

Board Meeting Agenda

3 June 2020

9:15 am to 5:00 pm

XRB Offices, Level 7, 50 Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
10.00 am	Morning tea				
B: PUBLIC SESSION					
10.15 am	3	<u>Group Audits</u>			
	3.1	Board meeting summary paper	Note	Paper	
	3.2	Issues paper	Discuss	Paper	
	3.3	ED ISA 600 (Revised)	Consider	paper	
11:00 am	4	<u>EER</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Draft submission	Consider	Paper	
11.45 am	5	<u>AUP</u>			
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Draft ITC and ED ISRS (NZ) 4400	Approve	Paper	
12:15 pm	Lunch				
1.00 pm	6	<u>Covid-19 Update</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Memo on going concern disclosures	Consider	Paper	
1.45 pm	7	<u>NAS and Fees</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Draft submission fees	Approve	Paper	
	7.3	Draft submission NAS	Approve	Paper	
	7.4	Mike Bradbury- Draft Research Paper	Approve	Paper	
2.30 pm	8	<u>SAP update</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	SAP Actual vs Planned	Note	Paper	
3:00pm	Afternoon tea				
3.15 pm	9	<u>Restructured Code conforming amendments</u>			
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Amending standard	Approve	Paper	
	9.3	Signing memorandum	Approve	Paper	
	9.4	Amendments to guidance	Approve	Paper	

3.30pm	10	<u>NZASB request for feedback on EDs</u>			
	10.1	Board meeting summary paper	Note	Paper	
	10.2	IPSASB Revenue and Transfer Expenses ED	Consider	Paper	
	10.3	Business combinations, disclosures goodwill and impairment	Consider	Paper	
4.30 pm	11	<u>Environmental Scanning</u>			
	11.1	International monitoring update	Note	Paper	
	11.2	Domestic monitoring update	Note	Paper	
C: NON-PUBLIC SESSION					

Next meeting: 22 July 2020, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	3 June 2020
Subject:	ED 600 Group Audits
Date:	20 May 2020
Prepared by:	Peyman Momenan

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Agenda Item Objectives

To:

- CONSIDER the exposure draft, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) (ED- 600)* and provide FEEDBACK on the questions raised. We are specifically interested in feedback about the practical application of the proposed standard.

Background

1. The International Auditing and Assurance Standards Board has issued an exposure draft of proposed ISA 600 (Revised) (ED-600). Submissions are due on 2 October 2020.
2. A communique has been sent to constituents requesting comments on ED-600 by 20 August 2020. We are planning to hold virtual round tables in June and July. The round tables will be targeted at NZ practitioners who are engagements partners of listed NZ entities that prepare group financial statements.
3. The discussion section of the ED encourages field testing to assess and evaluate the practical implications of the proposed standard. We will engage with NZ audit firms to find out whether any firm has any plans to field test these requirements (and where possible encourage them to consider doing so). The outcome of such field testing is likely to inform the NZAuASB submission to the IAASB and will also be helpful in identifying any NZ specific considerations that the NZAuASB may need to consider in adopting the revised standard.
4. The IAASB released [the Invitation to Comment \(ITC\), Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#), in December 2015 to obtain stakeholder views on key issues regarding quality control, group audits, and professional scepticism. Respondents generally agreed that the IAASB should take action to address the issues presented in the ITC.

5. In December 2016, the IAASB approved a project proposal to revise ISA 600 and the quality control standards. The project proposal set out, as objectives for revising ISA 600, to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs.
6. The ISA 600 Task Force has had ongoing liaison with the task forces responsible for the revisions of Quality Management Standards as well as ISA 315.
7. ED-600 intends to achieve the following public interest matters:
 - Keeping the IAASB's standard on group audits fit for purpose
 - Encouraging proactive management of quality at the engagement level
 - Fostering an appropriately independent and challenging sceptical mindset of the auditor
 - Reinforcing the need for robust communication and interactions during the audit.
8. ED-600 also includes conforming amendments to ISA 220 (Revised)¹, ISA 300², and ISA 402³.
9. We will present an overview of the proposed standard at the Board meeting.

Matters for Consideration

10. The Board is asked to:

- CONSIDER ED-600 and provide preliminary FEEDBACK on the questions raised.

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Board Meeting Issues Paper
Agenda item 3.3	Proposed ISA 600 (Revised), <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>

¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

² ISA 300, *Planning an Audit of Financial Statements*

³ ISA 402, *Audit Considerations Relating to An Entity Using a Service Organisation*

Issues Paper: ED-600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

1. This memo provides an explanation of the significant proposals of ED-600, which was approved for exposure by the IAASB in March 2020, and on which the IAASB is seeking comments. Specifically, we are requesting the Board's feedback in respect of the practical application of the proposed standard.

Question 1: With respect to the linkages to other standards:

- (a) **Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?**
- (b) **Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?**

2. Paragraphs 15 to 20 of the Explanatory Memorandum (EM) of ED-600 explain the approach adopted in ED-600 to enhance the linkage to other ISAs.
3. One of the objectives of the ED is to enhance the linkage between ISA 600 and other ISAs, in particular to proposed ISA 220 (Revised)¹, ISA 315 (Revised 2019)² and ISA 330³. The IAASB is of the view that ED-600's requirements and application material should address special considerations related to group audits and, therefore, should not repeat the requirements and application material in other ISAs.

Staff initial analysis of ED-600 in relation to this question

4. In our view there is a mixed result in this regard. In some areas ED-600 is successful in achieving the objectives stated in the question 1. These include:
 - a. Paragraph 15 to 17 and corresponding application guidance, which address special considerations in applying ISA 210⁴, specifically considering access issues.
 - b. Paragraph 24 and corresponding application guidance, which addresses how applying the requirements of ISA 315 (Revised 2019) for understanding the entity and its environment, the applicable financial reporting framework and system of internal controls may have specific considerations for a group audit. The application material to support this paragraph is directly relevant to a group engagement and are helpful and needed for conducting a group engagement (e.g. risks that are particularly relevant to a group structure, special considerations that apply when a group prepares consolidated financial statements, some significant elements for internal controls in a group structure and how they may affect audit etc).

¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA 330, *the Auditor's Responses to Assessed Risks*

⁴ ISA 210, *Agreeing the Terms of Audit Engagements*

- c. Paragraph 29 and corresponding application guidance, which addresses a special form of materiality that would only apply in a group audit situation (i.e. the component performance materiality)
 - d. Paragraph 55 which addresses how the requirements in ISA 265⁵ for communicating significant audit findings applies to audit findings at a component.
5. In other instances, ED-600 is not as successful. For example:
- a. Paragraph 31 simply reminds the group auditors that they are responsible for applying ISA 315 (Revised 2019) for identifying and assessing the risks of material misstatements. The application guidance in paragraphs A78 repeats what is already in ISA 315 (Revised 2019) without adding anything specific to group audits. The same is true for A80, where the application guidance more or less repeats guidance already included in ISA 240⁶. The only true consideration (other than Appendix 4 which includes specific inherent risk factors that may apply to group audits) for a group engagement is when component auditors are involved. Paragraph 32 does address this consideration. In this light, paragraph A79 is also superfluous and could easily be built into paragraph A82. However, even then the requirement can be clarified by specifically requiring the group auditor to:
 - i. Consider whether they should involve component auditors in risk identification and assessment at components (Appendix 1 provides appropriate guidance to help auditors in this relation).
 - ii. If yes, what are the respective responsibilities and how best to have these communicated, documented and evaluated etc.
 - b. In a similar fashion paragraph 33 simply reminds auditors that they are required to apply ISA 330. The real considerations of applying ISA 330 for group engagements are:
 - i. Should they involve component auditors as part of their response (paragraphs A86 to A90 provide relevant and useful guidance about this)
 - ii. If yes, what are the respective responsibilities and how best to have these communicated, documented and evaluated (paragraphs A96 to A101 provide useful and relevant guidance in this regard).
 - c. Paragraph 47 relating to applying ISA 560⁷ is similarly void of specific group engagement connection.
6. In relation to linkage with ISA 220 (Revised), ED-600 does seem to provide strong linkage to ISA 220 (Revised). Paragraphs 12 (relating to leadership responsibilities), 20 (ethical requirements), 21-22 (engagement resources), 23 (engagement performance) all link to ISA 220, and the corresponding application material provides relevant and helpful guidance. However, the application guidance lacks coherence as it does not have a comprehensive framework to reflect how ISA 220 requirements may apply to a group engagement. It may be helpful to provide guidance for the group auditor to look at the application material through the following lenses:

⁵ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

⁶ ISA 240, *The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁷ ISA 560, *Subsequent Events*

Lens	Aspects to consider
Who are the component auditors?	1) Same firm, network firm, different firms 2) similarity of regulatory and audit monitoring environment 3) similarity of cultures, languages, education system etc
What is their expected level of involvement	1) High (e.g. in all stages of audit) 2) Moderate (e.g. fully involved in some stages) 3) Low (limited involvement to perform specific procedures)
What is the expected level of assignment of responsibilities	1) High (e.g. highly competent with in-depth knowledge of the component trusted with high level of autonomy in how they go about their responsibilities) 2) Moderate (e.g. the group engagement team provides principle-based instructions and allow a moderate level of autonomy to the component auditor) 3) Low (detailed and comprehensive instructions for the component auditors regarding their responsibilities)
What is the expected level of impact from the involvement of the component auditor on overall audit conclusion?	1) High (e.g. audit evidence from the work undertaken by the component auditor is a major contributor to the group auditor's conclusion about a significant risk at the group financial statements) 2) Moderate 3) Low
What is the expected level of access to the underlying information	1) High (e.g. access to the audit file as if it was in the group engagement team head office) 2) Moderate (e.g. a good level of access but not to all documents) 3) Low (significant restrictions)

7. **Does the Board believe that ED-600 has been appropriately linked to other relevant ISAs, in particular ISA 220 (Revised)? Are the responsibilities of the group engagement partner clear, specifically in respect of the work of component auditors?**

Question 2: With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?

8. Paragraphs 21 and 23 of the EM explain the approach adopted in ED-600 to enhance addressing relevant requirements when component auditors are involved.

Staff initial analysis of ED-600 in relation to this question

9. It should be noted that the Task Force initially recommended to the IAASB to place all of the requirements related to using the work of component auditors in one section. The Task Force identified the following benefits of doing this:

- For a group engagement team that performs the work on all the components of a group and therefore does not involve component auditors (e.g., in less complex group structures), it will be easier to see which requirements apply and which do not. This enhances the scalability of the standard.
- In extant ISA 600, the section on the communications with component auditors is included later in the requirements section, and some noted the communications with component auditors should be included throughout the standard. Having a section that is applicable only when component auditors are used (i.e., conditional) addresses this concern as all special considerations related to the use of the work of a component auditor would be in one section.

However, for reasons explained in the EM, the IAASB decided to adopt the ED-600 approach.

10. The feedback from NZ Technical Reference Group (TRG), who support Lyn Provost on the IAASB, was general support for the approach adopted in the ED as it helps the flow of the standard. However, the TRG advised that including all the requirements applicable to component auditors in one place have its own benefits. Consequently, there was a suggestion to include these in an appendix as well. A flowchart approach may be helpful to explain the Group Engagement Partner and Group Engagement Team responsibilities when component auditors are involved.

11. Following on our analysis of question 1, it may be more helpful to keep the requirements as they are in ED-600, but to concentrate all the application material regarding involving component auditors in a single section (or a separate appendix). As already stated, it may be more helpful to be able to put the application guidance in an appropriate context (as suggested in the table in paragraph 6 above)

12. Does the Board support the placement of sub-sections throughout ED-600 that highlights the requirements when component auditors are involved?
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Question 3: Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements??

13. Paragraphs 96 and 97 of the EM explain the approach adopted in ED-600 to enhance application of professional scepticism in group audits.

Staff initial analysis of ED-600 in relation to this question

14. We acknowledge that ED-600 does emphasise the importance of professional scepticism. However, it may be more helpful to provide some examples of potential impediments to professional scepticism that may apply in group audit engagement. For example:

- a. Time pressure to complete a component audit in a short time to meet the deadlines determined by the group engagement team.
- b. Unconscious bias to believe that it is the group auditor's role to be professionally sceptical and the component auditor to simply follow instructions from the group.
- c. The perceived differences between the group engagement team professional prestige, or fear of reprisal may deter component auditors from challenging the accuracy and appropriateness of the instructions they receive even when they find them inadequate or inaccurate.

It may be helpful to draw the attention of the group auditors to potential impediments to exercise of professional scepticism by component auditors and how they can be addressed.

15. What are the Board's views about how professional scepticism is addressed in ED-600?

Question 4: Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).

16. Paragraphs 96 and 97 of the EM explain the approach adopted in ED-600 to enhance application of professional scepticism in group audits.
17. ED-600 has adopted the same scoping approach as the extant ISA 600. That is, the entry point to the standard is whether there is a "group financial statements". The definition of group financial statements is carried forward from the extant ("Financial statements that include the financial information of more than one component"), but the IAASB has made the following two amendments to the definition to enhance the clarity of the definition:
- a. The reference to "component" in the definition is now replaced with "entity or business units".
 - b. Specific reference is made to "consolidation process"
18. Additional definition and application materials are included in ED-600 to clarify the meaning of "consolidation process" (please see paragraph 11 of ED-600 for details). In practical terms, there is a consolidation process when:
- a. The applicable financial reporting framework requires consolidation (including partial consolidation and equity method of accounting).
 - b. Aggregation of financial information of branches or divisions

Staff initial analysis of ED-600 in relation to this question

19. An alternative approach to scoping to consider is explained below.
20. The adopted definition for consolidation, is clear when it is required under the applicable financial reporting framework (13.a above). However, it is less clear in case of "branches and divisions". The IAASB explains that when branches or divisions of a single entity are aggregated for purposes of preparing the financial statements, including the elimination of interbranch or interdivisional transactions and balances, such aggregation is nearly indistinguishable from a consolidation of other entities in accordance with the requirements of the applicable financial reporting framework. However, paragraph A17 of ED-600 recognises that, in some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, paragraph A17 of ED-600 explains that, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11 of ED-600, the financial statements do not represent group financial statements and ED-600 does not apply.
21. The adopted approach regarding branches and divisions indicates that the entity's design of the accounting function (e.g. centralised vs spread) is the determining factor when auditors consider whether ISA 600 applies to entities who only have branches or divisions. This does seem to be an unavoidable consequence of defining groups on the pillar of consolidation. However, there may be little practical implication as there may not be that many entities who have only internal business units (such as branches and divisions).

22. In considering whether it is appropriate to construct scoping of ISA 600 on whether there are consolidated financial statements, it may be helpful to consider why applying ISA 600 is important in the first place. ISA 600 is trying to address special considerations when auditing a group of entities (with the conceptual challenge being what is a group). Such special considerations seem to revolve around two focal points:
- a. Point A: risks that arise specifically due to “group structure” of the group including the following:
 - (i) Specific inherent risk factors (para A56 of the ED includes a good list of these risk factors)
 - (ii) risks that arise due to the need to consolidate financial information to prepare group financial statements (paragraphs 34 to 36 and paragraphs A94-A95)
 - (iii) specific considerations relating to understanding and evaluation of the group’s system of internal controls, including matters such as Commonality of Controls (A59-A63), use of Centralised Activities (A64-A65) and the entity’s IT systems.
 - (iv) The increased aggregation risk applying to materiality determination where there are many components.
 - (v) Increased concerns for inadequate access to appropriate and sufficient audit evidence, especially when accepting or continuing a client (e.g. access may be restricted, issues relating to entities not under the full control of the group etc).
 - b. Point B: Involvement of individuals engaged by the firm or a network firm who perform audit procedures on the engagement for the group engagement team (excluding audit experts and direct assistance from internal auditors). This dimension includes considering issues such as:
 - (i) When it is advisable to use the work of “component auditors” (e.g. entity too large and complex for engagement to understand on their own, activities across many jurisdictions and industries requiring engagement of those familiar with those jurisdictions and industries etc).
 - (ii) When a component auditor is used, what are the respective responsibilities of the engagement partner and their team and the component auditor. This include the need for clear two-way communication.
 - (iii) The factors that may affect the level of work effort and engagement from the group engagement team for supervision, direction and monitoring of the component auditor work (e.g. component auditor from the same network of from different firms, similar professional and competency environment or different, similar ethical and professional requirements or different, similar cultures and business environment or different etc).

Point A applies to all group audits, albeit to a varying degree, while Point B only applies when the group auditor concludes or is left with no other option but to involve component auditors to obtain sufficient and appropriate audit evidence. Given this it seems appropriate that the ISA 600 entry point is based around whether Point A applies.

The special audit considerations arising from Point A seem to closely align with whether there is a requirement for an entity to prepare consolidated financial statements. A need for consolidation implies disaggregation and spread at the entity being audited. Such spread is likely to be a prime contributor to risk factors discussed in paragraph 16.a. While consolidation is not a perfect proxy that would appropriately include all entities that might be affected by point A type risks, or to exclude some entities that despite preparing consolidated financial statements are not significantly affected by point A type risk, it does seem to be the best practical solution.

23. Notwithstanding the usefulness of consolidation process to scope ISA 600, concerns from our outreach group remain around whether linking the definition with a consolidation process may draw in engagements in the scope of ISA 600 that otherwise will not be structured as a group for audit purposes. Some additional guidance may be needed to address this issue. However, the standard may not be the best place to address this. This could be part of implementation guidance or FAQs. A flowchart/decision tree showing when to use ISA 600 vs ISA 220 and having component auditors would also be helpful.

24. Does the Board support the ED-600 scoping mechanism?

Question 5: Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?

25. Paragraphs 37 and 38 of the EM explain the approach adopted in ED-600 to enhance the scalability of the standard.

Staff initial analysis of ED-600 in relation to this question

26. Overall, ED-600 appears to be scalable. However, ED-600 scalability could be further enhanced:

- a. Clarifying ED-600 scope for engagements that might have consolidation but would not be structured as a group for audit purposes (see para 23 of this issue paper)
- b. Improving how application guidance material relating to when component auditors are involved is included in ED-600 (see para 11 of this issue paper)
- c. Providing an explicit scaling framework (see para 6 of this issue paper).

27. Does the Board agree that ED-600 is appropriately scalable?

Question 6: Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?

28. Paragraphs 32-35 of ED-600's Explanatory Memorandum explain why the IAASB has included a revised definition of a component in paragraph 9(b) of ED600 that reflects the 'auditor's view' for purposes of planning and performing the group audit.

Staff initial analysis of ED-600 in relation to this question

29. We agree that allowing auditors to organise components for their audit purposes is likely to be more appropriate and therefore the new definition appears appropriate.

30. Does the Board support this new definition of a component?

Question 7: With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

31. Paragraphs 39-46 of the EM address this question.

Staff initial analysis of ED-600 in relation to this question

32. Access issues will continue to be a practical challenge for group audits. ED-600 enhances the extant ISA 600 by clarifying the needed focus on access issues when accepting an audit engagement.

33. These clarifications are likely to help auditors in assessing potential access restriction issues as early as possible.
34. As noted by the IAASB and ISA 600 Task Force, access issues for entities that are not under the group's control (e.g. associates accounted for using equity method of accounting) are likely to continue to be a challenge in practice. And while paragraph A29 of ED-600 include examples of activities an auditor may be able to do to overcome restrictions, it is unlikely that this additional explanation material will make a meaningful difference in practice, as the suggested activities are common sense measures that are likely to have been applied in practice for many years. It also provides very little guidance whether the strength of potential evidence obtained from undertaking these activities is adequate to offset access restrictions. For example, what is the value of an audited financial statement of an associated entity?

35. Does the Board believe that ED-600 appropriately addresses restriction on access? Are the included explanatory materials to help auditors to overcome such restriction of actual practical value?

Question 8: Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:

- (a) **Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?**
- (b) **Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?**
- (c) **What practical challenges may arise in implementing the risk-based approach?**

36. Paragraphs 47-66 of the EM address this question.

Staff initial analysis of ED-600 in relation to this question

37. ED-600 makes it explicitly clear that the group engagement partner is responsible for obtaining sufficient and appropriate audit evidence to form an opinion on the group financial statement. This is explained in introductory paragraph 4 and is emphasised for each step of the audit, from acceptance/continuance to reporting (paragraphs 13, 23,24,29,31,33,47,52). ED-600 also require the group engagement team to evaluate the outcome of each key step of the audit (with particular emphasis on adequate evaluation of any work performed by component auditors) to ensure that audit objectives are met (step-back requirements).
38. The application and other explanatory material paragraph A82 and A83 explain that the group engagement team can assign risk assessment procedure to a component auditor. Also, paragraph 37 contemplates assignment of design and performance of further audit procedures to component auditors and paragraphs A96-A99 explain how and why this may be done. Para A98 explains that under such circumstances the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.
39. Overall, ED-600 allows the group engagement team to assign a significant portion of risk assessment and risk response stages of the audit to component auditors while clarifying that the group engagement team is responsible for such assigned work. While this is clear, the real practical issues are likely to arise in relation to how the group engagement team:
- a. Considers the appropriateness and sufficiency of work performed by component auditors (the higher the degree of assigned work the greater the need for a more robust evaluation).

- b. How, and to which extent such evaluation and the consequent conclusions are documented.
40. Paragraph A126 provides some guidance on the matters that are needed to be documented, but as expected (given the nature of the issue and the wide spectrum of possible circumstances) the level, extent and nature of such documentation is a matter of professional judgement. So while respective responsibilities are conceptually very clear (the group engagement team is responsible for all audit matters as if they performed all of the audit themselves), demonstrating the adequate level of direction, supervision and review of component auditors work and documentation as well as ongoing involvement in their activities will remain a significant challenge.
41. It is interesting to note that the IAASB in specifying the potential level of involvement of a component auditor in the “risk response” stage of an audit has changed the extant ISA 600 description of possible responses. The extant ISA 600 specifies that a component auditor may be requested by the group engagement team to either:
- a. Audit the financial information of the component.
 - b. Audit one or more account balances, classes of transactions or disclosures.
 - c. Perform specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements.⁸

The extant standard further allows the group engagement team to request an audit or a review of non-significant components where it was deemed necessary.

42. ED-600 avoids using the terms “audit” and “review” when discussing the possible levels of work effort, the group engagement team may request a component auditor to perform risk response procedures. Paragraph A97 states that the component auditor may be requested to perform one or more of the following:
- Design and perform further audit procedures on the entire financial information of the component.
 - Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, or
 - Perform specific further audit procedures as identified and communicated by the group engagement team.
43. ED-600 does not elaborate the meaning of performing audit procedures on the entire financial information of the component. But paragraph A98 explains that the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing further audit procedures with respect to the financial statements. There seems to be a lack of clarity in specifying what the objective is of assigning performance of audit procedures on “entire financial information of a component”. Does ISA 600 expect the component auditor to obtain reasonable assurance that the component financial information as presented to be included in the group account is free from material misstatements. We recommend this to be made clearer.
44. In relation to the risk-based approach that replaces the “significant component” approach of the extant ISA 600, it is difficult to contemplate the practical challenges that may arise without vigorous field testing.

