED) of proposed ISQC 1 (Revised)1 and was supportive of the direction that the Quality Control Task Force was taking the standard, noting the improvement in the readability and understandability overall. The Board encouraged the Quality Control Task Force to consider whether there are further opportunities to address scalability, including further refinement and simplification of the standard, where possible. The Board also discussed changing the title of the standard

In finalizing the ED in December 2018, the Board discussed the definition of deficiencies and bringing more emphasis to positive findings from the firm’s monitoring activities and how they may be used in the system of quality management. The Board also discussed the requirement for the firm to establish additional quality objectives beyond those required by the standard and further clarifying the identification and assessment of quality risks. In addition, the Board suggested further simplification of the requirement addressing communication with external parties, although in general agreed to retain an explicit reference to transparency reports in the requirement. The Board also discussed network requirements or network services, and

adjusted the requirement to clearly reflect the expectations of the firm regarding the effect of network requirements or network services on the firm's system of quality management.

The Board supported the Quality Control Task Force's recommendations regarding matters to be addressed in the Explanatory Memorandum, including the proposed questions.

In September 2019, the Board discussed the comment letters received on certain areas of the Exposure Draft (ED) of ISQM 1 (ED-ISQM 1)3 relating to the quality management approach, implementation challenges, the components and structure of the standard and the firm's risk assessment process. The Board concurred that four significant themes had emerged from the comments: scalability; prescriptiveness; addressing firms who do not perform audit or assurance engagements; and challenges with implementation. The Board, in general, supported proposals to address the structure of the standard and clarify the nature of the components and how they interrelate. The Board also supported addressing the granularity of the quality objectives, introducing quality risk considerations, and refining the required responses. The Board agreed with the ISQM 1 Task Force's proposals to simplify the firm's risk assessment process, including addressing concerns about the threshold for the identification of quality risks. The Board did not support the proposal to develop a separate standard for quality management for related services engagements and encouraged exploration of other ways to address scalability concerns. The ISQM 1 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

In December 2019, the Board continued to discuss the key issues highlighted by respondents to the Exposure Draft (ED) of ISQM 13 (ED-ISQM 1) including the scalability, complexity and prescriptiveness of the standard. appropriate tailoring of the system of quality management for their circumstances and the making sure the standard that can be applied in all circumstances.

The Board supported the changes to the structure of the standard, adjusting the quality objectives and responses in the components to be more streamlined and the revisions to the drafting and presentation of the standard to simplify and improve the readability of the standard. The Board also agreed with proposed revisions to the firm's risk assessment process, including introducing factors to consider in identifying and assessing quality risks.

The Board supported the ISQM 1 Task Force's proposals to embed a risk-based approach in the monitoring and remediation component, improve the selection of engagements for inspection such that it is more risk-based, and further clarify the framework for evaluating findings and identifying deficiencies.

Quality Control – Engagement Level

In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider,

as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.

The Board discussed a draft ED of proposed ISA 220 (Revised)² and was supportive of the proposed changes. The discussions focused on whether changes were needed to the objective of the standard and the wording of the requirement regarding the engagement partner being “sufficiently and appropriately involved.” The Task Force plans on presenting the ED of proposed ISA 220 (Revised) for approval by the Board at the December 2018 meeting.

In December 2018 the Board supported the requirement for the firm to establish policies or procedures addressing limitations on the engagement partner moving into the role of engagement quality reviewer, including the reference to a cooling-off period in the application material. The Board agreed that stakeholder views were needed relating to the objectivity of the engagement quality reviewer and a cooling-off period and supported the ISQM 2 Task Force’s recommendation for including specific questions in the Explanatory Memorandum on this matter to be developed in coordination with the IESBA. The Board also clarified the requirement for notifications by the engagement quality reviewer to the engagement partner and, when applicable, individual(s) within the firm, as well as the documentation requirements.

The Board discussed the requirements that address firm policies or procedures, the role of the engagement partner vis-à-vis other members of the engagement team and the difference between the usages of the phrases “the auditor shall determine” and “the auditor shall be satisfied.” The board also discussed how best to clarify the requirement addressing communications from the firm about the firm’s monitoring and remediation process.

In September 2019, the Board discussed the comment letters received to ED-ISA 2205 and the ISA 220 Task Force’s proposals for addressing the key issues respondents raised. The Board supported the fundamental principle that the engagement partner has overall responsibility for managing and achieving quality and being sufficiently and appropriately involved in the engagement. The Board also supported clarifying the requirement addressing circumstances when the engagement partner assigns procedures or tasks to other engagement team members, the principles underpinning the proposed engagement team definition and proposals to address scalability of the requirements to audits of larger or more complex entities. The ISA 220 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

The Board generally supported the ISA 2205 Task Force’s proposals to clarify the engagement team definition, to make clear that the engagement team can ordinarily depend on the firm’s system of quality management, and to better deal with large, complex audit engagements. The Board also discussed professional skepticism, the stand-back provision and the documentation requirements. The ISA 220 Task Force will consider the comments received in preparing a revised full draft of proposed ISA 2202 for discussion at the March 2020 IAASB meeting.

<p>Group Audits– ISA 600</p> <p>No Update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)³ TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.⁴ The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.</p> <p>In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.</p> <p>In March 2019, the Board was updated on the work performed by the Group Audit Task Force since the start of the project to revise ISA 600¹ and was asked for its views on issues related to scoping a group audit, the definitions, and the linkages with other ISAs. The Board continued to support developing a risk-based approach for scoping a group audit and generally supported the Group Audit Task Force’s approach on the definitions and the issues that were presented in relation to the responsibilities of the group engagement partner, acceptance and continuance, understanding the group and its components, understanding the component auditor, identifying and assessing the risks of material misstatement and responding to assessed risks, the consolidation process, communication between the group auditor and component auditors, and evaluating the audit evidence obtained. These and other issues need to be further developed in the context of the risk-based approach and changes made</p>
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¹ International Standard on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

	<p>to other of the IAASB's International Standards. The Group Audit Task Force will continue to work on the issues related to scoping a group audit, the definitions and other issues identified in the Invitation to Comment, and will present it for further discussion at the June 2019 IAASB meeting.</p> <p>In June 2019, the Board was updated on the ISA 6003 Task Force's progress since the March 2019 meeting and discussed the public interest issues that the ISA 600 Task Force identified, the ISA 600 Task Force's proposals with respect to the risk-based approach to scoping a group audit, and the special considerations related to auditing a group. The Board also discussed indicative drafting related to the risk-based approach to scoping a group audit and the special considerations related to proposed ISA 220 (Revised).⁴ Generally, the Board was supportive of the approach taken but had suggestions on the way forward and the indicative drafting. The ISA 600 Task Force will take these comments into account and will present further drafting at the September 2019 meeting. The ISA 600 Task Force will also continue its outreach to key stakeholders and coordinate with IESBA and other IAASB Task Forces as needed.</p> <p>In September 2019, the Board was updated on the work of the ISA 600 Task Force since the June 2019 meeting, including the outreach performed and the feedback received from the IAASB's Consultative Advisory Group. The Board discussed, among other matters, the updated public interest issues, a draft of a significant part of the standard and the ISA 600 Task Force's proposals with respect to the scope and structure of the standard, materiality considerations in a group audit and a proposed stand-back requirement. The ISA 600 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board was updated on the work of the ISA 600 Task Force since the September 2019 meeting, including the outreach performed, and discussed a full draft of the proposed revised standard (except the appendices). The draft of proposed ISA 600 (Revised)¹ included updated requirements and application material on sections that were presented to the Board in September 2019 and new requirements and application material on, among other matters, materiality, communications with component auditors and documentation.</p> <p>The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at its March 2020 meeting. The Task Force will discuss the conforming amendments and the appendices to proposed ISA 600 (Revised) in the January 23, 2020 Board teleconference.</p>
<p>Professional Scepticism</p> <p>No Update for the period</p>	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The</p>

issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.

The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.

Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, [presented the results](#) to IAASB at the September 2016 IAASB meeting.

Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available [here](#).

In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG's work. The Board also discussed the concept of "levels" of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.

The IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.

In September 2018 meeting, The Board received an update on the activities of the IAASB's Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB's efforts to appropriately reflect professional scepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board

	supported the issuance of the publication and future publications of this nature.
<p>Data Analytics</p> <p>No Update for the period</p>	<p>Objective of the project: The objective of the Data Analytics Working Group (WG) is to:</p> <p>A) Explore emerging developments in audit data analytics; and B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication “The IAASB’s Work to Explore the Growing Use of Technology in the Audit” in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB’s Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p>Emerging External Reporting</p> <p>Update for the period</p> <p>No</p>	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <p>A) Explore emerging developments in integrated reporting and other emerging developments in external reporting; B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p>Background and current status: At its September 2014 meeting the Innovation WG proposed, and the IAASB agreed to establish a WG to specifically monitor the developing interest in integrated reporting and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG Supporting Credibility and Trust in Emerging Forms of External Reporting in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p>

In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide thought leadership on assurance issues and coordinate its work with other relevant organizations.