⁸ See para 27 of ISA (NZ) 600, *Special Considerations-Audits of Group financial Statements (including the Work of Component Auditors)*

However, the risk-based approach is more flexible and allows a greater level of divergence in audit practices compared to the simple and straightforward approach of the extant.

45. Does the Board believe that ED-600 sufficiently and clearly defines respective responsibilities of group and component auditors? Does the Board have any examples of potential practical challenges that may arise when implementing the risk-based approach?

Question 9: Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?

46. Paragraphs 70 to 72 of the EM explain why the concept of group-wide controls, present in the extant ISA 600, is abandoned in ED-600. Instead ED-600 includes the following new concepts:

- Commonality of controls (explained in paragraphs A59-A6 of ED-600) and
- Centralised activities relevant to financial reporting (explained in paragraphs A64-A65 of ED-600)

Staff initial analysis of ED-600 in relation to this question

47. The feedback received from TRG on this question was that this application guidance is very detailed and long and difficult to read– lost where the key points are. Reads more like educational material and not application. To consider how it could be shortened/simplified.

48. Does the Board support how commonality of controls and centralised activities are addressed in ED-600?

Question 10: Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?

49. Paragraph 78 of the EM clearly explains that this change is introduced specifically in response to feedback received from audit regulators and monitoring bodies. Paragraphs 81 to 84 of Explanatory Memorandum explain why the definition of “Component Performance Materiality” is added in ED-600.

Staff initial analysis of ED-600 in relation to this question

50. The requirement and relevant application guidance seem reasonable and easy to understand.

51. Does the Board support the introduction of “Component Performance Materiality” and how it is addressed in ED-600?

Question 11: Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:

- (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?***
- (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team’s audit documentation when access to component auditor documentation is restricted?***

52. Paragraphs 86 to 95 of EM address how documentation consideration in group audits is enhanced in ED-600.

Staff initial analysis of ED-600 in relation to this question

53. As discussed in paragraph 39 and 40 of this issue paper, the most significant documentation challenge in group audit is likely to be related to work performed by component auditors. So, while the additional explanation material in paragraphs A124-A128 of ED-600 are good, they are unlikely to be helpful in resolving the most challenging documentation consideration that are left to the group engagement team's professional judgement.
54. Similarly the additional paragraphs in A129 and A130 while logical, are in nature common sense responses auditors would adopt in such situation and again it is the nature and extent of such documentation that is vital and those are left to auditors' professional judgement.
55. Does the Board agree that ED-600 has enhanced documentation consideration for a group audit? Does the Board find A129-130 helpful in addressing access restrictions to component auditor documentation?

Exposure Draft
April 2020

Comments due: October 2, 2020

International Standard on Auditing

**Proposed International Standard
on Auditing 600 (Revised)**

**Special Considerations—Audits
of Group Financial Statements
(Including the Work of
Component Auditors)**

and

**Proposed Conforming and
Consequential Amendments to
Other ISAs**

IAASB

**International Auditing
and Assurance
Standards Board**

About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating 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).

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REQUEST FOR COMMENTS

This Exposure Draft, proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by October 2, 2020.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

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Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600), which was approved for exposure by the IAASB in March 2020.

Background

2. In March 2009, the IAASB completed its Clarity Project, designed to improve the clarity and understandability of the ISAs and International Standard of Quality Control (ISQC). Shortly after the clarified ISAs became effective, the IAASB embarked on a post-implementation review, which was referred to as the “ISA Implementation Monitoring Project.” This project focused on obtaining input from a variety of different channels to learn about adoption and implementation issues related to the clarified ISAs. The findings from the post-implementation review are discussed in the 2013 publication, [Clarified International Standards on Auditing—Findings from the Post Implementation Review](#).
3. The findings from this review formed the basis for the [IAASB’s Strategy for 2015–2019](#) and the [IAASB Work Plan for 2015–2016](#). The IAASB agreed to focus on those areas from the ISA post-implementation review where key and important findings had indicated a need for priority consideration of changes to some aspects of the relevant ISAs. Accordingly, the IAASB included a project on ISA 600¹ and quality control in its 2015–2016 Work Plan.
4. As work commenced on the IAASB’s quality control and group audit standards, the working groups reflected on the issues identified through the post-implementation review of the clarified ISAs, inspection findings and ongoing outreach. The IAASB released the [Invitation to Comment](#) (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, in December 2015 to obtain stakeholder views on key issues regarding quality control, group audits, and professional skepticism. Respondents generally agreed that the IAASB should take action to address the issues presented in the ITC.
5. In December 2016, the IAASB approved a [project proposal](#) to revise ISA 600 and the quality control standards. The project proposal set out, as objectives for revising ISA 600, to strengthen the auditor’s approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs.
6. In September 2017, the IAASB noted that the revisions to ISA 600 are contingent upon the revisions being made to other foundational standards such as ISQC 1,² ISA 220³ and ISA 315 (Revised).⁴ As the IAASB had a number of priority projects on its agenda, coupled with finite staff resources and Board capacity, the IAASB decided that the ISA 600 Task Force would focus its efforts on further liaison with the task forces responsible for revisions to ISQC 1, ISA 220, and ISA 315 (Revised) before progressing the other

¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

³ ISA 220, *Quality Control for an Audit of Financial Statements*

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

aspects of the ISA 600 project any further (i.e., providing necessary input to assist in how revisions to those standards address foundational issues and requirements that would also have relevance to group audits).

7. In October 2017, the ISA 600 Task Force prepared a [project update](#) describing the issues under consideration in the revision of ISA 600, and the relationship of those issues to other projects that address other international standards, in particular, ISA 220 and ISQC 1.
8. Given the progress made on the quality management standards and ISA 315 (Revised), the IAASB decided to continue with the revisions to ISA 600 in January 2019.

Coordination with Other IAASB Task Forces and IESBA

9. As noted above, the revisions to ISA 600 are contingent upon the revisions being made to other foundational standards. Given that those standards were under revision at the time of developing ED-600, the ISA 600 Task Force has had ongoing liaison with the task forces responsible for the revisions of these standards. The ISA 600 Task Force also had discussions with representatives and Staff of the International Ethics Standards Board for Accountants (IESBA) on several key matters.

Quality Management Standards

10. To make sure that ED-600 is aligned with changes made in the quality management standards, the ISA 600 Task Force Chair and Staff participated in ongoing coordination calls with the Chairs and Staff of the Quality Management Task Forces. In these calls, the Chairs and Staff of the ISQM 1,⁵ ISQM 2,⁶ ISA 220 and ISA 600 Task Forces discussed matters of mutual interest. In addition, the ISA 600 Task Force coordinated with the ISQM 1 and ISQM 2 Task Forces on certain matters to align the concepts and wording in those quality management standards with the wording in some of the requirements and application material of ED-600.
11. Given the close relationship between proposed ISA 220 (Revised)⁷ and ED-600, the ISA 600 and ISA 220 Task Forces made sure there is appropriate linkage between the two standards, i.e., that the requirements and application material in ED-600 build on, and are consistent with, the principles and requirements in proposed ISA 220 (Revised). Among other matters, the Task Forces discussed the practical application and resulting effects of the revised definition of the engagement team and the responsibilities of the engagement partner (see paragraphs 18–20 below).

ISA 315 (Revised 2019)⁸

12. As a foundational standard, the ISA 600 Task Force made sure that the requirements and application material in ED-600 are consistent with the revisions in ISA 315 (Revised 2019). The Task Force focused on the special considerations relating to identifying and assessing the risks of material misstatement in an audit of group financial statements.

⁵ Proposed International Standard on Quality Management (ISQM) 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁶ Proposed ISQM 2, *Engagement Quality Reviews*

⁷ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁸ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

IESBA

13. The ISA 600 Task Force liaised with IESBA representatives and Staff to ensure that ED-600 is aligned with the IESBA’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). Matters discussed included the proposed revisions to the definition of engagement team, IESBA’s Engagement Team – Group Audits Independence project,⁹ and the paragraphs in ED-600 related to non-compliance with laws and regulations.

Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-600, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-600, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not stated.

Section 2 Significant Matters

Section 2-A – Public Interest Issues Addressed in ED-600

14. The table below sets out the key public interest issues identified by the IAASB and how they have been addressed in ED-600.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<p>Keeping the IAASB’s standard on group audits fit for purpose</p>	<p><i>Scope of the Standard</i></p> <p>Clarified the scope of the standard, through the introductory paragraphs and definitions and related application material, including whether, and how, ED-600 applies for:</p> <ul style="list-style-type: none"> • Shared service centers; • Entities with branches and divisions; and • Non-controlled entities, including equity-accounted investees and investments carried at cost. 	<p>Paragraphs 2, 3 9(b), 9(k), and 11.</p>

⁹ The objectives of IESBA’s Engagement Team – Group Audits Independence project are to (i) align the definition of the term “engagement team” in the IESBA Code with the revised definition of the same term in proposed ISA 220 (Revised) and (ii) revise the IIS so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
	<p><i>Linkages with Other Standards</i></p> <p>Clarified and reinforced in ED-600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.¹⁰</p>	<p>Paragraphs 1, 12, 15, 18, 20, 21, 23, 24, 27, 28, 29, 31, 33, 47, 49, 53, 56 and 57.</p>
	<p><i>Adaptability and Scalability</i></p> <p>Introduced a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:</p> <ul style="list-style-type: none"> • Focusing the group engagement team’s attention on identifying, assessing and responding to the risks of material misstatement; and • Including separate sections throughout ED-600 to highlight the requirements and application material for circumstances when component auditors are involved. 	<p>Paragraphs 3, 4, 9(b), 24, 31 and 33.</p> <p>Separate sections in ED-600 for circumstances when component auditors are involved.</p>
	<p><i>Documentation</i></p> <p>Enhanced the documentation requirements and included application material to emphasize the linkage to the requirements in ISA 230¹¹ and to clarify what the group engagement team may need to document in different situations, including when there are restrictions on access to component auditor documentation.</p>	<p>Paragraph 57</p>

¹⁰ ISA 330, *The Auditor’s Responses to Assessed Risks*

¹¹ ISA 230, *Audit Documentation*

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
Encouraging proactive management of quality at the engagement level	<p><i>Managing and Achieving Quality in a Group Audit</i></p> <p>Clarified how the requirements in proposed ISA 220 (Revised) apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work.</p> <p>Throughout ED-600, separate sections are included for circumstances when component auditors are involved.</p>	<p>Paragraphs 6, 12, 18, 20, 21 and 23.</p>
	<p><i>Planning and Performing a Group Audit Engagement</i></p> <p>Focused the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements, and emphasized the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.</p>	<p>Paragraphs 3, 4, 24, 31, 33, 34, 35, and 36.</p>
	<p><i>Restrictions on Access to People and Information</i></p> <p>Clarified how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.¹²</p>	<p>Paragraphs 16 and 17.</p>
	<p><i>Component Materiality</i></p> <p>Clarified how the concepts of materiality and aggregation risk apply in a group audit.</p>	<p>Paragraphs 9(a), 9(e) and 29.</p>

¹² The IAASB recognizes that ED-600 cannot enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<p>Fostering an appropriately independent and challenging skeptical mindset of the auditor</p>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasized the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> • Determining the direction, supervision and review of the component auditor’s work; and • The group engagement team’s evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for forming an opinion on the group financial statements. 	<p>Paragraphs 4, 5, 13, 23, 44, 45, 46, 49, 50 and 51.</p>
<p>Reinforcing the need for robust communication and interactions during the audit</p>	<p><i>Robust Communications and Interactions Between the Group Engagement Team / Group Engagement Partner and Component Auditors</i></p> <p>Strengthened and clarified the application of proposed ISA 220 (Revised) in a group audit, including:</p> <ul style="list-style-type: none"> • Communications between the group engagement team and component auditors, emphasizing the importance of two-way communications. • Various aspects of the group engagement team’s interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group engagement team in the work of the component auditor. <p>Throughout ED-600, separate sections are included for circumstances when component auditors are involved.</p>	<p>Paragraphs 4, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 30, 32, 37, 38, 39, 40, 41, 43, 44, 45 46 and 48.</p>

Section 2-B – Linkages with Other Standards

15. Many respondents to the ITC supported clarifying and reinforcing that all ISAs, when applicable, need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330. In its deliberations, the IAASB has focused on the unique aspects of a group audit engagement and the need to clearly articulate how the requirements in ED-600 build on requirements in the foundational standards. The IAASB was of the view that ED-600’s requirements and application material should address special

considerations related to group audits and, therefore, should not repeat the requirements and application material in other ISAs.

16. To clarify the linkages with other standards and to clarify that all ISAs apply to an audit of group financial statements, the IAASB decided to:
 - Clarify that the ISAs apply to an audit of group financial statements, that ED-600 deals with special considerations in an audit of group financial statements and that the requirements and application material in ED-600 refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (see paragraph 1 of ED-600). Application material was added clarifying the linkage with proposed ISA 220 (Revised), proposed ISQM 1 and proposed ISQM 2.¹³
 - When applicable, included a reference to the foundational standard in the requirement or application material. In such cases the following construct is used: 'In applying ISA ...'
17. Paragraph 6 of ED-600 explains that when a requirement or responsibility has to be fulfilled by the group engagement partner or the group engagement team, the term "the group engagement partner shall ..." or "the group engagement team shall ..." is used. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term "the group engagement partner shall take responsibility for..." or "the group engagement team shall take responsibility for..." is used. Paragraph 6 of ED-600 is modeled after a similar paragraph in proposed ISA 220 (Revised).

Proposed ISA 220 (Revised)

18. As noted in paragraphs 6 above, the IAASB is also revising ISA 220. Proposed ISA 220 (Revised) contains, among other matters, enhanced and revised requirements and application material to clarify the role and responsibilities of the engagement partner, particularly the sufficient and appropriate involvement of the engagement partner throughout the audit, and to retain the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level.
19. The IAASB considered the special considerations in applying ISA 220 (Revised) to audits of group financial statements and identified the following:
 - Definition of the engagement team. Proposed ISA 220 (Revised) includes a revised definition of engagement team. This revised definition includes individuals who perform audit procedures on the engagement, which would include component auditors in the case of a group audit. As noted in paragraph 11 above, the ISA 220 and ISA 600 Task Forces and IESBA's Staff and representatives have liaised on the revised definition. When ED-600 refers to the engagement team, it includes the group engagement team and all component auditors. Paragraphs 9(c) and 9(j) of ED-600 define component auditor and the group engagement team, respectively.

¹³ ED-600 is based on the versions of proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised) as presented to the IAASB in March 2020 <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-2>. The IAASB targets the planned approval of these proposed standards in its September 2020 meeting. Subsequent versions of proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised) will be posted on the projects' meeting pages: <https://www.iaasb.org/consultations-projects/work-plan>.

- Leadership responsibilities for managing and achieving quality on a group audit. To highlight the importance of sufficient and appropriate involvement of the group engagement partner throughout the group audit, the IAASB determined that it was appropriate to add a requirement early in ED-600 (see paragraph 12 of ED-600).
 - Being able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence (see paragraph 18 of ED-600);
 - With respect to relevant ethical requirements (see paragraph 20 of ED-600):
 - Determining that component auditors have been made aware of relevant ethical requirements;
 - Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement; and
 - Obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement have been fulfilled;
 - With respect to engagement resources (see paragraph 21 of ED-600):
 - Determining that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and
 - Determining the relevance to the group audit of information that has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, and the effect of such information on the group audit; and
 - With respect to engagement performance, establishing that the group engagement partner takes responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work (see paragraph 23 of ED-600).
20. The IAASB included comprehensive application material that supports the special considerations as set out in paragraph 19 above.

Section 2-C – Separate Sections for Considerations When Component Auditors Are Involved

21. In the development of ED-600, the IAASB considered the most appropriate placement for the requirements related to the involvement of component auditors. The IAASB discussed having all such requirements in a separate section or placing them throughout the proposed standard based on the nature of component auditor involvement at various phases of the group audit. In its deliberations, the IAASB noted several advantages of including a sub-section in each section of the standard that describes the requirements that apply when component auditors are involved.
22. The IAASB believes the advantages of this approach are that it:
- Helps to emphasize and clarify the interactions that are needed between the group engagement team and the component auditors throughout the different phases of the group audit.
 - Makes it clear that when component auditors are involved, they are an integral part of the engagement team.

- Provides scalability for circumstances where the group engagement team does not involve component auditors by making it easier to identify which requirements apply and which do not.

Section 2-D – Scope and Applicability of the Proposed Standard

23. Respondents to the ITC expressed various concerns about the scope and applicability of extant ISA 600, including asking for greater clarity about whether, and how, extant ISA 600 applies in certain circumstances. A number of concerns relating to group audits also were highlighted by regulators and audit oversight bodies, including concerns about interpretations as to when extant ISA 600 does or does not apply.
24. Extant ISA 600 applies to audits of group financial statements, consistent with the title of the standard. In its deliberations on ED-600, the IAASB considered the input from respondents to the ITC and concluded that ED-600 should apply when the auditor is engaged to perform an audit of group financial statements, regardless of whether component auditors are involved. In addition, the IAASB determined that a consolidation process also was fundamental to the definition of group financial statements (see paragraphs 25–31 below). The IAASB also acknowledged that an ‘entry point’ into ED-600 that focused on the definition of group financial statements would necessitate a reconsideration of the definition of a component (see paragraphs 32–36 below).

Group Financial Statements

25. The IAASB has included paragraph 2 in ED-600 to highlight that the proposed standard applies when the auditor has been engaged to audit group financial statements, which are defined in paragraph 9(k) of ED-600. This definition retains the notion that group financial statements include the financial information of more than one entity or business unit, similar to the notion in the extant ISA 600 definition of a group that a group always has more than one component.
26. The IAASB recognizes that the reference to ‘entities or business units’ in the definition of group financial statements may be viewed as somewhat broad, and that management may use other terms to describe the various economic units or business activities within the group. However, for purposes of ED-600, the IAASB believes that ‘entities or business units’ will be sufficiently understood because similar terms are used in extant ISA 600 and are commonly used in practice today (also see paragraph 28 below). Additional guidance could be provided as part of the implementation support materials (for example, in a frequently asked questions (FAQs) document) when the final standard is issued (see further discussion of implementation support activities in paragraphs 99-100 below).

Consolidation Process

27. The definition of group financial statements in ED-600 includes the term ‘consolidation process.’ Given the importance of the term to the definition of group financial statements, and therefore the scope of ED-600 as described in paragraph 24 above, the IAASB has enhanced the description of consolidation process in paragraph 11 of ED-600 to include a reference to:
 - A consolidation process being ‘in accordance with the requirements of the applicable financial reporting framework’ with respect to the recognition, measurement, presentation and disclosure, of financial information of entities or business units in the group financial statements. The IAASB determined that this reference was needed because it is the requirements of the applicable financial reporting framework that management follows in preparing the group financial statements; and

- The aggregation of the financial information of branches or divisions (see paragraphs 28–29 below).
28. As indicated in paragraph 3 of ED-600, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions) or business activities, which are collectively referred to as entities or business units in ED-600. The IAASB noted that paragraph A2 of extant ISA 600 contemplates a group for which management aggregates the financial information of branches or divisions in preparing financial statements. Therefore, as described in paragraph A17 of ED-600, when branches or divisions of a single entity are aggregated for purposes of preparing the financial statements, including the elimination of interbranch or interdivisional transactions and balances, such aggregation is nearly indistinguishable from a consolidation of other entities in accordance with the requirements of the applicable financial reporting framework. In addition, consistent with paragraph 10(b) of extant ISA 600, a combination of entities or business units under common control continues to be included in the description of a consolidation process in ED-600.
 29. With respect to branches or divisions, paragraph A17 of ED-600 recognizes that, in some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, paragraph A17 of ED-600 explains that, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11 of ED-600, the financial statements do not represent group financial statements and ED-600 does not apply.
 30. The IAASB has added application material (see paragraphs A16 and A18 of ED-600) to further explain the consolidation process and indicate that the requirements of the applicable financial reporting framework may affect the determination of the financial information of entities or business units to be included in the group financial statements. The IAASB believes that this application material will be helpful in determining whether ED-600 would apply in a particular situation.
 31. The IAASB has proposed these changes to the description of a consolidation process and the related application material to:
 - Acknowledge the many different group structures in use today, as described in paragraph 3 of ED-600, and to provide terminology and guidance that is flexible enough to apply to evolving group structures; and
 - Provide a principles-based approach to the consideration of the different circumstances in which ED-600 would apply.

Relationship Between the Definitions of Group Financial Statements and Component

32. In the ITC, the IAASB noted that some stakeholders viewed the interaction of the requirements, definitions and application material in extant ISA 600 as limiting its flexibility. The IAASB therefore discussed the need for clarity about when ED-600 would apply (i.e., the ‘entry point’) and, when the revised standard applies, how group engagement teams may consider the structure of the group for purposes of planning and performing the group audit. The IAASB determined that clarity could be provided by revising the definitions of ‘group financial statements’ and ‘component,’ and describing the relationship between them.

33. The IAASB determined that it would be helpful for the definition of group financial statements (see paragraph 9(k) of ED-600) to focus on the various entities or business units comprising the group, and that would be included in the consolidation process.
34. The IAASB also concluded that ED-600 should acknowledge that a group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how management views the entities or business units comprising the group. In this regard, the IAASB understands that in practice many group engagement teams consider the group structure as a starting point, but the approach to the group audit may or may not align with that structure due to, for example, the use of shared service centers or the processing of various aspects of a class of transactions at different locations.
35. Accordingly, the IAASB has included a revised definition of a component in paragraph 9(b) of ED-600 that reflects the 'auditor's view' for purposes of planning and performing the group audit. The use of the terms 'location, function or activity' in this definition is intended to be flexible enough to cover the many ways in which the group engagement team might view the group structure in designing the most effective and efficient approach to planning and performing the group audit. In some circumstances, the group engagement team may approach the group audit by focusing on the way the entity is structured and organized (for example, according to its legal structure). Alternatively, the group engagement team may decide to approach the group audit by focusing on a combination of locations, functions or activities (for example, because of the structure of the group's information system with respect to the processing of transactions or the design and implementation of the system of internal control). Irrespective of the approach used, the group engagement team's consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group (see paragraph A12 of ED-600).
36. The IAASB has added paragraph 3 in ED-600 to clarify in the Scope section of the proposed standard that the way in which a group is organized, and the way in which management views the entities or business units comprising the group, may be different from the way in which the group engagement team plans and performs audit procedures for the group audit. The IAASB also has included application material (see paragraphs A4-A6 of ED-600) to further clarify this point and to include an example of how this may be applied in practice. Paragraphs A4 and A12 of ED-600 indicate that the group engagement team uses professional judgment in determining the components for which audit procedures will be performed.