The Board received an update on the project in December 2017. It was noted that the grant agreement with the World Business Council for Sustainable Development (WBCSD) was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).

In its September 2018 meeting, the EER Task Force presented the remaining Phase 1 'issues' that were not presented in June alongside a first draft of the Phase 1 guidance. The Board noted the need for the guidance to demonstrate its full alignment with the requirements of ISAE 3000 (Revised), 5 and for the EER Task Force to provide further explanations about any guidance that goes beyond the requirements and application material in ISAE 3000 (Revised). The EER Task Force expects to receive further input from stakeholders during its forthcoming series of discussion events and will present a revised draft of the guidance to the IAASB in December 2018.

In December 2018 The EER Task Force presented an updated version of the Phase 1 draft guidance, which reflects changes to address feedback received from the IAASB at the September 2018 IAASB meeting, and from other stakeholders, including in relation to a 'materiality process' and assertions as they relate to the characteristics of suitable criteria. The Board noted that the draft guidance had significantly improved since discussions at the September 2018 meeting, but that further work on the drafting is enquired. The Board will discuss a further version on a teleconference in January 2019 before the draft guidance is published for public comment.

In March 2019, the Board approved for public comment Phase 1 of the draft guidance in January 2019. At its March 2019 meeting, the Board discussed several challenges related to Phase 2 of the guidance. The challenges include: determining the scope of an EER assurance engagement; communicating effectively in the assurance report; exercising professional skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and obtaining evidence in respect of narrative and future-oriented information. The Board's deliberations of the challenges concerned were facilitated through breakout sessions, after which each breakout group reported back to the Board in a plenary session. The EER Task Force will consider the inputs that were received in progressing the development of Phase 2 of the guidance for further discussion at the June 2019 IAASB meeting.

	<p>In June 2019, the Board was updated on the work of the EER Task Force on the challenges allocated to Phase 2 of the project. These challenges include: determining the scope of an EER assurance engagement; obtaining evidence in respect of narrative and future-oriented information; exercising professional skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and communicating effectively in the assurance report. The Board discussed views on the EER Task Force's initial proposals to address each of these challenges in the Phase 2 guidance. The EER Task Force will consider the inputs received from the Board, together with responses to the Phase 1 EER Consultation Paper in so far as they impact the Phase 2 guidance, in developing the draft Phase 2 guidance, which will be presented for discussion at the September 2019 IAASB meeting.</p> <p>In September 2019, the Board received an overview of the comment letters received on the EER Assurance Consultation Paper. The Board discussed respondents' comments on the Consultation Paper, that included the draft Phase 1 guidance, and the EER Task Force's proposals for addressing the comments. The Board also discussed the initial drafting of the Phase 2 guidance developed to date by the EER Task Force. A revised draft of the combined Phase 1 and Phase 2 guidance will be presented to the Board, for approval of an exposure draft at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board approved the combined restructured and redrafted non-authoritative EER Guidance, Special Considerations in Performing Assurance Engagements on Extended External Reporting, for public consultation. The consultation period will be 120 days from the date of publication. In finalizing the draft Guidance for public consultation, the Board agreed to emphasize that the guidance is non-authoritative and is not required to be read in its entirety, but is a useful reference source in applying particular requirements of the Standard. The Board also clarified the possible approaches to the use of framework criteria and entity-developed criteria and included additional guidance on fraud and on misstatements that might affect the practitioner's assessment of the control environment.</p>
<p>Agreed-Upon Procedures</p> <p>No Update for the period</p>	<p>The objective of the project is to:</p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</p> <p>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</p> <p>Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at</p>