Scalability Considerations

37. The IAASB notes that many audit engagements are subject to extant ISA 600 given that, as currently defined, a group always has more than one component. However, some concerns may exist about the application of ED-600 to smaller, less complex groups comprised of only a small number of entities or business units.
38. The IAASB notes that such engagements are nonetheless required to apply the requirements of the key underlying ISAs, including the enhanced risk assessment in ISA 315 (Revised 2019) and the focus on direction, supervision and review in proposed ISA 220 (Revised). In addition, for some of these engagements, the group engagement team may itself be able to perform the procedures necessary to identify, assess and respond to the risks of material misstatement of the group financial statements, without the need to involve component auditors. In these situations, the use of separate

sections in ED-600 to highlight the requirements that are applicable when component auditors are involved provides inherent scalability, as such requirements would not be relevant in the circumstances.

Section 2-E – Acceptance and Continuance, Including Restrictions on Access to People and Information

Background

39. The ITC noted that some inspection findings identified situations where auditors gave inadequate consideration to certain matters that may be relevant to the decision about whether to accept or continue a group audit engagement. Examples of matters that may not be adequately considered at the acceptance and continuation phase include:
- The ability to access people or information at the components; and
 - The ability to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
40. In response to the issues identified in the ITC and the proposed revisions to ISA 220, the IAASB enhanced the Acceptance and Continuance section of ED-600. For the changes made to the Acceptance and Continuance Section to align with proposed ISA 220 (Revised), see paragraphs 18-20 above.

Sufficient Appropriate Audit Evidence

41. When the group engagement partner makes a decision to accept a new group audit engagement, or continue with an existing engagement, extant ISA 600 requires that, in applying ISA 220, the group engagement partner determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. Extant ISA 600, also notes that for this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to identify components that are likely to be significant components.
42. The IAASB is of the view that this requirement is still relevant and that it is the overarching requirement for the Acceptance and Continuance section. However, given the new approach to planning and performing a group audit engagement (see section 2-F below), the reference to significant components has been removed and the IAASB added a requirement for the group engagement partner to make a preliminary determination about whether to involve component auditors (see paragraph 13 of ED-600). The IAASB also added a requirement and application material for situations when, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained. In such cases, the group engagement partner shall consider the possible effects on the group audit (see paragraph 14 of ED-600).

Restrictions on Access to People and Information

43. In its deliberations, the IAASB noted that there are several different types of access issues that may occur in a group audit. The different types of access issues require a different approach from the group engagement team, and it is therefore important to differentiate among them. The IAASB recognized that ED-600 can help address these issues through application material describing ways

to overcome restrictions on access to people or information, but cannot enforce access to people and information.

44. Therefore, the IAASB decided to differentiate between restrictions on access to information and people that are outside the control of group management (see paragraph 16 of ED-600) and those that are imposed by group management (see paragraph 17 of ED-600).
45. Respondents to the ITC and input from outreach with other stakeholders indicated that application material was needed on how the group engagement team may be able to overcome various access issues. Matters noted included when the group has a non-controlling interest in an entity that is accounted for by the equity method and group management and the group engagement team do not have access to component management, those charged with governance of the component, or the component auditor.
46. In response to these comments, the application material in ED-600 includes application material on the following matters:
 - Paragraph A27 of ED-600 explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.
 - Paragraph A28 of ED-600 highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The IAASB purposely kept this application material at a high-level and only included a few examples to avoid the perception that all restrictions are listed in this paragraph.
 - Paragraph A29 of ED-600 explains how the group engagement team may overcome possible restrictions in various situations. Given the interest of stakeholders on this topic, the IAASB included several examples, including on access restrictions related to equity-accounted investments. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the auditor that was appointed by the component.
 - Paragraph A30 of ED-600 focuses on the effects when it is not possible to overcome restrictions on access to people and information. This paragraph highlights that, in such circumstances, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may then communicate with regulators, listing authorities or others about the restrictions.

Section 2-F – Planning and Performing a Group Audit Engagement

47. The ITC included the IAASB's initial views on how to enhance the planning and performance of a group audit engagement. It was noted that planning a group audit based on the identification of components (and identification of those components that are significant) may not always result in appropriate involvement of the group engagement team in the assessment of the risks of material misstatement at the group financial statement level, and the design and performance of appropriate responses to those

risks. The ITC included several suggestions about how to enhance extant ISA 600, which were generally supported by respondents to the ITC.

48. Given this support, the IAASB continued to develop a new approach for planning and performing a group audit engagement. The new approach is referred to as the risk-based approach, and in developing this approach the IAASB had the following objectives:
- Greater alignment with the requirements in ISA 315 (Revised 2019) and ISA 330;
 - A greater focus on the group engagement team's responsibility, with the assistance of component auditors as needed, to:
 - Identify and assess the risks of material misstatement at the group financial statement level and assertion level for the group financial statements, and
 - Design and perform further audit procedures, in accordance with ISA 330; and
 - A greater focus on planning an appropriate approach to obtaining sufficient appropriate audit evidence (i.e., not just defaulting to "an audit" of the component financial information). The group engagement team's focus should be on whether and how the assessed risks of material misstatement of the group financial statements are addressed through work performed at the group level by the group engagement team or through work performed on components, including by component auditors.

Risk-Based Approach for a Group Audit Engagement

49. ISA 315 (Revised 2019) requires the auditor to understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and to identify and assess the risks of material misstatement. ISA 330 requires the auditor to design and implement responses to address the assessed risks. In a group audit, the group engagement team may not be able to do this by itself and therefore may need to involve component auditors.
50. The risk-based approach for a group audit can be characterized as thinking about what, how and by whom and where, work is to be performed, for example:
- What – determining significant classes of transactions, account balances or disclosures in the group financial statements to identify and assess risks of material misstatement of the group financial statements at the assertion level;
 - How – determining the most appropriate audit strategy (e.g., centralized or decentralized testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and
 - By whom and where – determining whether the group engagement team or component auditors will obtain the audit evidence, and where procedures need to be performed to obtain audit evidence based on the group engagement team's view of the group structure, in response to the assessed risks of material misstatement.
51. ED-600 includes a new appendix (see Appendix 1 to ED-600) that describes the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit. This appendix highlights that the involvement of component auditors is an iterative process. For example, before accepting or continuing the engagement, the group engagement team makes a preliminary determination whether component auditors will be involved

in the group audit and the group engagement team may change that determination at a later stage based on the information obtained.

52. When component auditors are involved, the group engagement team remains responsible for the identification, assessment and responses to the risks of material misstatement of the group financial statements. The group engagement team therefore needs to direct and supervise the work performed by component auditors and review their work. The nature, timing and extent of the direction, supervision and review, including two-way communication between the group engagement team and the component auditor, depends on the facts and circumstances of the engagement.
53. Paragraphs 54 – 65 below explain how the risk-based approach is applied throughout the different phases of the group audit.

Obtaining an Understanding of the Group and Its Environment and the Group's System of Internal Control

54. The foundation of the risk-based approach is the group engagement team's understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control. Special considerations in applying ISA 315 (Revised 2019) to an audit of group financial statements (see paragraph 24 of ED-600) primarily relate to, and are focused on, the additional complexities faced by a group engagement team when auditing a group, for example:
 - With respect to the group and its environment, obtaining an understanding is often more complex due to the wide variety of group structures and businesses that may exist across multiple geographical locations or jurisdictions. The way the group is managed may also add complexities, particularly if there are multiple lines of business, which may be in different industries (e.g., a captive insurance company for a manufacturing entity).
 - With respect to the applicable financial reporting framework, there may be different accounting policies and practices across the entities or business units that comprise the group.
 - With respect to the group's system of internal control, there:
 - May be controls that operate in a common manner across multiple entities or business units – see Common Controls and Centralized Activities Section below.
 - May be centralized activities relevant to financial reporting (e.g., in a shared service center) – see Common Controls and Centralized Activities Section below.
 - Is a consolidation process, which likely requires additional audit effort when the consolidation process is more complex due to a significant amount of intercompany transactions or elimination entries, or when the group uses consolidation software that interfaces with multiple general ledger systems from different entities or business units.
55. When the group engagement team involves component auditors by assigning the design and performance of risk assessment procedures, the group engagement team considers the results of those procedures in identifying and assessing risks of material misstatement (see paragraph 25 of ED-600). The group engagement team also communicates with component auditors matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements (see paragraph 26 of ED-600).

Identifying and Assessing Risks of Material Misstatement

56. The IAASB is of the view that the risk-based approach in ED-600 better focuses the group engagement team on determining the significant classes of transactions, account balances and disclosures in the group financial statements, and on identifying and assessing the related risks of material misstatement of the group financial statements, compared to a focus on significant components in extant ISA 600. The approach also more closely aligns with the principles in ISA 315 (Revised 2019).
57. Under the risk-based approach, the group engagement team takes responsibility for the identification and the assessment of the risks of material misstatement (see paragraph 31 of ED-600). When the group engagement team involves component auditors in the risk assessment procedures or identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team is required to consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements (see paragraph 32 of ED-600).

Responding to the Assessed Risks of Material Misstatement

58. After the group engagement team has assessed the risks of material misstatement of the group financial statements, with the assistance of component auditors as needed, the group engagement team determines the most appropriate strategy to obtain sufficient appropriate audit evidence, and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement in accordance with ISA 330.
59. The group engagement team may decide to use different approaches, or a combination of approaches, to gather audit evidence about classes of transactions, account balances and disclosures, including deciding where further audit procedures need to be performed (at which components) and who will perform the further audit procedures (the group engagement team, component auditors or a combination) to address the assessed risks of material misstatement.
60. When the group engagement team assigns the design and performance of further audit procedures to component auditors, the group engagement team communicates with component auditors matters that are relevant for this purpose. The group engagement team may request the component auditor to:
 - Design and perform further audit procedures on the entire financial information of the component;
 - Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
 - Perform specific further audit procedures as identified and communicated by the group engagement team.
61. When the group engagement team requests the component auditor to perform further audit procedures on the entire financial information of the component, or design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, the group engagement team may request the component auditor to assist in determining the nature, timing and extent of further audit procedures to be performed. The group engagement team may do so because component auditors may have a more in-depth knowledge of the component or, for larger group audits, it may not be practical for the group engagement team to determine the nature, timing and

extent of further audit procedures to be performed. Furthermore, the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component (see paragraphs A98 and A100).

62. When component auditors assist the group engagement team in the design and performance of further audit procedures, the group engagement team remains responsible for the nature, timing and extent of further audit procedures to be performed (see paragraph 33 of ED-600).
63. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of the further audit procedures performed by component auditors (see paragraph 38 of ED-600).

Fraud, Going Concern and Related Parties

64. Extant ISA 600 requires the group engagement team, or a component auditor on its behalf, to perform an audit of the financial information of the component in certain circumstances. When an audit of the financial information of a component is performed by a component auditor, the component auditor is responsible for the identification, assessment and response to risks of material misstatement at the component, including with respect to fraud, going concern and related parties.
65. The IAASB added requirements and application material related to understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control and responding to the assessed risks of material misstatement (see paragraphs 27, 28, 41, A72 and A80 of ED-600) to clarify the responsibilities related to fraud, going concern and related parties under the risk-based approach when component auditors are involved.

Key Similarities and Enhancements

66. The IAASB realizes that the risk-based approach to planning and performing a group audit has a different focus than the approach in extant ISA 600 and that the changes may have a significant impact on practice. Given the wide variation in the structure of group entities, the IAASB also recognizes that many group engagement teams already focus on identifying and assessing risks at the group level and determining that the planned scope of work appropriately responds to those risks. The following table sets out some key similarities between extant ISA 600 and ED-600 and enhancements in ED-600:

Similarities	Enhancements
The objective remains to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements.	Focus on identifying and assessing risks of material misstatement of the group financial statements and determining that the planned scope of work appropriately responds to those assessed risks, rather than the current approach whereby the scope of the work is driven primarily by the identification of components and determination of their significance.

<p>Understanding the group and its environment remains a fundamental part of the standard.</p>	<p>Greater focus on the group engagement team's responsibility, with the assistance of component auditors as needed, to obtain an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control, and to identify, assess and respond to the risks of material misstatement.</p>
<p>The involvement of component auditors remains a key aspect of group audits, recognizing that component auditors can be, and often are, involved in all phases of a group audit engagement.</p>	<p>Greater focus on the group engagement team's involvement in the work of component auditors and the group engagement partner's responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work.</p>

Communications Between the Group Engagement Team and Component Auditors

67. In the ITC, it was noted that the communication requirements in extant ISA 600 are not specific enough to result in sufficient and appropriate communication between component auditors and the group engagement team during the planning and performance of the group audit. Given this and the importance of two-way communications between the group engagement team and component auditors, the IAASB determined that it was appropriate to include a requirement for the group engagement team to communicate with component auditors about the component auditor's responsibilities and the group engagement team's expectations (see paragraph 43 of ED-600). These communications need to take place at the appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. ED-600 also includes a list of matters that component auditors should communicate to the group engagement team (see paragraph 44 of ED-600)
68. The IAASB also included application material, using the application material in ISA 260 (Revised)¹⁴ as a basis, to provide further explanation about timely communications in the context of a group audit. For example:
- Paragraphs A106 and A107 of ED-600 describe factors that may contribute to effective two-way communication.
 - Paragraphs A108 and A109 of ED-600 provide guidance on the form of communications, including factors that may influence the form of communication; and
 - Paragraph A110 of ED-600 describes the appropriate timing for communications.
69. Paragraph A111 of ED-600 was added in response to the issue identified in, and comments from respondents to, the ITC with respect to communications about non-compliance or suspected non-compliance with laws and regulations.

¹⁴ ISA 260 (Revised), *Communication with Those Charged with Governance*

Section 2-G – Common Controls and Centralized Activities

70. Extant ISA 600 includes the concept of group-wide controls, which were defined as: ‘*Controls designed, implemented and maintained by group management over group financial reporting.*’ The IAASB noted that some auditors interpret the definition as being:
- Controls over group financial reporting, including consolidation; or
 - Controls over processes that are the same across the group or a part of the group (e.g., controls that are intended to operate in a common manner across multiple entities or business units).
71. The IAASB also discussed the role that group-wide controls play in responding to assessed risks of material misstatement and noted that auditors sometimes place undue reliance on these controls, for example:
- Relying on group-wide controls without testing them.
 - Relying on group-wide controls when the extent of the testing of those controls has not resulted in sufficient appropriate audit evidence (e.g., to reduce the extent of substantive procedures). For example, the group engagement team may have tested group-wide controls without obtaining a sufficient understanding about how the controls are designed and implemented throughout the group in addressing risks of material misstatement.
 - Relying on group-wide controls that are not sufficiently precise (i.e., not designed in a way that is responsive to an assessed risk of material misstatement).
72. Given the matters noted above, the IAASB decided not to refer to group-wide controls in ED-600 and to address controls in a group audit more broadly. Even though ED-600 does not include the concept of group-wide controls, much of the related application material in extant ISA 600 has been retained. For example, Appendix 3 includes examples of controls that may be helpful in obtaining an understanding of the group’s system of internal control in a group environment and particularly focuses on controls over group financial reporting, including controls over the consolidation process.
73. In addition, the IAASB included application material on the following special considerations:
- Commonality of controls (see paragraphs A59–A63 of ED-600); and
 - Centralized activities relevant to financial reporting (see paragraphs A64–A65 of ED-600).

Commonality of Controls

74. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management that operate using the same IT system and that are implemented across all entities or business units in the group. ED-600 therefore includes application material:
- Explaining why obtaining an understanding of common controls may be important;
 - On how the group engagement team may determine the commonality of a control across the group;
 - Highlighting that judgment is often needed to determine whether a control is common or not.

Centralized Activities

75. In some group structures, centralized activities may have been established that process information or perform other activities for multiples entities or business units within the group. For example, financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units.
76. The IAASB decided to use the broader term ‘centralized activities’ to reflect comments that centralized activities may be performed at a shared service center, but also in an entity or business unit that may not be considered a shared service center. In addition, the IAASB was of the view that, given the wide variety of group structures and the continuous evolvement of these structures, it is better to use a broader term to ensure the standard remains fit for purpose.
77. In planning and performing a group audit engagement, the group engagement team may facilitate the coordination of audit procedures at a centralized location or activity that are sufficient to provide the audit evidence necessary to support both the group audit and the audits of other entities within the group. In addition, there may be circumstances when audit evidence obtained at a centralized location or activity is necessary to enable a component auditor to perform and conclude on further audit procedures assigned to the component auditor by the group engagement team. The IAASB is aware that these practical considerations are common in group audits today but notes that such considerations are not directly relevant to the group engagement team’s objective of obtaining sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. The IAASB proposes to develop FAQs to acknowledge these circumstances as part of the implementation support materials.

Section 2-H – Materiality

78. Respondents to the ITC, across a range of respondent groups, called for more guidance on applying the concepts of component materiality and component performance materiality in a group audit, in particular in relation to the concept of aggregation risk. Regulators in particular noted that the concept of aggregation risk is not clearly defined in the standards and not well understood, and therefore it will be important to address aggregation risk and provide guidance for group engagement teams on component materiality considerations in ED-600.

Aggregation Risk

79. Extant ISA 600 does not define aggregation risk. However, paragraph A43 of extant ISA 600 describes aggregation risk as follows, consistent with ISA 320:¹⁵

To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality is set lower than materiality for the group financial statements as a whole. Different component materiality may be established for different components. Component materiality need not be an arithmetical portion of the materiality for the group financial statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed the materiality for the group financial statements as a whole.

¹⁵ ISA 320, *Materiality in Planning and Performing an Audit*

80. Given the calls for greater clarity about this concept, the IAASB has added a definition of aggregation risk in ED-600 (see paragraph 9(a) of ED-600). Paragraph A11 of ED-600 indicates that aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Therefore, broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.

Component Performance Materiality

81. In accordance with ISA 320, performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole (i.e., to address aggregation risk). The group engagement team sets performance materiality at the group financial statement level (i.e., group performance materiality), but also needs to determine a materiality amount for purposes of performing procedures on disaggregated component financial information.
82. The terms 'component materiality' and 'component performance materiality' are both used in extant ISA 600. Under the risk-based approach in ED-600, there is neither a requirement for the group engagement team to identify significant components, nor a requirement for an audit of those significant components. Rather, the group engagement team determines an appropriate approach to obtain sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements, which may and often will involve audit procedures being performed at the component level.
83. Given the risk-based approach in ED-600, the IAASB determined that the materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit is most appropriately referred to as 'component performance materiality' and has included a definition of that term (see paragraph 9(e) of ED-600).
84. The group engagement team determines component performance materiality for each component at which audit procedures are to be performed and communicates that amount to component auditors when they are involved in planning and performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). The IAASB also added application material (see paragraph A75 of ED-600) to describe the factors the group engagement team may take into account in setting component performance materiality. Importantly, these factors focus on matters that affect aggregation risk, i.e., the extent of disaggregation across components, and expectations about the nature, frequency and magnitude of misstatements in component financial information.

'Clearly Trivial' Threshold

85. Paragraph 21(d) of extant ISA 600 requires the group engagement team to determine the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. ED-600 continues to require the group engagement team to determine this threshold and communicate it to component auditors when they are involved in planning or performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). In addition, to address issues identified by regulators and audit oversight bodies, this threshold cannot exceed the threshold established at the group level (see paragraph 29(b) of ED-600).

Section 2-I – Documentation

86. The IAASB noted the issues identified in the ITC with respect to documentation for group audit engagements, along with the comments and suggestions provided by respondents to the ITC. In its deliberations, the IAASB discussed the need in particular for additional guidance on:
- Documentation of significant matters related to restrictions on access to people or information, and how such matters were addressed;
 - Documentation needed to evidence the nature, timing and extent of the group engagement team's direction and supervision of the component auditors, and the review of their work; and
 - Component auditor documentation that may need to be included in the group engagement team's file.
87. Based on its discussions and input from stakeholders, the IAASB has enhanced the documentation requirements (see paragraph 57 of ED-600). Importantly, the IAASB noted that, as for any audit engagement, the audit documentation for a group audit is subject to the requirements in ISA 230. The IAASB also noted that the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.
88. Paragraph 50(a) of extant ISA 600 requires the group engagement team's audit documentation to include an analysis of components, indicating those that are significant, and the type of work to be performed on the financial information of the components. Because ED-600 no longer has a requirement to identify significant components, the extant requirement has been replaced with a requirement to document the group engagement team's determination of components for purposes of planning and performing the group audit (see paragraph 57(b) of ED-600). Also see the discussion about the group engagement team's determination of components in paragraphs 35-36 above.
89. Paragraph 50(b) of extant ISA 600 requires documentation of the nature, timing and extent of involvement in the work performed by component auditors. The IAASB has revised this requirement (see paragraph 57(d) of ED-600) to focus on the group engagement team's direction, supervision and review of component auditors, consistent with other changes throughout ED-600 to align with the principles and requirements in proposed ISA 220 (Revised).
90. In response to requests for additional guidance on documentation, the IAASB has expanded the application material. In developing the revised application material, the IAASB noted that the group engagement team has a responsibility to determine that the documentation for the group audit engagement meets the requirements of ISA 230.
91. The IAASB also discussed whether guidance could be provided regarding component auditor documentation that may need to be included in the group engagement team's audit file. Paragraph 57(e) of ED-600 requires the audit documentation to include matters related to communication with component auditors, including the matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 44 of ED-600. Beyond the matters already addressed in paragraph 57(e) of ED-600, the IAASB determined that providing examples of other matters might be viewed as incomplete in view of the many different circumstances encountered in group audits. Accordingly, paragraph A124 of ED-600 indicates that the group engagement team may determine that it is appropriate to include relevant parts of the component auditor's documentation in

the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). However, the extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

92. With respect to guidance on the documentation of the direction and supervision of component auditors and the review of their work, the application material refers to ISA 300,¹⁶ which requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members (which includes component auditors in a group audit) and the review of their work (see paragraph A125 of ED-600). The IAASB also has added examples of documentation of the group engagement team's involvement in the work of component auditors (see paragraph A126 of ED-600).
93. Additional complexities and challenges may arise with respect to audit documentation in a group audit engagement when access to component auditor documentation is restricted (see paragraph A129 of ED-600). The importance of this issue has been reaffirmed through ongoing outreach with regulators and other stakeholders. Accordingly, the IAASB has added application material to address these circumstances (see paragraph A130 of ED-600).
94. Paragraph A130 of ED-600 indicates that, when the group engagement team determines that it may be appropriate to include relevant parts of the component auditor documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.
95. The IAASB acknowledges that audit documentation for a group audit engagement is an important public interest issue. Therefore, in addition to input on the requirements and application material with respect to documentation in ED-600 (see question 11 in Section 3 below), the IAASB encourages respondents to provide input about whether additional guidance would be helpful and, if so, suggestions for such additional guidance.

Section 2-J – Other Matters

Professional Skepticism

96. In the Introduction section of ED-600, the IAASB highlights the importance of professional skepticism and professional judgment in performing a group audit engagement. Paragraph 5 of ED-600 highlights that the exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. This introductory material is further supported by application material that highlights that other ISAs, such as proposed ISA 220 (Revised), ISA 315 (Revised 2019), ISA 540 (Revised)¹⁷

¹⁶ ISA 300, *Planning an Audit of Financial Statements*

¹⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.

97. In addition to the paragraph in the Introduction, paragraphs 49–51 of ED-600 require the group engagement team to “stand back,” prior to forming a group audit opinion, and evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors. Also, paragraphs 45–46 of ED-600 require the group engagement team to “stand back” and evaluate whether the communications with component auditors are adequate for the group engagement team’s purposes. The IAASB believes that including these requirements will assist in supporting the exercise of professional skepticism by the engagement partner and other members of the group engagement team.

Appendices

98. The IAASB agreed to make the following changes to the appendices in ED-600:

- Appendix 1 of ED-600 was added to provide additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.
- Appendix 3 of ED-600 has been aligned with Appendix 3 in ISA 315 (Revised 2019). Appendix 3 in ISA 315 (Revised 2019) explains the components of internal control as well as the limitations of the entity’s system of internal control. Given this alignment, the IAASB changed the title of the appendix and the introductory wording and added, where needed, additional examples of controls that may be helpful in obtaining and an understanding of the group’s system of internal control in a group environment.
- Appendix 4 of ED-600 has been aligned with the wording in ISA 315 (Revised 2019). In addition, the events or conditions have been linked to inherent risk factors and have been presented similar to Appendix 2 of ISA 315 (Revised 2019).
- The IAASB discussed Appendices 4 and 5 of extant ISA 600 and concluded as follows:
 - Appendix 4 of extant ISA 600, which provides examples of matters that may be included in the component auditor’s conformation to the group engagement team, has not been included in ED-600. The IAASB noted that practice has evolved from the time that extant ISA 600 was issued and many firms have created their own templates for communications with component auditors.
 - The IAASB was of the view that the requirements and application material in ED-600 are organized more clearly and therefore there is no longer a need for Appendix 5, which summarizes the matters that are required by extant ISA 600 to be included in the group engagement team’s letter of instruction, and additional matters that may be included.

The IAASB did discuss, however, that the guidance in these appendices may still be considered useful and concluded that such guidance could be repurposed outside of ED-600 as part of implementation support materials when the final revised standard is issued.

Implementation Support Activities

99. Respondents to the ITC often cited matters for which additional implementation guidance or examples could be provided outside of the final revised standard. During the course of its deliberations, the IAASB also identified a number of areas for which implementation support may be helpful.
100. The IAASB is committed to undertaking activities to support awareness, understanding and effective implementation of the revised standard once finalized. This may include a first-time implementation guide, FAQs, webinars and other materials and activities as needed. The IAASB will also liaise and coordinate, as necessary, with others (including national standard-setters and IFAC) in relation to other needs for guidance to support the revised standard.

Conforming and Consequential Amendments

101. The IAASB is proposing a number of conforming and consequential amendments arising from ED-600. The proposed changes have been presented in marked text to the relevant paragraphs of the various standards. Only the paragraphs that are being proposed to be amended, or that are needed to provide context for the proposed amendments, are provided. In many cases, the changes relate to aligning the terminology or wording with ED-600.

Proposed ISA 220 (Revised) – Quality Management for an Audit of Financial Statements

102. The definition of group engagement partner in paragraph 7(h) of extant ISA 600 includes the following with respect to joint auditors:

Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

103. The IAASB determined that the involvement of joint auditors can apply to any audit engagement, and therefore is best addressed in proposed ISA 220 (Revised). However, the IAASB noted that this proposed change to proposed ISA 220 (Revised) was not exposed for public comment as a part of that proposed standard. The IAASB therefore determined that including the proposed change to the application material to proposed ISA 220 (Revised) as a consequential amendment arising from ED-600 would be appropriate to solicit public comment on the matter.

ISA 300 – Planning an Audit of Financial Statements

104. Paragraph 16 of extant ISA 600 requires the group engagement partner to review the overall group audit strategy and group audit plan. In its discussions on ED-600, the IAASB believed it was inconsistent for this requirement to apply to a small, non-complex group audit engagement (such as a group with only two entities or business units that operates in a single line of business), but not for a large, complex single-location audit because there is no corresponding requirement for the engagement partner in ISA 300. Therefore, the IAASB concluded that this requirement should apply to all audit engagements, and has proposed a consequential amendment as paragraph 11A to ISA 300.

ISA 402 – Audit Considerations Relating to An Entity Using a Service Organization

105. The IAASB is proposing to change the reference to ISA 600 in paragraph A19 of ISA 402 to instead refer to proposed ISA 220 (Revised). The IAASB determined that the application material in proposed ISA 220 (Revised) is relevant for, and therefore may be useful with respect to, the user auditor's direction and supervision of another auditor, and the review of that auditor's work.

Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-600. In this regard, comments will be most helpful if they are identified with specific aspects of ED-600 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement.

Overall Questions

1. With respect to the linkages to other standards:
 - (a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?
 - (b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?
2. With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?
3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

Specific Questions

4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).
5. Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?
6. Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?
7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:
 - (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
 - (b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?
 - (c) What practical challenges may arise in implementing the risk-based approach?
9. Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?
10. Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?
11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:
 - (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
 - (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?
12. Are there any other matters you would like to raise in relation to ED-600?

Request for General Comments

13. The IAASB is also seeking comments on the matters set out below:
 - (a) **Translations**—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.
 - (b) **Effective Date**—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Invitation for Field Testing

The IAASB recognizes that many audits today are audits of group financial statements, ranging from audits of the world's largest and most complex entities to audits of smaller groups with only a few entities or business units. Therefore, ED-600 will likely be of particular interest for the audit practices of firms of all

sizes. Accordingly, the IAASB encourages field testing¹⁸ of the proposals by firms, and welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to this ED.

¹⁸ The IAASB did not believe that a consultation paper, field testing or a roundtable was needed before approval of ED-600. However, the IAASB recognizes that some firms may choose to undertake field testing to inform their response to ED-600. Field testing may take different forms and may focus on all or certain phases of a group audit, or on specific requirements of ED-600, and may be executed at different levels. Field testing is not required in order to respond to ED-600 but is recognized in terms of the additional information and different perspectives that may be obtained in this manner.

PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED)

SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

(Effective for audits of financial statements for periods
beginning on or after [DATE])

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Introduction

Scope of this ISA

1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements. This ISA deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (a group audit), in particular proposed ISA 220 (Revised),¹ ISA 315 (Revised 2019),² and ISA 330.³ (Ref: Para. A1–A2)
2. This ISA applies when the auditor has been engaged to audit group financial statements. Group financial statements, as defined, include the financial information of more than one entity or business unit. A key factor in determining whether financial statements are group financial statements is whether financial information is prepared through a consolidation process as described in paragraph 11.
3. A group may be organized in various ways. For example, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions), or business activities, which are collectively referred to as “entities or business units” in this ISA. The group engagement team may plan and perform an audit of group financial statements based on the entities or business units as viewed by group management. Alternatively, the group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group. This ISA uses the term “component” to refer to the manner in which the group engagement team views the group structure for purposes of planning and performing audit procedures for the group audit. (Ref: Para. A3–A6)
4. This ISA highlights the responsibility of the group engagement team to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. This ISA also recognizes that component auditors can be, and often are, involved in all phases of the group audit, and in particular to assist the group engagement team in identifying, assessing and responding to the risks of material misstatement of the group financial statements. Accordingly, this ISA requires sufficient and appropriate involvement by the group engagement team in the work of component auditors and emphasizes the importance of two-way communication between the group engagement team and component auditors. In addition, this ISA explains the matters that the group engagement team takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A7–A8, Appendix 1)
5. In accordance with ISA 200,⁴ the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate exercise of

¹ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*. All references to proposed ISA 220 (Revised) are to the version presented to the IAASB in March 2020.

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 15–16 and A20–A24

professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A9-A10)

6. When this ISA expressly intends that a requirement or responsibility be fulfilled by the group engagement partner or the group engagement team, the term “the group engagement partner shall ...” or “the group engagement team shall ...” is used. In these circumstances, the group engagement partner or group engagement team may need to obtain information from the firm or other members of the engagement team to fulfill the requirement. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term “the group engagement partner shall take responsibility for...” or “the group engagement team shall take responsibility for...” is used. Nevertheless, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.

Effective Date

7. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20XX.

Objectives

8. The objectives of the auditor are to:
 - (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;
 - (b) Identify and assess the risks of material misstatement of the group financial statements, and to plan and perform further audit procedures to appropriately respond to those assessed risks;
 - (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit engagement, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and
 - (d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements.

Definitions

9. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A11)

- (b) Component – A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A12)
 - (c) Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team.⁵ (Ref: Para. A13–A14)
 - (d) Component management – Management responsible for a component. (Ref: Para. A15)
 - (e) Component performance materiality – An amount set by the group engagement team to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
 - (f) Group – A reporting entity for which group financial statements are prepared.
 - (g) Group audit – The audit of group financial statements.
 - (h) Group audit opinion – The audit opinion on the group financial statements.
 - (i) Group engagement partner – The engagement partner⁶ who is responsible for the group audit.
 - (j) Group engagement team – The group engagement partner and other members of the engagement team who are responsible for:
 - (i) Establishing the overall group audit strategy and audit plan;
 - (ii) Directing and supervising component auditors and reviewing their work;
 - (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
 - (k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
 - (l) Group management – Management responsible for the preparation of the group financial statements.
 - (m) Group performance materiality – Performance materiality⁷ in relation to the group financial statements as a whole, as determined by the group engagement team.
10. Reference in this ISA to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.
11. Reference in this ISA to “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of: (Ref: Para. A16, A18)
- (a) Consolidation, proportionate consolidation, or the equity methods of accounting;
 - (b) The aggregation of the financial information of branches or divisions; or (Ref: Para. A17)

⁵ Proposed ISA 220 (Revised), paragraph 10(d)

⁶ Proposed ISA 220 (Revised), paragraph 10(a)

⁷ ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 11

- (c) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

- 12. In applying proposed ISA 220 (Revised),⁸ the group engagement partner shall be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement. (Ref: Para. A19–A20)

Acceptance and Continuance

- 13. The group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. For this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to identify components and make a preliminary determination about whether to involve component auditors. (Ref: Para. A21–A24)
- 14. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A25)

Terms of the Engagement

- 15. In applying ISA 210,⁹ the group engagement team shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A26)
 - (a) Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
 - (b) Additional information that the engagement team may request from group management and component management for the purpose of the group audit; and
 - (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

Restrictions on Access Outside the Control of Group Management

- 16. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A27–A32)

⁸ Proposed ISA 220 (Revised), paragraph 13

⁹ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(b) and 8(b)

Restrictions on Access Imposed by Group Management

17. If the group engagement partner concludes that:
- (a) It will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
 - (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,
- the group engagement partner shall either:
- (i) In the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or
 - (ii) Where law or regulation prohibit an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A31–A33)

Considerations When Component Auditors Are Involved

18. In applying proposed ISA 220 (Revised),¹⁰ the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A34)
19. As part of the evaluation in paragraph 18, the group engagement team shall request the component auditor to confirm that the component auditor will cooperate with the group engagement team. (Ref: Para. A35)

Relevant Ethical Requirements, Including Those Related to Independence

20. In applying proposed ISA 220 (Revised),¹¹ the group engagement partner shall take responsibility for: (Ref: Para. A36–A39, A111)
- (a) Determining that component auditors have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;
 - (b) Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement and, in particular, are independent; and
 - (c) Prior to dating the auditor's report, obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement, including those related to independence, have been fulfilled.

¹⁰ Proposed ISA 220 (Revised), paragraph 13

¹¹ Proposed ISA 220 (Revised), paragraphs 16–17 and 21

Engagement Resources

21. In applying proposed ISA 220 (Revised),¹² the group engagement partner shall: (Ref: Para. A40)
- (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)
 - (b) When information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to the group audit and determine its effect on the group audit. (Ref: Para. A46)
22. If the group engagement partner has serious concerns about any of the matters in paragraphs 18–21, including if a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. (Ref: Para. A47–A48)

Engagement Performance

23. In applying proposed ISA 220 (Revised),¹³ the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work. In doing so, the group engagement partner takes into account: (Ref: Para. A49–A52)
- (a) Areas of higher assessed risks of material misstatement of the group financial statements, or where a significant risk has been identified; and
 - (b) Areas in the group financial statements that involve significant judgment.

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

24. In applying ISA 315 (Revised 2019),¹⁴ the group engagement team shall take responsibility for obtaining an understanding of the following: (Ref: Para. A53–A55, A69–A70)
- (a) The group and its environment, including: (Ref: Para. A56–A58)
 - (i) The group's organizational structure and its business model, including:
 - a. The locations in which the group has its operations or activities;
 - b. The nature of the group's activities and business lines and the extent to which they are similar; and
 - c. The extent to which the group's business model integrates the use of IT; and
 - (ii) The nature and extent of the measures used internally and externally to assess the entities or business units' financial performance;

¹² Proposed ISA 220 (Revised), paragraphs 25–26

¹³ Proposed ISA 220 (Revised), paragraph 29

¹⁴ ISA 315 (Revised 2019), paragraph 19

- (b) The applicable financial reporting framework, including the consistency of accounting policies and practices across the group; and
- (c) The group's system of internal control, including:
 - (i) The nature and extent of commonality of controls; (Ref: Para. A59–A63)
 - (ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A64–A65)
 - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - (iv) How the group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the system of internal control. (Ref: Para. A66–A68)

Considerations When Component Auditors Are Involved

- 25. When the group engagement team assigns the design and performance of risk assessment procedures to component auditors, the group engagement team shall consider the results of those procedures in fulfilling the requirement in paragraph 32. (Ref: Para. A71)
- 26. When paragraph 25 applies, the group engagement team shall communicate with component auditors matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements.
- 27. In applying ISA 550,¹⁵ the group engagement team shall communicate with the component auditor related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that are relevant to the work of the component auditor. (Ref: Para. A72)
- 28. In applying ISA 570 (Revised),¹⁶ the group engagement team shall:
 - (a) Communicate with component auditors any events or conditions identified by group management or the group engagement team, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.
 - (b) Communicate with component auditors any events or conditions identified by the component auditor that may cast significant doubt on the group entity's ability to continue as a going concern.

Materiality

- 29. In applying ISA 320¹⁷ and ISA 450,¹⁸ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group engagement team shall determine:

¹⁵ ISA 550, *Related Parties*, paragraph 17

¹⁶ ISA 570 (Revised), *Going Concern*

¹⁷ ISA 320, paragraph 11

¹⁸ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5

- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A73–A76)
- (b) The threshold above which misstatements identified in component financial information are to be communicated to the group engagement team. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A77)

Considerations When Component Auditors Are Involved

- 30. The group engagement team shall communicate to the component auditor the amounts determined in accordance with paragraph 29.

Identifying and Assessing the Risks of Material Misstatement

- 31. In applying ISA 315 (Revised 2019),¹⁹ based on the understanding obtained in paragraph 24, the group engagement team shall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A78–A81)

Considerations When Component Auditors Are Involved

- 32. When the group engagement team involves component auditors in the risk assessment procedures as described in paragraph 25 or in the identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team shall consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A82–A84)

Responding to the Assessed Risks of Material Misstatement

- 33. In applying ISA 330,²⁰ the group engagement team shall take responsibility for the nature, timing and extent of further audit procedures to be performed. (Ref: Para. A85–A93)

Consolidation Process

- 34. The group engagement team shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include:
 - (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations; and (Ref: Para. A94)
 - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A95)
- 35. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

¹⁹ ISA 315 (Revised 2019), paragraphs 28–29

²⁰ ISA 330, paragraphs 6–7

36. If the group financial statements include the financial statements of an entity or business unit with a financial reporting period-end that differs from that of the group, the group engagement team shall take responsibility for evaluating whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

Considerations When Component Auditors Are Involved

37. When the group engagement team assigns the design and performance of further audit procedures to component auditors, the group engagement team shall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements. (Ref: Para. A96–A101)
38. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of those further audit procedures.
39. In accordance with paragraph 23, the group engagement team shall determine the nature and extent of direction and supervision of component auditors and the review of their work when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations. (Ref: Para. A102)
40. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 44(a)) is the financial information that is incorporated in the group financial statements.
41. The group engagement team shall request the component auditor to communicate on a timely basis:
- (a) Related parties not previously identified by group management or the group engagement team.
 - (b) Any events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern.

Using Audit Evidence from an Audit Performed for Another Purpose

42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall evaluate whether: (Ref: Para. A103–A104)
- (a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;
 - (b) Performance materiality used for that audit is appropriate for the purposes of the group audit; and
 - (c) Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 20–22. (Ref: Para. A105)

Two-Way Communication Between the Group Engagement Team and the Component Auditor

43. The group engagement team shall communicate with component auditors about their responsibilities and the group engagement team's expectations. These communications shall take place at the

appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. (Ref: Para. A106–A111)

44. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include:
- (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures;
 - (b) Information on instances of non-compliance with laws or regulations;
 - (c) Uncorrected misstatements of the financial information on which the component auditor performed further audit procedures and that are above the threshold communicated by the group engagement team in accordance with paragraph 30;
 - (d) Indicators of possible management bias;
 - (e) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
 - (f) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (Ref: Para. A112)
 - (g) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and
 - (h) The component auditor's overall findings, conclusions or opinion.
45. The group engagement team shall:
- (a) Discuss significant matters arising from the communications with the component auditor, component management or group management, as appropriate;
 - (b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor's audit documentation; and (Ref: Para. A113)
 - (c) Evaluate whether the communications with component auditors are adequate for the group engagement team's purposes.
46. If the group engagement team determines that the component auditors' communications are not adequate for the group engagement team's purposes, the group engagement team shall consider whether further information can be obtained from component auditors or other sources. If such information cannot be obtained through other sources, the group engagement team shall consider the implications for the group audit, in accordance with paragraph 49.

Subsequent Events

47. In applying ISA 560,²¹ the group engagement team shall take responsibility for performing procedures designed to identify events that may require adjustment to or disclosure in the group financial statements, including, as appropriate, requesting component auditors to perform procedures, for events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements. (Ref: Para. A114)

Considerations When Component Auditors Are Involved

48. The group engagement team shall request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements. (Ref: Para. A114)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

49. In applying ISA 330,²² the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115)

Evaluating the Effect on the Group Audit Opinion

50. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A116)

Considerations When Component Auditors Are Involved

51. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group engagement team.

Auditor's Report

52. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A117–A118)

Communication with Group Management and Those Charged with Governance of the Group

53. The group engagement team shall determine which identified deficiencies in the group's system of internal control to communicate to those charged with governance of the group and group management in accordance with ISA 265.²³ In making this determination, the group engagement

²¹ ISA 560, *Subsequent Events*, paragraph 7

²² ISA 330, paragraph 26

²³ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors. (Ref: Para. A119)

Communication with Group Management

54. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 44 (f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)
55. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group engagement team shall request group management to inform management of the entity or business unit of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A121)

Communication with Those Charged with Governance of the Group

56. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised)²⁴ and other ISAs: (Ref: Para. A122)
- (a) An overview of the work to be performed at the entities and business units comprising the group and the nature of the group engagement team's planned involvement in the work to be performed by component auditors. (Ref: Para. A123)
 - (b) Instances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern.
 - (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
 - (d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others where the fraud resulted in a material misstatement of the group financial statements.

²⁴ ISA 260 (Revised), *Communication with Those Charged with Governance*

Documentation

57. In applying ISA 230,²⁵ the group engagement team shall include in the audit documentation: (Ref: Para. A124, A129–A130)
- (a) Significant matters related to restrictions on access to people or information that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
 - (b) The group engagement team's determination of components for purposes of planning and performing the group audit.
 - (c) The determination of component performance materiality and the threshold for communicating misstatements in component financial information to the group engagement team.
 - (d) The nature, timing and extent of the group engagement team's direction and supervision of component auditors and the review of their work. (Ref: Para. A125–A128)
 - (e) Matters related to communication with component auditors, including:
 - (i) The matters required to be communicated in accordance with paragraphs 27–28 and 41.
 - (ii) Matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 44, including how the group engagement team has addressed significant matters discussed with component auditors, component management or group management.
 - (f) The group engagement team's evaluation of, and response to, findings of the component auditors with respect to matters that could have a material effect on the group financial statements.

* * *

Application and Other Explanatory Material

Scope (Ref: Para. 1, 3)

- A1. This ISA deals with the special considerations for the group engagement partner and group engagement team in applying the requirements and guidance in proposed ISA 220 (Revised), including with respect to the direction and supervision of component auditors and the review of their work.
- A2. Proposed ISQM 1²⁶ addresses the engagements for which an engagement quality review is required to be performed. Proposed ISQM 2²⁷ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.

²⁵ ISA 230, *Audit Documentation*, paragraphs 8–11 and A6

²⁶ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. All references to proposed ISQM 1 are to the version presented to the IAASB in March 2020.

²⁷ Proposed ISQM 2, *Engagement Quality Reviews*. All references to proposed ISQM 2 are to the version presented to the IAASB in March 2020.

- A3. An entity or business unit of a group may also prepare group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a subgroup). This ISA therefore applies to such subgroups.
- A4. When this ISA applies, the auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed (by the group engagement team or component auditors on its behalf). The manner in which components are viewed for purposes of planning and performing a group audit may be influenced by the group structure, but may or may not be aligned with the way in which the group is organized, which could be, for example, by legal entities, geographic locations, or lines of business.
- A5. For example, for a group comprised of 15 legal entities that are required to be consolidated under the provisions of the applicable financial reporting framework (i.e., group financial statements), the auditor may plan and perform the group audit by combining these 15 entities into three components based on the commonality of information systems and systems of internal control.
- A6. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group's financial reporting process and audit procedures are performed at that location, the group engagement team may determine that the shared service center is a component for purposes of the group audit.

Involvement of Component Auditors (Ref: Para. 4)

- A7. The involvement of component auditors may be necessary for various reasons. For example, when there are many components across multiple jurisdictions, the group engagement team may need the assistance of component auditors to identify, assess and respond to the risks of material misstatement of the group financial statements.
- A8. The group engagement team may decide to assign certain audit procedures to, or obtain information from, component auditors to fulfill the requirements of this ISA. For example, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group engagement team may discuss with a component auditor whether there are any significant changes in the business of the component that could have an effect on the risks of material misstatement of the group financial statements. Appendix 1 provides additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.