	<p>the IAASB meetings will be used to revise ISRS 4400 and possibly develop new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, <u>Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</u>, to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.</p> <p>In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and approved a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.</p> <p>In its September 2018 meeting, The Board approved the ED of ISRS 4400 (Revised)³ for public exposure. In finalizing the ED, the Board agreed that independence is not required for an AUP engagement and that the AUP report would include statements addressing circumstances when the practitioner is (or is not) required to be independent, and whether the practitioner is (or is not) independent. The ED will be issued in early November with a 120 day comment period.</p> <p>In June 2019 the Board received an overview of the responses to proposed ISRS 4400 (Revised)² (ED–4400). The Board discussed, among other matters, respondents' comments on the application of professional judgment when performing procedures, the independence disclosure requirements, and the effective date.</p> <p>The Board also acknowledged areas of broad support, including not including a precondition for the practitioner to be independent, using the term “findings” and requiring an explanation of this term in the engagement letter and the AUP report, not requiring or prohibiting a reference to the practitioner’s expert in the AUP report, and not requiring a restriction on use or distribution of the AUP report. The AUP Task Force will deliberate the Board’s input and will present the first read of the post-exposure ISRS 4400 (Revised) to the Board in the second half of 2019.</p> <p>The Board approved ISRS 4400 (Revised)² with 17 Board members voting for approval and one vote against. The revised ISRS will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Once the PIOB’s confirmation that due process was followed is received, the Board will formally release the standard. In finalizing ISRS 4400 (Revised), the Board carefully deliberated the effective date and continued to focus on issues relating to compliance with independence requirements.</p>
<p>No Update for the period</p>	<p>In March 2019 the Board discussed a proposed Discussion Paper (DP), <i>Audits of Less Complex Entities: Exploring Possible Options to Address the</i></p>

	<p><i>Challenges in Implementing the ISAs.</i> The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP’s overall direction, noting the importance of the project and the need for action by the IAASB and others.</p> <p>The Board liked the simple, clear way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). The Board made suggestions for improvements, particularly with respect to the issues and challenges, the possible actions presented within the DP and the questions to be posed to respondents in order to obtain relevant and useful feedback. Proposed changes to the DP will be presented in a Board call on April 10th, with the final DP targeted to be published for public consultation before the end of April 2019.</p> <p>The Board discussed the feedback received to date related to audits of less complex entities, including from the Discussion Paper (DP), Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB’s work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made. As part of the proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.</p>
<p>Audit Evidence has</p> <p>No Update for the period</p>	<p>The Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence and the use of technology more broadly, and the possible actions to address the issues. The Board concurred that guidance should be developed on the effect of technology when applying certain aspects of the ISAs, and that this should be actioned expeditiously.</p> <p>The Board also indicated that more extensive information gathering and research need to be undertaken to understand the issues related to audit evidence, so that the Board is fully informed of the issues in determining the need for revisions to ISA 5005 and possibly other related standards.</p> <p>In September 2019, the Board was provided with an overview of the development of the Audit Evidence Workstream Plan. The Audit Evidence Working Group will accordingly undertake further information gathering and research, and develop recommendations for possible further actions to be presented to the Board in the first half of 2020.</p>

Agenda Item 13.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 26 March 2020

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Peyman Momenan

SUBJECT: Domestic Update

Introduction

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations for the Board's information, for the period February and March 2020.

Financial Markets Authority (FMA)

1. The Financial Markets Authority (FMA) is providing regulatory relief to market participants to give them an additional two months to provide their audited financial statements.

The New Zealand Institute of Chartered Accountants

1. CAANZ published this update on their conversation with the global audit standard setters. (continue to read [here](#)).

CPA Australia

1. The CPA Australia published this article in relation to COVID-19: [Impacts of COVID-19 on reporting entities and auditors](#).

The Institute of Directors (IoD)

1. IoD CEO Kirsten Patterson interviews University of Otago's Professor Dr Michael Baker and Chartered Member, Melissa Clark-Reynolds, about the ways boards can approach COVID-19 and the risks it presents to organisations across New Zealand. View video

[Responding to COVID-19](#) (IoD)

[Preparing for the unexpected](#) (IoD)

Our national partner, Marsh has [extensive resources](#) and the latest thinking from around the world to assist organisations in responding to COVID-19.

Our national sponsor, KPMG has a range of guidance to help boards and organisations during this time including:

- [Managing through the COVID-19 outbreak](#)
- [Responding to COVID-19 disruption](#)
- [The board's role in crisis prevention and readiness](#)

Resilient Organisations has developed a [business continuity planning guide for COVID-19](#)

CERT NZ has [resources to help businesses and staff to stay safe online](#) while people are working away from the office.

NZTE also has useful [tools and resources](#) to help New Zealand exporters prepare for and mitigate business effects from COVID-19.