Professional Skepticism (Ref: Para. 5)

- A9. Proposed ISA 220 (Revised)²⁸ provides examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level. A group audit engagement may present additional challenges to the exercise of professional skepticism by the

²⁸ Proposed ISA 220 (Revised), paragraphs A35–A37

engagement team. For example, when there are a large number of components across multiple jurisdictions, it may be important for the group engagement team to remain alert for contradictory information from component auditors, component management and group management with respect to a matter of significance to the group financial statements. In addition, component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.

- A10. Requirements and relevant application material in ISA 315 (Revised 2019),²⁹ ISA 540 (Revised)³⁰ and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.

Definitions

Aggregation Risk (Ref: Para. 9(a))

- A11. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.

Component (Ref: Para. 9(b))

- A12. As noted in paragraph A4, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed. Although the group engagement team may combine certain entities or business units for purposes of planning and performing the group audit, the group engagement team's consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group. In other words, the group engagement team's view of components for the group audit and how entities or business units may be combined to facilitate the performance of the group audit considers all of the entities and business units that are included in the consolidation process.

Component Auditor (Ref: Para. 9(c))

- A13. References in this ISA to the engagement team include members of the group engagement team and component auditors. The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider.
- A14. In some circumstances, the group engagement team may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group engagement team is not considered a component auditor for purposes of this ISA.

²⁹ ISA 315 (Revised 2019), paragraph A238

³⁰ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

Component Management (Ref: Para. 9(d))

A15. Component management refers to management responsible for the financial information or other activity (for example, processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group engagement team combines entities or business units into components (see paragraphs A4–A6), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component.

Consolidation Process (Ref: Para. 11)

A16. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise allow, the presentation of combined financial statements for entities that have no parent but are under common control.

A17. When branches or divisions within a single entity prepare financial information, through separate branch or divisional accounting, financial reporting frameworks may require the financial information of the branches or divisions to be aggregated into the financial statements of the entity, including the elimination of interbranch or interdivisional transactions and balances. In some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore this ISA does not apply.

A18. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 12)

A19. It may not be possible or practical for the group engagement partner to solely deal with all requirements in proposed ISA 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, proposed ISA 220 (Revised)³¹ allows the engagement partner to assign responsibilities for the design or performance of procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances,

³¹ Proposed ISA 220 (Revised), paragraph 15

proposed ISA 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement.³²

A20. Policies or procedures established by the firm, or that are common network requirements or network services, may support the group engagement partner by facilitating communication between the group engagement team and component auditors and supporting the group engagement team's direction and supervision of those component auditors and the review of their work.

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected To Be Obtained (Ref: Para. 13–14)

A21. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:

- The group structure, including both the legal and organizational structure.
- Business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
- The use of service organizations.
- The use of shared service centers.
- The consolidation process.
- Whether the group engagement team:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information; and
 - Will be able to perform necessary work on the financial information of the components.

A22. In the case of a new engagement, the group engagement team's understanding of the matters in paragraph A21 may be obtained from:

- Information provided by group management;
- Communication with group management;
- Communication with those charged with governance of the group; and
- Where applicable, communication with component management or the previous group engagement team.

A23. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:

- Changes in the group structure (e.g., acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized).
- Changes in components' business activities that are significant to the group.

³² Proposed ISA 220 (Revised), paragraph 15

- Changes in the composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
- New concerns the group engagement team has with regard to the integrity and competence of group or component management.
- Changes in the applicable financial reporting framework.

A24. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group engagement team's jurisdiction because of cultural and translation issues and different laws or regulations (e.g., regulations restricting access to data).

A25. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

- The group engagement team's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group engagement team); or
- The work to be performed on the financial information of components.

In exceptional circumstances, such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable laws or regulations. In these circumstances, an inability to obtain sufficient appropriate audit evidence would need to be evaluated, in accordance with ISA 705 (Revised),³³ in forming an opinion on the group financial statements.

Agreeing the Terms of Audit Engagements (Ref: Para. 15)

A26. ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.³⁴ The terms of engagement identify the applicable financial reporting framework.³⁵ Additional matters may be included in the terms of a group audit engagement, such as:

- Communications between the group engagement team and component auditors should be unrestricted to the extent possible under laws or regulations;
- Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group engagement team;
- Communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team; and
- The group engagement team should be permitted to perform work or request a component auditor to perform work at the component.

³³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

³⁴ ISA 210, paragraph 9

³⁵ ISA 210, paragraph 10

Restrictions on Access to Information or People (Ref: Para. 16–17)

A27. Restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.

A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease.

A29. In many cases, the group engagement team may be able to overcome restrictions on access to information or people, for example:

- When laws or regulations restrict sending relevant audit documentation across borders, the group engagement team may be able to access the relevant audit documentation by one or more of the following:
 - Visiting the location of the component;
 - Reviewing the relevant audit documentation remotely, where not prohibited by laws or regulations;
 - Requesting the component auditor to prepare a memorandum that addresses the relevant information and discuss it with the component auditor; or
 - Discussing the procedures performed with the component auditor.
- When the group has a non-controlling interest in an entity that is accounted for by the equity method, the group engagement team may be able to overcome restrictions by:
 - Determining whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights;
 - Considering financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements;
 - Considering publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity; or
 - Considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained. For example, if the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, discussion with them regarding the non-controlled entity and its operations and financial status may be a useful source of information.
- When war, civil unrest or outbreaks of disease restricts access to relevant audit documentation of a component auditor, the group engagement team may be able to meet with the component auditor in a location different from where the component auditor is located or review the relevant audit documentation remotely, where not prohibited by laws or regulations.

- When access to component management or those charged with governance of the component is restricted, the group engagement team may be able to perform the work themselves by working with group management or those charged with governance of the group.

A30. When the group engagement team cannot overcome restrictions, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may communicate with regulators, listing authorities, or others, about the restrictions and may encourage group management to communicate with regulators. This may be particularly useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.

A31. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group engagement team may need to reconsider the reliability of group management's responses to the group engagement team's inquiries and may call into question group management's integrity.

Effect of Restrictions on the Auditor's Report on Group Financial Statements

A32. ISA 705 (Revised) contains requirements and guidance about how to address situations where the group engagement team is unable to obtain sufficient appropriate audit evidence. Appendix 2 to this ISA contains an example of an auditor's report containing a qualified group audit opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement

A33. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA still apply to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is addressed in ISA 705 (Revised).

Consideration When Component Auditors Are Involved (Ref: Para. 18–19)

A34. In evaluating whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary, the group engagement team may obtain an understanding of whether the group engagement team will have unrestricted access to the component auditor, including relevant audit documentation sought by the group engagement team. The group engagement team may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group engagement team.

A35. When requesting the component auditor to confirm that the component auditor will cooperate with the group engagement team, the group engagement team may also request the component auditor to confirm that it will conduct its work as directed by the group engagement team.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 20)

- A36. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those relating to independence, that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.
- A37. In communicating relevant ethical requirements, the group engagement team may consider whether additional information or training for component auditors is necessary with respect to the provisions of the ethical requirements that are relevant to the group audit engagement.
- A38. Proposed ISA 220 (Revised) requires the engagement partner to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements by the engagement team.³⁶ Becoming aware of actual or suspected breaches of relevant ethical requirements may be more challenging in a group audit, particularly where component auditors do not use common network services. In such circumstances, the group engagement team may also instruct component auditors to communicate relevant information to the group engagement partner.
- A39. As described in ISQM 1, there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement and where such insufficiency may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a more important consideration by the firm in respect to group audit engagements where, for example, there are multiple components at which audit procedures are performed. The International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out requirements and application material addressing threats to compliance with the fundamental principles and to independence that might be created by fees and other remuneration arrangements.

Engagement Resources (Ref: Para. 21)

- A40. The determination whether sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team may be more challenging in a group audit engagement. This may be because audit work is conducted across different locations with different characteristics (e.g., different languages, time zones or cultures) where collaboration is more challenging. Also, working with component auditors that are not from the same firm may be different than working with individuals from the same firm, particularly when component auditors have different systems of quality management. These differences may pose challenges in the coordination of the overall audit strategy and audit plan between the group engagement team and component auditors. Adequate and timely involvement by the group engagement partner and group engagement team may address these challenges.

³⁶ Proposed ISA 220 (Revised), paragraph 19

Competence and capabilities of the component auditors (Ref: Para. 21(a))

A41. Determining whether the component auditor has the appropriate competence and capabilities influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work. Determining whether the component auditor has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement.

A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:

- Previous experience with or knowledge of the component auditor.
- The component auditor's specialized skills (e.g., industry specific knowledge).
- The component auditor's understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management.
- The degree to which the group engagement team and component auditor are subject to common systems of quality management, for example, whether the group engagement team and a component auditor:
 - Use common resources to perform the work (e.g., audit methodologies or information technology (IT) applications);
 - Share common policies or procedures affecting the engagement performance (e.g., direction and supervision and review of work or consultation);
 - Are subject to common monitoring activities; or
 - Have other commonalities, including common leadership or a common cultural environment.
- The consistency or similarity of:
 - Laws or regulations or legal system;
 - Language and culture;
 - Education and training;
 - Professional oversight, discipline, and external quality assurance; or
 - Professional organizations and standards.
- Information obtained through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.

A43. The procedures to determine the component auditor's competency and capability may include, for example:

- An evaluation of the information communicated by the group engagement team's firm to the group engagement team, including:

- The firm's ongoing communication related to monitoring and remediation, in circumstances when the group engagement team and component auditor are from the same firm.³⁷
 - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.
- Discussing the matters in paragraph A51 with the component auditor.
 - Requesting the component auditor to confirm the matters referred to in paragraph 20 in writing.
 - Discussing the component auditor's competency and capabilities with colleagues in the group engagement partner's firm.
 - Obtaining confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.
 - In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 21(a)–(b) has changed since the previous year.
 - Obtaining published external inspection reports.
- A44. The group engagement partner's firm and the component auditor's firm may be members of the same network and may be subject to common network requirements or use common networks services.³⁸ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with proposed ISQM 1, the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management, taking into account the nature and circumstances of the firm and the engagements it performs.

Automated tools or techniques (Ref: Para. 21(a))

- A45. As described in proposed ISA 220 (Revised),³⁹ when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group engagement team requires component auditors to use specific automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team's instructions.

Monitoring and remediation (Ref: Para. 21(b))

- A46. The group engagement team may be provided with information about deficiencies in relation to the component auditor's firm from external monitoring reports, or from the component auditor, that may be relevant to the group engagement team's understanding of the competence and capability of the

³⁷ Proposed ISQM 1, paragraph 53

³⁸ Proposed ISQM 1, paragraphs 58–59

³⁹ Proposed ISA 220 (Revised), paragraph A20

component auditor. If the group engagement team and the component auditor are members of the same network and are subject to common monitoring activities undertaken by the network across network firms' systems of quality management, the results of the network's monitoring activities may also include such information. This information influences the nature, timing and extent of the engagement partner's direction and supervision of the component auditor and the review of their work.

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 22)

- A47. If a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team cannot overcome this by being involved in the work of the component auditor or by supplementing the work of component auditor by performing additional risk assessment or further audit procedures on the financial information of the component.
- A48. However, the group engagement team may be able to overcome concerns that are not determined to be serious about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: Para. 23)

- A49. It may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team.
- A50. If component auditors are from a firm other than the group engagement team's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network, for example, in relation to the form, content and timing of communications with component auditors, including the use of group engagement team instructions to component auditors. Proposed ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.⁴⁰
- A51. In addition, the nature timing and extent of direction and supervision and review of the component auditor's work may be tailored taking into account the nature and circumstances of the engagement and, for example:
- The assessed risks of material misstatement. For example, if the group engagement team has identified a component that includes a significant risk, a corresponding increase in the extent of direction and supervision of the component auditor and a detailed review of the component auditor's audit documentation may be appropriate.

⁴⁰ Proposed ISA 220 (Revised), paragraph A24

- The competence and capabilities of the component auditors performing the audit work. For example, if the group engagement team has no previous experience working with a component auditor, the group engagement team may communicate more detailed instructions or introduce greater in-person supervision of the component auditor as the work is performed.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used.
- Access to component auditors' audit documentation. For example, where component auditor working papers cannot be transferred out of the jurisdiction, greater in-person supervision of the component auditor and in-person or electronic review of the component auditor's audit documentation may be appropriate (see also paragraphs A27–A32).

A52. There are different ways in which the group engagement partner may direct and supervise component auditors and review their work, for example:

- Meetings or calls with component auditors to communicate identified and assessed risks, issues, findings and conclusions.
- Reviews of the component auditor's documentation in person or remotely when permitted by law and regulation.
- Participating in the closing and other key meetings between the component auditors and component management.

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 24)

A53. ISA 315 (Revised 2019) contains guidance on matters the auditor may consider when obtaining an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control.⁴¹ Appendix 3 of this ISA provides further explanation of the components of the group's system of internal control, including controls over the group's financial reporting process and the consolidation process.

A54. The group's information system and financial reporting process may be closely aligned with the organizational structure, for example, a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method; a head office and one or more divisions or branches; or a combination of both. Some groups, however, may organize their information system by function, process, product or service (or by groups of products or services), or geographic locations. In these cases, the entity or business unit for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographic location.

A55. The group engagement team's understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with:

⁴¹ ISA 315 (Revised 2019), paragraphs A50–A89

- Group management or component management, including those who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
- Component auditors; or
- Auditors that perform an audit for statutory, regulatory or another reason on the financial statements of an entity or business unit that is part of the group.

The Group and Its Environment (Ref: Para. 24(a))

A56. An understanding of the group's organizational structure and its business model may enable the group engagement team to understand such matters as:

- The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special purpose entities are accounted for appropriately and whether adequate disclosures have been made.
- The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices.
- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates over multiple jurisdictions and when there are changes in ownership through formation, acquisition or joint ventures. These factors may give rise to increased susceptibility to material misstatements.

A57. Obtaining an understanding of the degree to which the group's activities and business lines are similar may enable the group engagement team to identify similar risks of material misstatement across components and design an appropriate response.

A58. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The group engagement team's understanding of such performance measures may help to identify:

- Areas where there is increased susceptibility to the risk of material misstatement (e.g., due to pressures on component management to meet certain performance measures).
- Controls over the group's financial reporting process.

The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: Para. 24(c)(i))

A59. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁴²

A60. The understanding of the components of the group's system of internal control therefore includes understanding the commonality of the controls within those components across the group. When the group engagement team plans to test the operating effectiveness of identified controls⁴³ that are common across the group, the group engagement team evaluates the design and determines the implementation of those controls in accordance with ISA 315 (Revised 2019).

A61. To determine the commonality of an identified control across the group, the group engagement team may consider whether:

- The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components;
- The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
- If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations;
or
- If the control is automated, it is configured in the same way in each IT application across the components.

A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly

⁴² ISA 315 (Revised 2019), paragraph A5

⁴³ ISA 315 (Revised 2019), paragraph 26(a)

evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT infrastructures or the implementation of the IT application differs across entities or business units, the group engagement team may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT infrastructures (e.g., whether the IT application is configured in the same manner across different IT infrastructures, and whether there are effective general IT controls across different IT implementations of IT applications or different IT infrastructures).

- A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). Typically, the processing of transactions and related controls at a shared service center operate in the same way for all transactions regardless of the entity or business unit (e.g., the processes, risks, and controls for all transactions, regardless of the source of the transaction, are the same). In such cases, it may be appropriate to identify the controls and evaluate the design and determine implementation of the controls, and if applicable test operating effectiveness, as a single population.

Centralized Activities (Ref: Para. 24(c)(ii))

- A64. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).
- A65. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group engagement team to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at a component, but the processing may occur at the shared service center).

Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 24(c)(iv))

- A66. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group engagement team to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Instructions by group management to entities or business units

- A67. In applying ISA 315 (Revised 2019),⁴⁴ the group engagement team is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g. communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the group engagement team's identification and assessment of the risks of material misstatement of the group financial statements. For example, in certain circumstances, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.
- A68. The group engagement team's understanding of the instructions or policies may include the following:
- The clarity and practicality of the instructions for completing the reporting package.
 - Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
 - Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
 - Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and
 - Include a reporting timetable.

Engagement Team Discussion (Ref: Para. 24)

- A69. The group engagement partner's determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the expected involvement of component auditors.
- A70. The discussions provide an opportunity to:
- Share knowledge of the components and their environments, including which components' activities are centralized.
 - Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
 - Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error.
 - Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.

⁴⁴ ISA 315 (Revised 2019), paragraph 25(b)

- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk that group or component management may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).
- Discuss fraud that has been identified, or information that indicates existence of a fraud.
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Identify risks of material misstatement relevant to components where the exercise of professional skepticism may be particularly important.
- Discuss any events or conditions identified by group management, or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management, and any other related parties of which the engagement team is aware.

Considerations When Component Auditors Are Involved (Ref: Para. 25)

A71. Factors that influence the group engagement team's decision about the nature and extent of risk assessment procedures assigned to component auditors include, for example:

- The number and geographical location of components;
- The nature of the components' business activities, including their complexity or specialization of operations; and
- The group's system of internal control, including the information system in place at the component.

Previous experience with the component auditor may also influence the group engagement team's decision whether to involve them in performing risk assessment procedures. When risk assessment procedures are assigned to component auditors, the group engagement team remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

Related Parties (Ref: Para. 27)

A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated

parties.⁴⁵ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

- The group structure is complex;
- The group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- There are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional skepticism as required by ISA 200,⁴⁶ is therefore particularly important when these circumstances exist.

Materiality (Ref: Para. 29)

A73. A different component performance materiality may be established for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality. However, this ISA does not require a different component performance materiality to be established for each class of transactions, account balance or disclosure for a component.

A74. ISA 320 requires the auditor to determine the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures if, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.⁴⁷ In these circumstances, the group engagement team may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for that particular class of transactions, account balance or disclosure.

A75. Factors the group engagement team may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality generally would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).
- Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example:

⁴⁵ ISA 550, paragraph 2

⁴⁶ ISA 200, paragraphs 17 and A53–A54

⁴⁷ ISA 320, paragraph 10

- Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions).
- The nature and extent of misstatements identified at the component in prior audits.

A76. In some cases, the group engagement team may perform further audit procedures on classes of transactions, account balances or disclosures that are aggregated. For example, audit procedures may be performed at the group level for an entire class of transactions or account balance as a single population. In such cases, group performance materiality often will be used for purposes of performing these procedures.

A77. The threshold for communicating uncorrected misstatements to the group engagement team is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA 450,⁴⁸ this threshold is the amount below which misstatements would not need to be accumulated because the group engagement team expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 31)

A78. The group engagement team's process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic and may be challenging, particularly where the component's business activities are complex or specialized, or when there are many components across multiple locations. In applying ISA 315 (Revised 2019),⁴⁹ the group engagement team will develop initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

A79. The initial expectations about the potential risks of material misstatement take into account the group engagement team's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group engagement team may involve component auditors in risk assessment procedures as their direct knowledge and experience with the entities or business units may be helpful in understanding the business activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

Fraud

A80. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.⁵⁰ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risks that the group financial statements are materially misstated as a result of fraud.

⁴⁸ ISA 450, paragraph A3

⁴⁹ ISA 315 (Revised 2019), paragraph 22

⁵⁰ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or classes of transactions, account balances, or for which a risk of fraud is higher.
- Whether there are particular components for which the risks of material misstatement due to fraud is higher.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Inherent Risk Factors

A81. Appendix 4 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error.

Considerations When Component Auditors Are Involved (Ref: Para. 32)

A82. The group engagement team may involve component auditors in the identification and the assessment of the risks of material misstatement of the group financial statements that result from inherent risk factors related to the financial information of a component. For example, the group engagement team may work with component auditors to develop initial expectations about potential risks of material misstatement of the group financial statements, including significant risks, related to components. Factors that influence the group engagement team's decision whether to involve component auditors are included in paragraph A71 (also see Appendix 1).

A83. The identification and assessment of inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when risk assessment procedures have been assigned to component auditors, the group engagement team may need to communicate its preferred approach with component auditors, or provide instructions.

A84. Based on the risk assessment procedures performed, the group engagement team may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction.

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 33)

A85. In responding to the assessed risks of material misstatement of the group financial statements, different approaches are available to the group engagement team to obtain audit evidence on one or more classes of transactions, account balances or disclosures across the various components.

Paragraphs A86 to A93 provide guidance to assist the group engagement team in determining an appropriate approach, or combination of approaches, for the engagement team to obtain audit evidence. Paragraphs A96 to A101 provide guidance on the options available to the group engagement team for assigning further audit procedures to component auditors to obtain audit evidence on the financial information of components for the purpose of the group financial statements.

Scoping a Group Audit

- A86. The group engagement team may design and perform further audit procedures centrally if the audit evidence to be obtained from performing further audit procedures on one or more classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally for the group (e.g., at a shared service center), the group engagement team may perform, or request a component auditor to perform, further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures.
- A87. As the complexity and the diversity of the group increases (e.g., if the group has many different revenue streams, multiple lines of business, operates across multiple locations or has de-centralized systems of internal control), the group engagement team may find it more difficult to perform further audit procedures centrally. In such circumstances, procedures to respond to the risks of material misstatement at the group financial statement level that are related to the financial information of a component may be more effectively performed at the component level.
- A88. The group engagement team may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogenous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.
- A89. The group engagement team may have identified a significant class of transactions, account balance or disclosure in the group financial statements that comprises classes of transactions, account balances or disclosures at many entities and business units, none of which individually result in a risk of material misstatement at the group financial statement level. To obtain sufficient appropriate audit evidence, audit procedures on these classes of transactions, account balances or disclosures may be performed centrally if they are homogeneous, subject to common controls and access to appropriate information can be obtained. If this is not the case, the engagement team may need to perform audit procedures at selected components.
- A90. The group engagement team may perform substantive analytical procedures in accordance with ISA 520⁵¹ to address the risks of material misstatement at the assertion level for classes of transactions, account balances or disclosures in the group financial statements. Depending on the circumstances of the engagement, the financial information of the components may be aggregated by the group engagement team at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures.

⁵¹ ISA 520, *Analytical Procedures*

Element of Unpredictability

A91. Including an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group engagement team is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement due to fraud of the group financial statements.⁵²

Operating Effectiveness of Controls that Are Common Across the Group

A92. If the group engagement team intends to rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components, the group engagement team, in accordance with ISA 330,⁵³ is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls are operating at the components as designed. The group engagement team may request the component auditor to assist the group engagement team in performing these procedures.

A93. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group engagement team may need to revise the audit plan. Possible revisions to the audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

Consolidation Process

Consolidation Procedures (Ref: Para. 34(a))

A94. The further audit procedures on the consolidation, including sub-consolidations, may include:

- Determining that the journal entries necessary are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

Consolidation Adjustments and Reclassifications (Ref: Para. 34(b))

A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

⁵² ISA 240, paragraph 30(c)

⁵³ ISA 330, paragraph 8

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Checking the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.

Considerations When Component Auditors Are Involved (Ref: Para. 37)

A96. Component auditors may have a more in-depth knowledge of the components than the group engagement team, and therefore the group engagement team may need the assistance of the component auditor to determine the nature, timing and extent of further audit procedures to be performed on the financial information of the component.

A97. In assigning further audit procedures to component auditors, the group engagement team may request component auditors to perform one or more of the following:

- Design and perform further audit procedures on the entire financial information of the component;
- Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
- Perform specific further audit procedures as identified and communicated by the group engagement team.

A98. The group engagement team may determine that audit evidence needs to be obtained on all or a significant proportion of a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team may determine that it is more effective to request that the component auditor design and perform further audit procedures on the entire financial information of the component. In such circumstances, the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A99. In certain circumstances, the group engagement team may determine that it is more effective to request that the component auditor designs and performs further audit procedures related to the entire financial information of a component. This may particularly be the case when there is a risk of material misstatement of the group financial statements due to the existence of events or conditions at the component:

- That may affect the group auditor's response to risks of material misstatement relating to the valuation of the assets and liabilities of a component included in the group financial statements; or

- That may be relevant to group management's assessment of the group's ability to continue as a going concern.

A100. The group engagement team may determine that audit evidence needs to be obtained on one or more classes of transactions, account balances, or disclosures of the financial information of a component. In such circumstances, the group engagement team may request that the component auditor performs further audit procedures on the classes of transactions, account balances or disclosures and may assign the design and performance of further audit procedures to the component auditor. The component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A101. The group engagement team may request a component auditor to perform specific further audit procedures on the financial information of a component to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team determines the overall nature, timing and extent of procedures to be performed and appropriateness of those procedures for obtaining the audit evidence needed to respond to the assessed risks of material misstatement of the group financial statements.

Consolidation Process (Ref: Para. 39)

A102. The appropriate level of the group engagement team's involvement may depend on the circumstances and the structure of the group and other factors, such as the group engagement team's previous experience with the component auditors that perform procedures on the consolidation and sub-consolidations (also see paragraph A51) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

Using Audit Evidence from an Audit Performed for Another Purpose (Ref: Para. 42)

A103. An audit may be performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons. For example, when an entity or business unit has been acquired close to year-end. If an audit has been performed and an auditor's report has been issued for statutory, regulatory or other reasons, the group engagement team may use audit evidence from that audit if the group engagement team is satisfied that the work is appropriate for the group engagement team's purposes. If the audit procedures performed are not an appropriate response to the assessed risks of material misstatement of the group financial statements, the group engagement team may decide not to use the audit evidence from that audit. Alternatively, the group engagement team may plan to have additional audit procedures performed on the component, to address the assessed risks of material misstatement of the group financial statements.

A104. In addition to the factors in paragraph 42, factors that may affect the group engagement team's decision whether to use the audit evidence from an audit that has already been performed due to statutory, regulatory or other reasons to provide audit evidence for the group audit may include the following:

- Differences in the financial reporting framework applied in preparing the financial statements of the entity or business unit and that applied in preparing the group financial statements.

- Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements.
- Differences in the financial reporting period-end between the financial statements of the entity or business unit and the financial statements of the group.

A105. Other relevant requirements in this ISA with respect to the use of the work of a component auditor as described in paragraph 42(c), may include the requirements in the sections on understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control, materiality, identifying and assessing the risks of material misstatement, responding to the assessed risks of material misstatement and two-way communication between the group engagement team and the component auditor.

Two-Way Communication Between the Group Engagement Team and the Component Auditor

Effective Two-Way Communication (Ref: Para. 43)

A106. Clear and timely communication of the group engagement team's and the component auditor's responsibilities, the timing of procedures to be performed by the component auditors and results of those procedures to be provided to the group engagement team, along with the expected general content of such communications, helps establish the basis for effective two-way communication. Effective two-way communication between the group engagement team and the component auditors also helps to set expectations for component auditors, and facilitates the group engagement team's direction and supervision of them and the review of their work.

A107. Factors that may also contribute to effective two-way communication include:

- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The manner in which communications will be made. For example, it may be better to discuss certain matters in person or by telephone or videoconference rather than by exchanging emails.
- The person(s) in the group engagement team who will communicate regarding particular matters.
- The group engagement team's expectations that communication will be two-way, and that the component auditor is expected to communicate timely with the group engagement team matters they consider relevant to the group audit.
- The process for taking action and reporting back on matters communicated by the group engagement team.

Form of Communication (Ref: Para. 43)

A108. The group engagement team's requirements are often communicated in a set of instructions and may be supplemented by direct communication with the component auditor, for example, through a telephone call or videoconference. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may arrange a meeting, in person

or remotely, with the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply.

A109. The form of communication may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter will be communicated to group management and those charged with governance of the group.

Timing of Communications (Ref: Para. 43)

A110. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for a new engagement, may be made as part of agreeing the terms of the engagement.

Non-Compliance with Laws or Regulations (Ref: Para. 20, 43)

A111. The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁵⁴ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit).

Communications with Those Charged with Governance of the Component (Ref: Para. 44(f))

A112. In certain circumstances, the group engagement team may combine certain entities or business units into components for purposes of planning and performing the group audit (see paragraphs A4-A6). In these circumstances, the group engagement team may need to use professional judgment to determine, in accordance with ISA 260 (Revised),⁵⁵ the appropriate person(s) in the governance structure of those entities or business units with whom to communicate, in view of the nature of the matters to be communicated.

Reviewing the Component Auditor's Audit Documentation (Ref: Para. 45(b))

A113. The nature, timing and extent of the review of the component auditor's audit documentation may vary depending on the circumstances and may be affected by:

- (a) The identified risks of material misstatement of the group financial statements, including the degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of those risks;

⁵⁴ See, for example, Section 360.17 and Section 360.18 of the IESBA Code

⁵⁵ ISA 260 (Revised), paragraph 11

- (b) The group engagement team's understanding of the component auditor, including the competence and capabilities of the component auditor;
- (c) The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's policies or procedures for review of audit documentation; and
- (d) Limitations on the group engagement team's ability to access the component auditor's audit documentation.

Subsequent Events (Ref: Para. 47–48)

A114. The group engagement team may:

- (a) Request a component auditor to perform subsequent events procedures to assist the group engagement team to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- (b) Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 49)

A115. The evaluation required by paragraph 49 assists the group engagement team in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330⁵⁶ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

Evaluating the Effect on the Group Audit Opinion (Ref: Para. 50)

A116. The group engagement partner's evaluation may include a consideration of whether misstatements communicated by component auditors indicate a systemic issue (e.g., with respect to transactions subject to common accounting policies or common controls) that may affect other components.

Auditor's Report (Ref: Para. 52)

A117. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A118. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to

⁵⁶ ISA 330, paragraph 18

the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.⁵⁷

Communication with Group Management and Those Charged with Governance of the Group

Group Engagement Partner's Review of Component Auditor Communications (Ref: Para. 53)

A119. The group engagement partner is not expected to review, prior to their issuance, all communications between a component auditor and component management. The group engagement partner may inform component auditors of their responsibilities in identifying communications that may be significant to the group audit engagement.

Communication with Group Management (Ref: Para. 54–55)

A120. ISA 240 contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.⁵⁸

A121. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.
- Significant legal agreements.

Communication with Those Charged with Governance of the Group (Ref: Para. 56)

A122. The matters the group engagement team communicates to those charged with governance of the group may include those brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 56(a) may be communicated after the group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 56(b) may be communicated at the end of the audit, and the matters referred to in paragraph 56(c)–(d) may be communicated when they occur.

A123. ISA 260 (Revised)⁵⁹ requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. With respect to a group audit, the group engagement team's determination of the planned scope and approach is based on the understanding of the group and its environment in accordance with paragraph 24 of this ISA. This understanding helps the group engagement team to make preliminary judgments about components, including how the group's entities or business units may be combined for purposes of planning and performing the group audit, and where component auditors may need to be involved.

⁵⁷ ISA 705 (Revised), paragraphs 20 and 24

⁵⁸ ISA 240, paragraphs 41–43

⁵⁹ ISA 260 (Revised), paragraph 15

Documentation (Ref: Para. 57)

A124. In accordance with ISA 230,⁶⁰ the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. The audit documentation for the group audit includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file. However, the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). The extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work

A125. ISA 300⁶¹ requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

A126. When component auditors are involved in the group audit, the group engagement team's documentation of its involvement in the work of component auditors may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA.
- The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed.
- Matters discussed in teleconferences or videoconferences with component auditors or component management.
- The rationale for the group engagement team's determination of component auditor audit documentation selected for review.
- Changes in the planned nature and extent of involvement with component auditors, and the reasons why.

A127. The determination of the nature and extent of the review of component auditor documentation by the group engagement team is also a matter of professional judgment. Paragraph A113 includes factors that may affect the determination of the extent of the review of audit documentation of component auditors.

A128. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group engagement team in documenting the direction and supervision of component auditors and the review of their work. For example, the firm may have developed an electronic audit tool that may be used to facilitate

⁶⁰ ISA 230, paragraphs 8–9

⁶¹ ISA 300, *Planning an Audit of Financial Statements*, paragraph 9(a).

communications between the group engagement team and component auditors, and such tool also may also be used for audit documentation.

Other Documentation Considerations When Access to Component Auditor Documentation is Restricted

A129. Audit documentation for an audit of group financial statements may present some additional complexities or challenges depending on the structure of the group. This may be the case, for example, when the group has entities or business units in a number of different jurisdictions with varying laws or regulations that may limit the ability of the group engagement team to access the component auditor documentation or restrict the component auditor from providing documentation outside of its jurisdiction.

A130. In these circumstances, the group engagement team is nonetheless required to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. In addition, when the group engagement team determines that it may be appropriate to include relevant parts of the component auditor documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.

Appendix 1

(Ref: Para. 4, A8, A82)

Considerations Relating to the Involvement of Component Auditors in the Group Audit

1. This appendix provides additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit. When component auditors are involved, this ISA includes additional requirements and guidance relating to the group engagement team's direction and supervision of component auditors, and the review of their work in accordance with proposed ISA 220 (Revised). However, as indicated in paragraph 6, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.
2. Component auditors can be, and often are, involved in all phases of the group audit. The determination of whether, and the extent to which, component auditors are to be involved in the group audit engagement is a matter of professional judgment for the group engagement team and begins with the acceptance and continuance of the group audit engagement (see paragraph 13). A preliminary understanding of the group and its environment, including the matters described in paragraph 24 and expectations of the locations, functions or activities within the group at which audit evidence is to be obtained, provides a foundation for the group engagement partner's determination that sufficient and appropriate resources to perform the group audit engagement can be assigned. This determination relates to, for example:
 - The nature of resources, such as the use of appropriately experienced engagement team members. For example, component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including language, culture, business practices, and local laws and regulations) than the group engagement team;
 - The amount and location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations; or
 - Access arrangements. For example, when the group engagement team's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
3. The determination of the involvement of component auditors is an iterative process. When the group engagement team makes a preliminary determination that component auditors will be involved in the group audit, the group engagement team obtains an understanding of component auditors to determine that they have the appropriate competence and capabilities (see paragraph 21). Paragraphs A41-A46 address the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the competence and capabilities of component auditors. Such procedures are affected by factors described in paragraph A42, for example, previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures.
4. The nature, timing and extent of the involvement of component auditors will vary depending on the circumstances of the engagement. The group engagement team may determine that it is appropriate

to involve component auditors to assist the group engagement team in fulfilling its responsibilities with respect to the requirements in this ISA, including relating to some or all of the following:

- Understanding the group and its environment by designing and performing risk assessment procedures (see paragraph 25);
 - Identifying and assessing the risks of material misstatement of the group financial statements (see paragraph 32); and
 - Designing and performing further audit procedures (see paragraph 37).
5. For certain components, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group engagement team may decide that it has sufficient resources and experience and therefore does not need to assign the design and performance of risk assessment procedures in relation to a component to the component auditor. However, the group engagement team may still discuss with the component auditor whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements when the group engagement team intends to assign the design and performance of further audit procedures to the component auditor.
6. For some components, the group engagement team may determine that it is appropriate for the component auditor to be involved in all phases of the group audit regarding the work to be performed in relation to that component. (e.g., for a component for which the group engagement team does not have the same in-depth knowledge or experience as the component auditor with respect to the component's business activities). The component auditor's involvement may include:
- Designing and performing risk assessment procedures to provide information relating to the component for purposes of identifying and assessing the risks of material misstatement of the group financial statements; and
 - Designing and performing further audit procedures in response to the assessed risks of material misstatement of the group financial statements.
7. For example, as described in paragraph A98, the group engagement team may determine that audit evidence needs to be obtained on all, or a significant proportion of, a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, a component auditor's greater experience and knowledge of the component's business may mean that the component auditor is better placed to design and perform the further audit procedures.

Appendix 2

(Ref: Para. A32)

Illustration of Independent Auditor's Report Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.
- The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.
- The group engagement team has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.⁶²
- The IESBA Code comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.⁶³
- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

⁶² If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

⁶³ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁶⁴

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects (or give a true and fair view of), the consolidated financial position of the Group as at December 31, 20X1, and (of) their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

ABC Company’s investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC’s share of XYZ’s net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC’s investment in XYZ as at December 31, 20X1 and ABC’s share of XYZ’s net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised)⁶⁵ – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

⁶⁴ The sub-title, “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title, “Report on Other Legal and Regulatory Requirements” is not applicable.

⁶⁵ ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁶⁶

[Reporting in accordance with ISA 700 (Revised)⁶⁷ – see Illustration 2 in ISA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

If, in the group engagement partner’s judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

⁶⁶ Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Appendix 3

(Ref: Para. A53)

Understanding the Group's System of Internal Control

1. This appendix provides examples of controls that may be helpful in obtaining an understanding of the group's system of internal control in a group environment, and expands on how ISA 315 (Revised 2019) is to be applied in relation to an audit of group financial statements.⁸⁶ The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group engagement team's understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management's oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
 - How oversight over the group's system of internal control by, those charged with governance is structured and organized.
 - How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g., group-wide programs, such as codes of conduct and fraud prevention programs).
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group's Risk Assessment Process

3. The group engagement team's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.

The Group's Process to Monitor the System of Internal Control

4. The group engagement team's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, where relevant, activities of the internal audit function across the group. The group's internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. ISA 610 (Revised 2013)⁸⁷ deals with the group engagement team's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

⁸⁶ ISA 315 (Revised 2019), Appendix 3

⁸⁷ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

The Information System and Communication

5. The group engagement team's understanding of the group's information system and communication may include matters such as the following:
- Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group engagement team's understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters relating to the consolidation process:

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted where required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group's IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments and reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

Control Activities

7. The group engagement team's understanding of the control activities component may include matters such as the following:
 - The extent of centralization in the group's IT environment and the commonality of IT applications, IT processes and IT infrastructure.
 - The commonality of information processing controls and general IT controls for all or part of the group.
 - The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
 - The extent to which commonly designed controls have been implemented consistently for all or part of the group.

Appendix 4

(Ref: Para. A81)

Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the group financial statements, at the financial statement level or the assertion level. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see ISA 315 (Revised 2019), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> • The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	<ul style="list-style-type: none"> • Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.
Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals or reorganizations.
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unusual government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.

<p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p>	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions. • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
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Indicators that the control environment, the group’s risk assessment process or the group’s process to monitor the group’s system of internal control are not appropriate to the group’s circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group’s system of internal control, include:

- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective controls over the group’s financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.

CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 600 (REVISED) – MARKED FROM EXTANT PROPOSED ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Given that ISA 220 is being revised, the conforming and consequential amendments are tracked against the exposure draft of proposed ISA 220 (Revised).¹

...

Application and Other Explanatory Material

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Definitions

Engagement Partner (Ref: Para. 10(a))

A15A. When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for the purposes of the ISAs. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

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ISA 230 – AUDIT DOCUMENTATION

...

Appendix

(Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs

This appendix identifies paragraphs in other ISAs that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- ISA 220, *Quality Control for an Audit of Financial Statements* – paragraphs 24–25
- ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 45–48
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph 30
- ISA 260 (Revised), *Communication with Those Charged with Governance* – paragraph 23
- ISA 300, *Planning an Audit of Financial Statements* – paragraph 12

¹ <https://www.ifac.org/system/files/publications/files/IAASB-Proposed-ISA-220-Revised-Explanatory-Memorandum.pdf>

- ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* – paragraph 32
- ISA 320, *Materiality in Planning and Performing an Audit* – paragraph 14
- ISA 330, *The Auditor’s Responses to Assessed Risks* – paragraphs 28–30
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraph 15
- ISA 540, *Auditing Accounting Estimates and Related Disclosures* – paragraph 39
- ISA 550, *Related Parties* – paragraph 28
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 57~~9~~
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraph 36–37
- ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* – paragraph 25

ISA 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Introduction

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Responsibility for the Prevention and Detection of Fraud

...

Responsibilities of the Auditor

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9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other ISAs, such as: (Ref: Para. A6)
 - (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
 - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g.,-in an audit of group financial statements); and
 - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor’s work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

...

Application and Other Explanatory Material

...

Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor (Ref: Para. 9)

- A6. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within the engagement team a group, including a group engagement partner, component auditors, or other auditors performing work at ~~components~~ entities or business units of a group for purposes other than the audit of the group financial statements.²

...

ISA 250 (REVISED) – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

Introduction

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Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A8)

...

Responsibility of the Auditor

...

9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this ISA, such as: (Ref: Para. A8)
- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
 - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
 - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

² See, for example, Sections ~~225.21R360.16–225.22R360.18~~ of the IESBA Code.

...

Application and Other Explanatory Material

Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–9)

...

Responsibility of the Auditor

...

Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

- A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within the engagement team ~~a group, including a group engagement partner, component auditors,~~ or other auditors performing work at components entities or business units of a group for purposes other than the audit of the group financial statements.³

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ISA 260 (REVISED) – COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

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- A4. ISA 600 (Revised) includes specific matters to be communicated by the group engagement team auditors with those charged with governance.⁴ When the entity or business unit is a component part of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components entities or business units may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components entities or business units are the same (e.g., common board of directors), duplication may be avoided by dealing with these components entities or business units concurrently for the purpose of communication.

³ See, for example, Sections ~~225.24R360.16–225.22R360.18~~ of the IESBA Code.

⁴ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~5649~~

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

...

Communication with Third Parties

A43. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
- (b) That no responsibility is assumed by the auditor to third parties; and
- (c) Any restrictions on disclosure or distribution to third parties

...

Appendix 1

(Ref: Para. 3)

Specific Requirements in ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ISQC 1⁵ and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 22, 39(c)(i) and 41–43
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 15, 20 and 23–25
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA 505, *External Confirmations* – paragraph 9
- ISA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7

⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- ISA 550, *Related Parties* – paragraph 27
- ISA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA 570 (Revised), *Going Concern* – paragraph 25
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph ~~5649~~
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report* – paragraph 17
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report* – paragraphs 12, 14, 23 and 30
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report* – paragraph 12
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* – paragraphs 17—19

...

ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

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Requirements

...

Planning Activities

7. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
8. In establishing the overall audit strategy, the auditor shall:
 - (a) Identify the characteristics of the engagement that define its scope;
 - (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
 - (c) Consider the factors that, in the auditor’s professional judgment, are significant in directing the engagement team’s efforts;
 - (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
 - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.
(Ref: Para. A8–A11)
9. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised).⁶
 - (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330.⁷
 - (c) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A12-A14)
10. The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A15)
11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)
- 11A. The engagement partner shall review the overall audit strategy and audit plan.

...

Application and Other Explanatory Material

...

Planning Activities

The Overall Audit Strategy and Audit Plan (Ref: Para. 7–89)

- A8. The process of establishing the overall audit strategy and audit plan assists the auditor to determine, subject to the completion of the auditor’s risk assessment procedures, such matters as:
- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;
 - The amount of resources to be allocated to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the nature and extent of direction, supervision and review of component ~~other~~ auditors’ work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
 - When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
 - How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.
- A9. The Appendix lists examples of considerations in establishing the overall audit strategy.

...

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

⁷ ISA 330, *The Auditor’s Responses to Assessed Risks*

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor's detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit coverage scope, including the number and locations of components to be included at which audit procedures are expected to be performed for purposes of a group audit, and the extent to which component auditors will be involved.
- The nature of the control relationships between a parent and its components—entities or business units that determine how the group is to be consolidated.
- ~~• The extent to which components are audited by other auditors.~~
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The requirement need for an audit of financial statements for statutory, regulatory or other reasons, audit of standalone financial statements in addition to an audit procedures performed for consolidation purposes of a group audit.

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Reporting Objectives, Timing of the Audit, and Nature of Communications

- The entity's timetable for reporting, such as at interim and final stages.
- The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
- Communication with component auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit procedures performed for purposes of the group audit of components.

- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- The determination of materiality in accordance with ISA 320⁸ and, where applicable:
 - The determination of component performance materiality ~~for components~~ and communication thereof to component auditors in accordance with ISA 600 (Revised).⁹
 - The preliminary identification of ~~significant components and~~ material classes of transactions, account balances and disclosures.

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ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

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Application and Other Explanatory Material

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

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Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity (Ref: Para. 12)

...

- A18. In some circumstances, a user entity may outsource one or more significant business units or functions, such as its entire tax planning and compliance functions, or finance and accounting or the controllership function to one or more service organizations. As a report on controls at the service organization may not be available in these circumstances, visiting the service organization may be the most effective procedure for the user auditor to gain an understanding of controls at the service organization, as there is likely to be direct interaction of management of the user entity with management at the service organization.
- A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant controls at the service organization. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find

⁸ ISA 320, *Materiality in Planning and Performing an Audit*

⁹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs ~~21–23 and 40(e)~~29–30

the guidance in proposed ISA 220600 (Revised)¹⁰ useful as it relates to determining the competence and capabilities of the other understanding another auditor (including that auditor's independence and professional competence), the direction and supervision involvement in the work of the other another auditor, in planning and the nature, timing and extent of such the work assigned to the other auditor, and ~~in~~ evaluating the sufficiency and appropriateness of the audit evidence obtained.

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ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

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Application and Other Explanatory Material

Inventory

Attendance at Physical Inventory Counting (Ref: Para. 4(a))

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A3. Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs 4–8 of this ISA) include, for example:

- The risks of material misstatement related to inventory.
- The nature of the internal control related to inventory.
- Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.
- The timing of physical inventory counting.
- Whether the entity maintains a perpetual inventory system.
- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate. ~~ISA 600⁴⁴ deals with the involvement of other auditors and accordingly may be relevant if such involvement is with regard to attendance of physical inventory counting at a remote location.~~
- Whether the assistance of an auditor's expert is needed. ISA 620¹² deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

...

¹⁰ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 2, states: "An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements ..." See also paragraph 19 of ISA 600.

⁴⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹² ISA 620, *Using the Work of an Auditor's Expert*

ISA 550 – RELATED PARTIES

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Application and Other Explanatory Material

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Risk Assessment Procedures and Related Activities

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Understanding the Entity's Related Party Relationships and Transactions

...

The Identity of the Entity's Related Parties (Ref: Para. 13(a))

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A13. In the context of a group audit, ISA 600 (Revised) requires the group engagement team to request component auditors to communicate on a timely basis related parties not previously identified by group management or the group engagement team provide each component auditor with a list of related parties prepared by group management and any other related parties of which the group engagement team is aware.¹³ ~~Where the entity is a component within a group, this~~ Such information provides a useful basis for the ~~auditor group engagement team's~~ inquiries of management regarding the identity of ~~the entity's~~ related parties.

A14. The auditor may also obtain some information regarding the identity of the entity's related parties through inquiries of management during the engagement acceptance or continuance process.

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

...

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the ISA 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls,¹⁴ the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

¹³ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 41(a),40(e)

¹⁴ ISA 330, paragraph 8(b)

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

Evaluating the Business Rationale of Significant Related Party Transactions (Ref: Para. 23)

A38. In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction:
 - Is overly complex (for example, it may involve multiple related parties within a ~~consolidated~~ group).
 - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
 - Lacks an apparent logical business reason for its occurrence.
 - Involves previously unidentified related parties.
 - Is processed in an unusual manner.
- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance.
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with ISA 500,¹⁵ to consider the reliability of management's explanations and representations on other significant matters.

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ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

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Application and Other Explanatory Material

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

...

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

A15. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall audit strategy and audit plan that the external auditor has established in accordance with ISA 300.¹⁶

¹⁵ ISA 500, *Audit Evidence*, paragraph 11

¹⁶ ISA 300, *Planning an Audit of Financial Statements*

A16. Examples of work of the internal audit function that can be used by the external auditor include the following:

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- In some circumstances, the work performed on the financial information of entities or business units of a group audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of ISA 600).⁴⁷

...

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit (Ref: Para. 5, 26–28)

A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant ~~for~~ in the circumstances of a the group audit auditors for the group engagement team to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.¹⁸

...

ISA 700 (REVISED) – FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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Requirements

...

Auditor's Report

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Responsibilities for the Financial Statements

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)

⁴⁷ ~~ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

¹⁸ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 2040(b)

- (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and
- (b) Describe an audit by stating that the auditor’s responsibilities are:
 - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.
 - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - (iv) To conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause an entity to cease to continue as a going concern.
 - (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (c) When ISA 600 (Revised)¹⁹ applies, further describe the auditor’s responsibilities in a group audit engagement by stating that:
 - (i) The auditor’s responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence ~~regarding the financial information of the entities or business activities within the group to~~ as a basis for ~~expressing an~~ opinion on the group financial statements
 - (ii) The auditor is responsible for the direction, supervision and review performance ~~of the~~ group audit; and

¹⁹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (iii) The auditor remains solely responsible for the auditor's opinion.²⁰

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para. 20)

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

...

Basis for Opinion (Ref: Para. 28)

...

Considerations specific to group audits

- A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.²¹
- A39. The ISAs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group engagement team is subject, nor do the ISAs require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA 600 (Revised)²² provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

...

1. **Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**
2. **For purposes of this illustrative auditor's report, the following circumstances are assumed:**
 - **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**
 - **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**

²⁰ ISA 600 (Revised), paragraph 52

²¹ ISA 600 (Revised), paragraph A36A37

²² ISA 600 (Revised), paragraphs 20–2249–20

- **The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.**
- **The International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements²³

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

²³ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements²⁴

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs,²⁵ and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

²⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

²⁵ Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ...”

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.²⁶
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to as a basis for expressing an opinion on the group consolidated financial statements. We are responsible for the direction, supervision and review performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a

²⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

...

ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

...

Application and Other Explanatory Material

Determining Key Audit Matters (Ref: Para. 9–10)

...

Matters that Required Significant Auditor Attention (Ref: Para. 9)

...

A15. Various ISAs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.²⁷ The ISAs acknowledge potential difficulties in relation to, for example:
 - Related party transactions,²⁸ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.

²⁷ ISA 260 (Revised), paragraphs 16(b) and A21

²⁸ ISA 550, *Related Parties*, paragraph A42

- Limitations on the group audit, for example, where ~~the group engagement team's~~ access to information or people may have been restricted.²⁹
- ISA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.³⁰ For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit

...

ISA 705 (REVISED) – MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

...

Application and Other Explanatory Material

...

Circumstances When a Modification to the Auditor's Opinion Is Required

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

- A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
- (a) Circumstances beyond the control of the entity;
 - (b) Circumstances relating to the nature or timing of the auditor's work; or
 - (c) Limitations imposed by management.
- A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.
- A10. Examples of circumstances beyond the control of the entity include when:
- The entity's accounting records have been destroyed.
 - The accounting records of a ~~significant~~ component for which further audit procedures are determined to be necessary for the purposes of the group audit have been seized indefinitely by governmental authorities.

...

²⁹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 5649(d)

³⁰ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

ISA 720 (REVISED) THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

...

Application and Other Explanatory Material

...

Reading and Considering the Other Information (Ref: Para. 14–15)

...

A24. In accordance with ISA 220,³¹ the engagement partner is required to take responsibility for the direction, supervision and ~~review performance~~ of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this ISA, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgment involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

...

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

A35. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team, ~~including~~ ~~or~~ relevant component auditors, is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor's recollection.

³¹ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, about any matter included in the other information.

...

ISA 805 (REVISED) – SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

Introduction

Scope of this ISA

1. The International Standards on Auditing (ISAs) in the 100–700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This ISA deals with special considerations in the application of those ISAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA 800 (Revised)³² also applies to the audit. (Ref: Para. A1–A4)
2. This ISA does not apply to circumstances in which the report audit procedures are performed by ~~of~~ a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see ISA 600 (Revised)).³³
3. This ISA does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

...

ISRE 2400 (REVISED) – ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

...

Application and Other Explanatory Material

Scope of this ISRE (Ref: Para. 1-2)

...

~~*Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities*~~

³² ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

³³ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

~~A2. Review engagements in accordance with this ISRE may be requested for component entities by the auditor of the financial statements of a group of entities. Such a review engagement performed in accordance with this ISRE may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.~~

...

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 29)

...

Agreeing the Terms of Engagement

...

Review of components of groups of entities

~~A54. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this ISRE. The group auditor may also specify additional procedures to supplement the work done for the review performed under this ISRE. Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this ISRE.~~

...

Performing the Engagement

...

The Practitioner's Understanding (Ref: Para. 45–46)

...

A78. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:

- Whether the entity is a ~~component of part of~~ a group of entities, or an associated entity of another entity.
- The complexity of the financial reporting framework.
- The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
- Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements. Smaller entities often have fewer

employees, which may influence how management exercises oversight. For example, segregation of duties may not be practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

- The “tone at the top” and the entity’s control environment through which the entity addresses risks relating to financial reporting and compliance with the entity’s financial reporting obligations.
- The level of development and complexity of the entity’s financial accounting and reporting systems and related controls through which the entity’s accounting records and related information are maintained.
- The entity’s procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- The types of matters that required accounting adjustments in the entity’s financial statements in prior periods.

...

Designing and Performing Procedures (Ref: Para. 47, 55)

...

~~A80. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner’s objectives for the review engagement stated in this ISRE, but in the context of the group financial statements.~~

...

Inquiry (Ref: Para. 46–48)

...

A88. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ISRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner; and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner’s work in accordance with this ISRE (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

...

Analytical Procedures (Ref: Para. 46–47, 49)

A90. In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner’s understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across business units ~~profit centers, branches or other components~~ of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements

...

ISRE 2410 – REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

...

Procedures for a Review of Interim Financial Information

Understanding the Entity and its Environment, Including its Internal Control

...

16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim component financial information ~~of components~~, and the auditor’s understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.

...

Inquiries, Analytical and Other Review Procedures

...

21. The auditor ordinarily performs the following procedures:
- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.

CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 600 (REVISED)

- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim component financial information of the reporting entity's ~~significant components~~.
- ...

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	3 June 2020
Subject:	IAASB Consultation Paper-Extended External Reporting (EER) Assurance
Date:	22 May 2020

Action Required

For Information Purposes Only

Agenda Item Objectives

The Board is asked to CONSIDER and PROVIDE FEEDBACK on a draft submission in response to the IAASB's [consultation paper Proposed Non-Authoritative Guidance EER Assurance](#).

Background

1. The IAASB developed this Consultation Paper in two phases. The NZAuASB commented on Phase 1 of its development in June 2019. The submission is available [here](#). This Consultation paper combines the two phases of the project. The IAASB anticipates finalizing this guidance in December 2020.
2. 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*. Submissions are sought by 13 July 2020.
3. The IAASB is seeking feedback as to whether the draft guidance adequately addresses the challenges for assurance practitioners and where and how it could be improved to better serve the public interest. Although the guidance is primarily aimed at assurance practitioners, feedback is sought from preparers, users and public sector entities.

Outreach

4. At the April meeting of the NZAuASB, the Board agreed to form a sub-committee to advance the development of its submission. The sub-committee members include Chong Lim, Craig Fisher and Marje Russ. The sub-committee met once in May to discuss a developing draft submission (at agenda item 4.2). Jo Cain, AUASB board member and representative on the

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Project Advisory Panel to the EER taskforce, (with Marje) also joined the call, together with AUASB staff.

5. The Board indicated a need for targeted but broader outreach. We worked with AUASB staff to arrange a combined EER outreach event, in conjunction with the Business Reporting Leaders Forum and Deakin University in Australia. This virtual outreach event is scheduled for 2 June and involves a mixture of practitioners, preparers and users. Thank you to all Board members who provided contacts of those who might be interested to attend. Staff will provide the Board with a verbal update from the outreach event during the meeting.
6. In addition, feedback will be sought from the NZASB at its 4th June meeting.
7. The sub-committee may need to meet once more to finalise the submission after this outreach is complete. The submission is due to the IAASB prior to its next meeting in July.

Matters to consider

8. Specific questions or matters are highlighted in the attached developing draft where feedback from the Board is requested.

Material Presented

Agenda item 4.1
Agenda item 4.2

Board Meeting Summary Paper
Developing draft submission to the IAASB

1 July 2020

Willie Botha
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear Willie,

IAASB Consultation Paper: Proposed Non-Authoritative Guidance Extended External Reporting (EER) Assurance

Thank you for the opportunity to comment on this Consultation Paper (CP). 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 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.

The NZAuASB commends the IAASB's initiative to issue non-authoritative guidance. This is an important and evolving area, and it is timely for the guidance to be released to promote consistency in practice around the world.

New Zealand perspective

New Zealand's EER reporting landscape is rapidly evolving. Proxima's recently released research into EER reporting practices in New Zealand, [Towards Transparency](#), reflects a large increase in the number of sustainability-related reports published in New Zealand (54 in 2018 up to 112 in 2019). The growth in reporting did not translate into increased external assurance, with only 9% of reporters seeking assurance (down from 24% in 2018).

The XRB sees EER as a key strategic objective, acknowledging the role that both reporting, and assurance play in enhancing credibility and trust.

The XRB has created an EER webpage, including a [navigational resource](#) to help identify prominent EER resources and assist preparers make informed decisions. Our website also includes information on the EER assurance implications, drawing from the four key factors for credibility described in supplement A of the CP.

In conjunction with the AUASB, the NZAuASB undertook a survey of assurance practitioners to gather views on:

- The types of credibility enhancing techniques being utilised for EER in the market place; and
- To understand how innovation is being applied by practitioners.

The Big 4 audit firms have reported a limited number of clients who are undertaking assurance. The majority of EER assurance engagements are voluntary and 93% provide limited assurance. In response to the survey, New Zealand practitioner indicated that more than 60% are performing assurance readiness or maturity assessments at this stage.

In formulating this response, the NZAuASB undertook a virtual outreach event, in conjunction with the AUASB, seeking feedback from assurance practitioners, preparers, regulators, academics and investors.

Overarching comments

The NZAuASB is very supportive of the release of the EER assurance guidance in the near future to promote consistency in practice. We commend the IAASB's efforts. Our responses are suggestions to refine and improve the draft. The key areas identified for enhancement are summarised here and we expand on each of these matters in the detailed responses to the questions:

Structure

The overall concern remains that the document is lengthy, dense and complex. Use of navigational links, etc, as explored by the IAASB will help, but the NZAuASB further encourages the IAASB to re-organise and streamline the document, with a focus on EER specific examples and guidance. We recommend the introduction of colour to distinguish cross references to the standard, or supplementary material to visually assist and simplify the numerous cross references that are built into the draft document.

In order to engage stakeholders with the content of the draft guidance, we found chapter 6 to be the most useful starting point. We strongly recommend that Chapter 6 be moved to the front of the guidance. This chapter usefully sets out the context that is necessary in order to undertake assurance, reinforcing the preparer's role in preparing for assurance. The entity needs to have performed the necessary thinking on the EER subject matter and have considered and advanced other credibility enhancing steps within the entity first, before seeking to engage an independent practitioner to opine on the EER report.

Terminology

The terminology used in the guidance is complex. Using language that is simpler and more specific to EER reports and preparers would go a long way to making the guidance more practical and user friendly.

Overall, the NZAuASB continues to encourage the IAASB to avoid establishing too high a hurdle, with a focus on providing as much assurance as possible, without the assurance process becoming a barrier to the development of EER.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

Robert Buchanan
Chairman

Email: robert@buchananlaw.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

IAASB Consultation Paper: Proposed Non-Authoritative Guidance Extended External Reporting (EER) Assurance

- 1) **Does the draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft Guidance? If not, where and how should it be improved to better serve the public interest in EER assurance engagements**

Response:

The NZAuASB is supportive of finalising the Non-Authoritative Guidance as a priority and considers that issuing the guidance serves the public interest, by promoting consistent and high-quality application of ISAE 3000 (Revised). While the NZAuASB has suggestions, as identified below, the NZAuASB's is supportive of finalising the guidance, recognising that this is an evolving area which will be well informed through a post implementation review as reporting and assurance practices continue to evolve.

Chapter 1: Applying Appropriate Competence and Capabilities

Response:

This chapter serves the public interest by recognising the practical need to combine assurance expertise with a subject matter expert to effectively challenge management. On complex EER engagements, there may be a need for multidisciplinary teams as well as an increased use of the work of experts. However, the guidance also highlights that all assurance practitioners are likely to need some level of competence in both assurance and the subject matter.

The NZAuASB recommends that there is an opportunity to streamline this chapter, by deleting generic assurance material, with a focus on how to address the challenge. We consider Diagram 2 is an example of generic material.

We recommend that use of terminology such as "engagement partner" is too narrow. A more encompassing term such as "engagement leader" may better reflect how other assurance practitioners structure their business, not limited to the traditional Big 4 structures.

The guidance highlights useful factors to determine the extent of use of an expert and how an expert is used, together with practical examples of consideration of a team's collective competence. A key challenge for the practitioner will be to navigate who the appropriate experts to consult will be, and additional examples of the factors to consider to navigate and find the relevant expert would be especially helpful.

Question to NZAuASB: Is the competence and responsibilities of the engagement partner clear, noting that the engagement partner has sole responsibility for the engagement and that that responsibility is not reduced by the work of the practitioner's expert (para 36)?

Diagram 3 is a somewhat helpful visual reminder relating Complexity and Significance to Direction, Supervision and Review, recognising the combined assurance and subject matter competence.

In practice, assurance practitioners who are not professional accountants may not be familiar with ISQC 1. There is a need to assist broader assurance practitioners know whether their own quality control requirements are at least as demanding as ISQC 1.

Chapter 2: Exercising Professional Scepticism and Professional Judgement

Response:

The NZAuASB considers that this Chapter is not EER specific. While the chapter includes useful considerations relating to:

- the attributes and behaviours needed to exercise professional scepticism (PS),
- possible impediments,
- factors that can help practitioners avoid or mitigate their impact,
- how competence in the exercise of PJ may be acquired,

we do not consider that the guidance is EER specific. The guidance states that EER assurance engagements can be complex, cover subject matters whose measurement or evaluation may be subject to considerable subjectivity, management bias, estimation and evaluation uncertainty. We consider that this is true of most assurance engagements.

In order to reduce the bulk of the document, the NZAuASB recommends reconsidering the need for this chapter in this document. There may be a way to cross refer to PS material that applies to all assurance engagements more broadly as a reminder of the general attributes and behaviours needed to exercise PS, rather than repeating this generic material in EER specific guidance.

The NZAuASB considers that the more valuable guidance on the exercise of professional scepticism and professional judgement is made throughout the guidance using the PS and PJ logos. This is useful guidance to assist the practitioner in an EER specific engagement. The NZAuASB considers that further use of the icons may be useful (there are references to PJ and PS but no icons in a number of paragraphs).

We consider that diagram 4 (on page 70) highlights factors that apply to any and all assurance engagements. Is there a way to make this more EER specific? If not, we suggest that this material is useful in a generic way, and could be cross referenced rather than included in this EER guidance.

Chapter 3: Determining Preconditions and Agreeing the Scope Response:

The NZAuASB has previously commented on and continues to believe that chapter 3, together with the detailed examples in the supplementary material on the preconditions will be very useful in practice. This material reflects many of the ideas that the NZAuASB explored in the development of the domestic standard on service performance information, NZ AS 1¹.

The NZAuASB considers that the guidance related to the work effort required, independence considerations and responses where the preconditions are not met will be helpful.

A lack of maturity in the EER reporting frameworks and/or in a preparer's journey to prepare an EER report may be a key challenge for an assurance practitioner. We recommend relocating Chapter 6 to the front of the document, to more appropriately reflect the balance of responsibility between a preparer and the assurance practitioner in determining the scope and ensuring that the preconditions for assurance are met. There may be other assurance readiness work that could assist preparers develop their own internal credibility enhancing techniques before seeking an assurance engagement. As currently ordered, the guidance may imply a higher threshold or work effort for a practitioner than that required for an audit of financial statements and might create a barrier to assurance. Reordering the guidance as suggested might more appropriately shift the weight of getting ready back on the preparer and not imply that the assurance practitioner's role is to get the preparer ready for assurance.

The NZAuASB considers that Diagram 5 *Acceptance and Continuance Considerations* is overly complex (Do you agree/find it helpful or confusing/have any suggestions that would help?) There is a

¹ NZ AS 1 The Audit of Service Performance Information

small editorial update required in paragraph 70 that refers to the diagram below, however the diagram is above.

The NZAuASB considers the sentence in paragraph 65, that reads “In addition, the criteria used to measure or evaluate the underlying subject matter may include a significant element of entity-developed criteria” is an especially useful statement. The questions posed to the practitioner under paragraph 71 usefully demonstrate some of the professional judgements that are involved. The NZAuASB recommends that the IAASB add a question under C to recognise that the preparer has the responsibility to identify (and if necessary develop) suitable criteria. The NZAuASB identified that this was an important step that should be acknowledged when agreeing the terms of the engagement.

In practice, assurance practitioners who are not professional accountants may not be familiar with the IESBA Code of Ethics and therefore not be able to know whether their Code or professional requirements are at least as demanding.

Independence considerations – Question for NZAuASB – is it appropriate for the IAASB to go into this level of detail on threats (112-when these examples are not addressed Part 4B of the Code – e.g. refer to examples of a self-review threat in 950.8 A1 of the NAS ED.

While the NZAuASB agrees that the considerations for determining whether there is a rationale purpose are helpful, the NZAuASB continues to caution against setting the assurance “bar” too high, recognising that this is an iterative process, whereby the preparer is on a journey and the practitioner’s aim should be to provide as much assurance as possible, where the preparer is ready for assurance, to enhance the degree of confidence of the intended users. For example, an entity may exclude some aspects of the subject matter information on the basis that it is still evolving and does not yet meet all the preconditions for engagement acceptance, but there may be some aspects that do. Further flexibility in the assurance report, to explain this, may be an appropriate response in an area that continues to evolve, rather than an inability to accept the engagement at all. A reference or link to acknowledge more flexibility in the assurance report may assist (for example, in paragraph 93).

The NZAuASB agrees the references to other information will be a useful addition in practice, for example, in considerations related to a rolling program of assurance.

Chapter 4: Determining the Suitability and Availability of Criteria Response:

The NZAuASB considers that this chapter will serve the public interest by promoting consistency in practice. The NZAuASB has previously indicated suitability and availability of criteria as a top priority and therefore considers that this chapter will be very helpful in a challenging area. The use of examples is especially helpful. Paragraphs 124, 142- 43, 165 and 179 were also considered to be especially helpful paragraphs.

Based on our experience in developing NZ AS 1, we consider that the phrase “suitable criteria” may pose a barrier to a practitioner’s understanding and use of the guidance. Even the most experienced practitioner in our experience, does not engage with this phrase. It may be helpful to define upfront that in an EER engagement the term “criteria” as described in the applicable standard encompasses many layers, firstly the identification of the reporting topics, and then more granularly to include in some detail the most appropriate techniques to measure or evaluate those topics and also to present and disclose the outcome of the evaluation. Some reporting frameworks address all of these layers, specifically and more granularly (as is typical in financial reporting frameworks), whereas many EER frameworks only address these elements at a high level principled level, necessitating the entity to develop their own specific basis of reporting, applicable to them. These layers could be referenced at

appropriate times, to overcome the barrier that the phrase “criteria” might create. An onion analogy was used, to describe the layers that form the overarching “criteria”. Simpler language that references the specific layer of the “onion” at the appropriate time in the guidance may promote a better understanding of this term.

The additional material on considering whether criteria will be made available in a suitable manner is also useful and responds to the request raised by the NZAuASB in response to the first exposure draft.

The most difficult challenge remains completeness. The NZAuASB encourages the IAASB to consider the addition of an example to demonstrate the determination of completeness as discussed in paragraphs 149-151. (Perhaps a cross reference to para 251 here too?)

Diagram 6 *Considering Suitability and Availability of Criteria* is a useful diagram however we recommend consideration as to whether this appears overly prescriptive. In our discussions, as an entity’s journey to develop its EER report, the criteria are in most instances more likely to be somewhat suitable, and will continue to evolve with time. This has implications for the perimeter of the engagement and scope to factor in. The paragraphs on the characteristics of suitable criteria recognise a scale of suitability but this diagram seems overly binary i.e. either a pass or fail. A more flexible reporting approach, including more long form reporting about the balance that is achieved between the qualitative characteristics may overcome this perceived rigidity. E.g., In the first year the EER report may lack comparability but this might be achieved over time.

Question for NZAuASB: Para 136 - why is it helpful to consider the extent to which the criteria include QCs? The practitioner is still going to have to determine whether the way in which the entity has applied these words to their circumstances? We spent an enormous amount of time on comparing the words and terms and not really sure that this helped at all?

Some of the language in this chapter is very dense and complex. This may be unavoidable given the complex nature of the challenge. Refer to our comments on terminology in response to question 2. Any suggestions to enhance understandability?

Chapter 5: Considering the System of Internal Control Response:

The NZAuASB considers that the guidance in this chapter will serve the public interest by highlighting the challenges where governance and internal control lack maturity. i.e., acceptance issues or barriers the practitioner from obtaining sufficient appropriate evidence however considers that the chapter may be overly detailed and could be streamlined.

Diagram 7 *Components of System of Internal Control* references the ED and will need to be updated to reflect that this standard has been issued. This diagram provides a useful visual reminder of the overarching role of governance and management oversight which sits above the triangle and the detailed components of the system of internal control.

The content of the chapter seems narrowly focussed on the system of internal controls rather than the broader need for maturity of thinking. The NZAuASB is concerned at the over emphasis of the processes and system of internal controls above the importance for a broader concept of maturity of thinking in preparing to report (we refer to this as “integrated thinking” however this broader readiness to report is not limited to integrated reporting, but will extend to many forms of EER). Maturity of thinking is a key aspect to be addressed by the Governance and management oversight piece.

The chapter itself seems overly focussed on the details of the components in the triangle, whereas we recommend that more emphasis is placed on the need for the overarching role that is played by

governance and management oversight. Re-ordering Chapter 6 to the front of the guidance and linking the need for governance and management oversight over the entity's process to identify reporting topics may be a useful way to emphasize this challenge in EER assurance.

We recommend that paragraph 208 (heading Governance and Oversight) go above paragraph 207 on Control Activities. We also recommend that the approval of the criteria be included in the list of considerations in paragraph 208.

The paragraphs on information from an external source are useful.

Paragraphs 195-199 are not EER specific and could possibly be condensed into two paragraphs to list the components and summarise the idea that the level of sophistication may vary with the size and complexity. (In fact may already be done in para 209 on)?

Is it clear the difference between limited and reasonable assurance (page 51)? Is it useful? How is this EER specific?

Chapter 6: Considering the Entity's Process to Identify Reporting Topics

Response:

In order to engage stakeholders with the content of the draft guidance, we found chapter 6 to be the most useful starting point to assist users to navigate the guidance and deeper dive into other relevant chapters as appropriate. We strongly recommend that Chapter 6 be moved to the front of the guidance. This chapter usefully sets out the context that is necessary in order to undertake assurance, reinforcing the preparer's role in preparing for assurance and that assurance is not the only solution in enhancing credibility, e.g. paragraph 107 highlights that assurance readiness work may be a more appropriate alternative. In practice credibility is built up over time, requiring lots of process work by the preparer to engage with its stakeholders, collate feedback and develop data points and controls before seeking independent assurance. The entity needs to have performed the necessary thinking on the EER subject matter and have considered and advanced other credibility enhancing steps within the entity first, before seeking to engage an independent practitioner to opine on the EER report. Re-ordering Chapter 8 may help to overcome the real challenge that practitioners face, playing the role of educator to the preparer.

In our experience, Diagram 8 is a key diagram. During our outreach, we introduced the guidance using this diagram to more effectively engage with a broader stakeholder group, for all stakeholders to understand the roadmap and demonstrate the key role of the preparer in getting ready for an assurance engagement. Preparers need this as much as practitioners do. If the entity is not ready for assurance, it may be that the practitioner can assist with other services, as explored in paragraph 107. These options however are buried too deep in the guidance and would more usefully be positioned up front and considered before, not within, the assurance process.

In New Zealand preparers are grappling with vast number of EER frameworks and identifying what topics to report on and then how to report on those topics. This is the necessary first step, prior to any assurance being sought.

The NZAuASB is supportive of the terminology "the entity's process to identify reporting topics" in lieu of the entity's "materiality process". We consider that it is in the public interest to use a different term to avoid unnecessary confusion with the way in which assurance practitioners think about the term "materiality".

The NZAuASB considers that the language used in this chapter remains overly complex and confusing, especially when referring to the "entity's development of criteria to identify reporting topics".

We consider that this is better articulated in the covering memo, where it is clearer that the process to identify reporting topics may be needed where the EER framework in itself does not result in suitable criteria i.e. the “process to identify reporting topics” is how the preparer goes about developing the criteria further.

We found the use “of criteria to identify reporting topics” confusing as it is unclear how the process differs from the criteria. It implies that there is a need for “separate” criteria to identify reporting topics where we understand that this is only one part of whether the criteria are suitable.

We think this concept is described clearly in the first sentence of para 220 but encourage the IAASB to consider a different way to describe the “criteria to identify reporting topics” in the last sentence. E.g. Para 220 “In undertaking a process to identify reporting topics, the preparer is effectively extending or developing, ~~and then applying, the~~ criteria for identifying reporting topics ...

Para 217 and 221 refers to the practitioner considering “their appropriateness”. The practitioner is required to determine the “suitability” of criteria. It is unclear what or how “appropriateness” differs from “suitability” and/or how a practitioner would consider their “appropriateness”. “Appropriateness” seems to be used in relation to the judgements made by the preparer. If the practitioner is using the same factors to consider appropriateness as they would to determine suitability, we recommend using the same term. If not, we urge the IAASB to add guidance on how a practitioner would consider appropriateness, where it relates to the criteria.

The NZAuASB considers that the examples in this chapter will be extremely helpful in practice.

Para 222 appears to draw a distinction between a limited assurance engagement and a reasonable assurance engagement. This gives rise to a question around suitable criteria. For all assurance engagements, a practitioner is required to determine that the criteria are suitable (as a precondition). We understand that there is no difference at the precondition stage (between a limited and reasonable assurance engagement) but this implies that there is when it gets to the planning phase. This goes to our earlier confusion over the work effort required at the precondition stage to determine whether the preconditions are met. It needs to be clearer whether there is an expected difference in work effort between a limited assurance engagement and a reasonable assurance engagement to determine whether the criteria are suitable or not.

Chapter 7: Using Assertions

Response

New Zealand practitioners responded to our survey indicating that building assertions is the third highest ranking challenge. Although use of assertions is not required by the standard, the NZAuASB considers that it is useful to provide guidance on how assertions may be helpful as a tool to consider the different types of misstatements that may occur in EER information and to design assurance procedures accordingly.

Table 2 – is this categorization of assertions helpful?

Any concerns or suggestions?

Chapter 8: Obtaining Evidence

Response

Chapter 8 sets out considerations that may be used by a practitioner when considering what evidence is needed and how to obtain it for any assurance engagement. The explanation for inclusion of this

generic material is that this provide context to the later chapters on qualitative and future-oriented information.

The NZAuASB considers that in order to shorten and engage more directly with the user, that this more contextual material may be better dealt with in supplementary material. The NZAuASB encourages the IAASB to include EER specific context and examples within this guidance. (i.e. there is no specific public interest that is served by including generic contextual information in this location).

Views

Paragraphs 294-298 referencing performance materiality are important aspects to cover in the context of an EER engagement and may be better positioned in Chapter 9: Considering the Materiality of Misstatements. **Comments on this material? Any suggestions or examples that could demonstrate these ideas?**

Chapter 9: Considering the Materiality of Misstatements

Response

The NZAuASB considers that this chapter, together with the detailed examples in the supplementary material, will serve the public interest and will be very useful in practice to guide practitioner in their responsibilities when misstatements are identified. New Zealand practitioners ranked materiality as the highest ranking challenge on EER engagements.

This chapter reflects many of the ideas that the NZAuASB explored in the development of the domestic standard on service performance information, and will be an area of significant challenge in practice. The use of examples is also very helpful.

Thoughts on position of chapter? Very different from NZ AS 1?

Diagram 10 Practitioner responsibilities in relation to identified misstatements is a helpful visual reminder of the practitioner's responsibilities.

Chapter 10: Preparing the Assurance Report

Response

Communicating clearly in the assurance report was a key consideration when the NZAuASB developed its domestic standard on service performance information. The NZAuASB considers that a more flexible reporting approach is especially important for EER assurance engagements that give rise to many communication challenges. Tailoring the report to the circumstances is likely to be especially helpful. The NZAuASB agrees strongly with the statement in paragraph 335.

We have heard from users that the "negative form" of language in a limited assurance report is especially unhelpful. While this is a requirement of the standard, from a user's perspective it is not especially well understood. Guidance that encourages more long form reporting, which is permitted by ISAE 3000 (Revised), may be the best way to overcome this criticism of users of assurance reports. Describing what the practitioner has done, why the focus was on these areas and what was the outcome may be more useful than the limited assurance conclusion itself. It may be useful to promote this more flexible reporting approach that is permitted by ISAE (3000) (Revised). Such an approach may be unfamiliar to traditional financial statement auditors but might result in more useful, relevant assurance for EER.

New Zealand practitioners indicated that they were most likely to provide a separate assurance report conveying findings and recommendations for an EER assurance engagement. There is one example

of a combined assurance report, covering the audit of the financial statements and the limited EER assurance.

The illustrative examples included in this chapter are expected to be very helpful and will serve the public interest well. The examples following paragraph 349 are expected to be especially helpful.

The NZAuASB also considers the example of the director's responsibilities following paragraph 362 will be helpful in practice.

Editorial:

Para 315 "may not be materiality misstated" should read "materially misstated".

Chapter 11: Addressing Qualitative EER Information

Response

Looking for views on this chapter developed under phase 2

We consider that the examples in this chapter will be very helpful in practice. Addressing the need to scope out promotional "PR" material is very relevant to EER information. Highlighting that the entity has "minimal" impact on the environment is very different from reporting on the positive impact that the entity is making.

Chapter 12: Addressing Future-Oriented EER Information

Response

Looking for views on this chapter developed under phase 2

- 2) **Is the draft Guidance structured in a way that is easy for practitioners to understand and use in performing EER assurance engagements? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?**

Response:

Length and navigation

The NZAuASB remains concerned by the length and density of the document which may deter practitioners from understanding or using the guidance. This may be somewhat mitigated by the use of hyperlinks to be included in the finalised guidance and possible use of pop-up boxes. Diagram 1 should also assist, especially if the diagram includes hyperlinks.

We recommend the introduction of colour to distinguish cross references to the standard, and other supplementary material etc, to visually assist and simplify the numerous cross references that are built into the draft document. The number and different types of cross referencing is somewhat intimidating and/or distracting and we consider that colour coding could assist the user to navigate these.

The NZAuASB is supportive of only including shorter examples within the guidance, leaving longer examples to supplementary documents.

The NZAuASB encourages the IAASB to continue to explore ways to succinctly point to key guidance to help the practitioner overcome the challenges identified. More information about why the challenge arises, etc can be read as context to those key messages.

The NZAuASB would encourage the IAASB to keep the guidance as specific to EER as possible. Any material that is generic to all assurance engagements could be cross referenced rather than being included in full in the document.

Terminology

The terminology used in the guidance is complex. Our experience, in developing NZ AS 1, the domestic standard on the audit of service performance information, is that even the most experienced assurance practitioner does not engage, in a meaningful way, with terminology such as: subject matter, subject matter information and criteria. Using language that is simpler and more specific to EER reports and preparers would go a long way to making the guidance more practical and user friendly. E.g. referring to the EER information that is reported in lieu of subject matter information may make it easier to engage with the guidance.

Structure and order

The NZAuASB is supportive of structuring the guidance to address the key stages of performance of an EER assurance engagement, following the flow of the performance of the engagement, rather than around the 10 challenges.

However, the NZAuASB strongly recommends moving Chapter 6 to the front of the guidance. This chapter usefully sets out the context that is necessary in order to undertake assurance, highlighting that the entity needs to be at a point that it is ready for assurance, i.e. that there is a rationale purpose for the engagement, it is clear who the intended users are, the reporting topics have been identified by the entity, the entity's reporting process is able to produce evidence to support its reporting. The entity itself needs to have performed the necessary thinking on the EER subject matter and have considered and advanced other credibility enhancing steps within the entity first, before seeking to engage an independent practitioner to opine on the EER report.

In our experience, Diagram 8 was the most useful diagram to start to engage with the guidance. We introduced the guidance at our outreach using this diagram to more effectively engage with the broader stakeholder group, for all stakeholders to understand the roadmap and demonstrate the key role of the preparer in getting ready for an assurance engagement. If the entity is not ready for assurance, it may be that the practitioner can assist with other services, as explored in paragraph 107. These options however are buried too deep in the guidance and would more usefully be positioned up front and considered before not within the assurance process.

The NZAuASB would be supportive of further grouping the chapters into the three parts as suggested, however, in line with our recommendation to move Chapter 6 would include a new Part before these addressing the entity's process to identify reporting topics, which would be followed by:

Part A – Behavioural aspects, however we recommend that this section should be condensed and recommend that draft Chapter 1 and Chapter 2 could be combined.

Part B – Process of an EER engagement

Part C – Specific considerations on qualitative and future-oriented information.

The NZAuASB reflected on whether it was necessary to separate out the last two chapters (11 & 12), given that the challenges presented by qualitative and future oriented information are pervasive to an EER assurance engagement. On balance, the NZAuASB agreed that it is useful to have a separate chapter on these topics, given that for many assurance practitioners, who may have historically been focussed on historical quantitative information, having a separate chapter to address these topics is practical and helpful.

3) Comments on Supplement A: Credibility and Trust Model and Background and Contextual Information

The NZAuASB considers the four key factor model for credibility and trust will be useful and supports the publication separately from the guidance document.

The purpose and clarity of the background and contextual information is less clear. The NZAuASB recommends that its target audience is clarified – i.e. not try to be all things to all stakeholders. The NZAuASB considers that there is a need for guidance targeting preparers to provide background and context as to what to expect and how to prepare for an assurance engagement and that the IAASB has an important role to play in developing such material. However, the current background and context is too technical and may not achieve this purpose.

The need to assist all stakeholders, including practitioners, to engage with difficult technical terms such as “subject matter”, “subject matter information and “criteria” is especially important. We consider that this material would benefit from being streamlined and simplified even further. Understanding these terms is a key part of engaging with the challenges. A one page overview with examples may be more accessible than the current approach.

4) Comments on Supplement B: Illustrative Examples

The NZAuASB considers 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.	5.1
Meeting date:	3 June 2020
Subject:	Agreed-Upon Procedures Engagements
Date:	20 May 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:
 - CONSIDER and APPROVE the draft Invitation to Comment and Exposure Draft.

Background

2. The IAASB has revised ISRS 4400 to respond to the growing demand for agreed-upon procedures engagements, particularly in relation to the need for increased accountability around funding and grants. A broad range of stakeholders, such as regulators, funding bodies and creditors, use agreed-upon procedures reports for various reasons.
3. The revised requirements and application material promote consistency in performance of agreed-upon procedures engagements, and include enhancements relating to, among other matters, the exercise of professional judgement, compliance with independence requirements, engagement acceptance and continuance considerations, using the work of a practitioner's expert and greater clarity and transparency in the agreed-upon procedures report.
4. The XRB does not currently have an agreed-upon procedures (AUP) engagement standard. The NZAuASB's mandate was revised in 2019 to include related services engagements. It is, therefore, timely for the NZAuASB to consider adopting ISRS 4400 (Revised) in New Zealand.
5. In August 2018, the New Zealand Regulatory Board released APS-1 (revised) *Agreed Upon Procedures Engagements to Report Factual Findings* bringing the AUP standard in New Zealand into the 21st century. The revision was based on the extant Standard on Related Services Engagements (ASRS) 4400 *Agreed Upon Procedures Engagements to Report Factual Findings* issued by the Australian Auditing and Assurance Standards Board.

AUASB

6. The AUASB issued its exposure draft of ASRS 4400 in February 2020, with the comment period ending on 11 May. The AUASB is expected to consider comments at its June meeting. We will provide a verbal update to the Board of the key comments received by the AUASB.

Key Proposals

Independence

7. ISRS 4400 (Revised) does not require the practitioner to be independent when performing an AUP engagement, nor is there a requirement for the practitioner to determine independence. This is consistent with Professional and Ethical Standard 1 which also does not require the practitioner to be independent to perform an AUP engagement.
8. APS-1 (revised) requires the member, when conducting an agreed-upon procedures engagement, to comply with ethical requirements equivalent to the ethical requirements applicable to “other assurance engagements”. Modifications to the independence requirements are permitted provided the engaging party explicitly agrees to these modifications in the terms of the engagement.
9. Regardless of whether the practitioner is required to be independent, ISRS 4400 requires disclosure of independence in the report.
 - If the practitioner is not required to be independence and has not otherwise agreed in the terms of the engagement to comply with independence requirements, the AUP report includes a statement that, for the purposes of the engagement, there are no independence requirements.
 - If the practitioner is required to be independent or has agreed in the terms of the engagement to comply with independence requirements, the AUP report includes a statement that the practitioner has complied with relevant ethical requirements and identifies those requirements.

10. Does the Board agree that the practitioner is not required to be independent when performing an AUP engagement?

Restriction on Use

11. ISRS 4400 (Revised) does not require the AUP report to be restricted to those parties that have agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter. This is in recognition that AUP reports are often provided to users who are not parties to the terms of the engagement.
12. The AUP report, however, is required to identify the purpose of the AUP report and include a statement that the AUP report may not be suitable for another purpose.¹ The practitioner is not precluded from including a restriction paragraph.
13. In comparison, APS-1 (revised) requires the use of the report to be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter.

¹ Paragraph 30(d) of agenda item 5.2

14. Does the Board agree that a restriction paragraph is not required on the AUP report?

Professional Judgement

15. The practitioners use of professional judgement is addressed in paragraphs 13(j), 18 and A21-A23 of the proposed ED in agenda item 5.2.

16. Although the use of professional judgement is limited, for example, professional judgement cannot be exercised when performing the procedures, it is never completely suspended in an AUP engagement. Accordingly, ISRS 4400 (Revised) requires the use of professional judgement in accepting, conducting the reporting on an AUP engagement.² Application material is included to provide examples of areas where professional judgement may be applied and to explain the unique role that professional judgement plays in an AUP engagement.

17. The application material is clear that professional judgement is exercised in applying the requirements of the ISRS and relevant ethical requirements, and in making informed decisions about courses of action throughout the AUP engagement, as appropriate.

18. For purposes of ISRS 4400 (Revised), professional judgement is defined in as “the application of relevant training, knowledge and experience, within the context provided by this ISRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.

19. Does the Board support the way in which professional judgement is dealt with in the proposed ED?

Relationship to Quality Control Standards

20. ISRS 4400 (Revised) is premised on the basis that the firm is subject to ISQC 1³ or requirements that are at least as demanding. The scope of Professional and Ethical Standard 3 (Amended) does not include related services engagements. Accordingly, there is no standard issued by the XRB equivalent to ISQC 1 that addresses related services engagements.

21. The IAASB currently has underway a project to revise its quality control standards. These standards are expected to be approved by the IAASB at its September 2020 meeting. Given the current situation with COVID-19 we do not yet know the proposed effective date of the new standards.

22. Following approval by the IAASB of its quality management standards, the NZAuASB will consider proposals to revise Professional and Ethical Standard 3 (Amended). These proposals will include extending the scope of PES 3 (Amended) to include related services engagements, in line with the revised mandate of the XRB.

² ISRS 4400 (Revised), paragraph 18

³ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

23. For purposes of the draft ED, reference is to ISQC 1 PS-1⁴ issued by the New Zealand Institute of Chartered Accountants. This is a temporary measure until such time as the scope of PES 3 is revised to extend to related services engagements.

24. Does the Board agree with the proposed approach to address quality control for an AUP engagement?

Effective Date

25. The proposed effective date is for AUP engagements for which the terms of the engagement are agreed on or after 1 January 2022. This is consistent with the effective date of ISRS 4400 (Revised).

26. Does the Board agree with the proposed effective date?

Action Requested

27. The Board is asked to APPROVE the draft Invitation to Comment and Exposure Draft with an exposure period of 90 days.

Material Presented

Agenda item 5.1

Board Meeting Summary Paper

Agenda item 5.2

Draft ITC and ED

⁴ PS-1 *Quality Control* issued by the New Zealand Institute of Chartered Accountants



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

EXPOSURE DRAFT NZAuASB 2020-2

PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES ENGAGEMENTS (NEW ZEALAND) (ISRS (NZ)) 4400, AGREED-UPON PROCEDURES ENGAGEMENTS

(ED NZAuASB 2020-2)

Invitation to Comment

June 2020

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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 proposed International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, *Agreed-upon Procedures Engagements*.

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

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

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

[\[insert link\]](#)

The closing date for submission is [15 September 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
AUP	Agreed-upon Procedures
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
ISRS	International Standard on Related Services
ISRS (NZ)	International Standard on Related Services (New Zealand)
ITC	Invitation to Comment
XRB	External Reporting Board

Summary of questions for respondents

1. Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, please explain why not.
2. Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, please explain why not.
3. Do you support the way in which the exercise of professional judgement is dealt with in the exposure draft? If not, please explain why not.
4. Is use of the term relevant quality control standards clear? If not, please explain why not and provide suggestions as to an alternative way to describe the relationship to quality control standards.
5. Do you agree with the proposed effective date? If not, please explain why not?
6. Any other comments?

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 2020-2, *Agreed-upon Procedures Engagements*.

1.2 Background

2. Agreed-upon procedures (AUP) engagements are widely used in many jurisdictions and the demand for AUP engagements continues to grow, particularly in relation to the need for increased accountability around funding and grants.
3. In 2015 the IAASB commenced a project to revise its ISRS 4400. The superseded ISRS 4400 was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters. The revised ISRS 4400 was approved by the IAASB at its December 2019 meeting.
4. In August 2018, the New Zealand Regulatory Board released APS-1 (revised) *Agreed Upon Procedures Engagements to Report Factual Findings*. The revision is based on extant Standard on Related Services (ASRS) 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* issued by the Auditing and Assurance Standards Board in Australia.
5. The NZAuASB mandate was revised in 2019 to include related services engagements. It is, therefore, timely for the NZAuASB to consider adopting ISRS 4400 (Revised) in New Zealand.

1.4 Timeline and next steps

6. Submissions on ED 2020-2 are due by 15 September 2020. Information on how to make submissions is provided on page 3 of this Invitation to Comment.
7. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and ISRS (NZ) 4400.

2. Overview of ED NZ 2020-2

2.1 Key Proposals

2.1.1 Independence

8. The ED does not include a precondition that the practitioner be independent when performing an AUP engagement, nor a requirement for the practitioner to determine independence. This is consistent with Professional and Ethical Standard 1 which does not contain independence requirements for an agreed-upon procedures engagement.
9. PES 1 requires practitioners to comply with the fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject

would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.

10. The ED also recognises that national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.
11. APS-1 (revised) requires the member, when conducting an agreed-upon procedures engagement, to comply with ethical requirement equivalent to the ethical requirements applicable to "other assurance engagements". Modifications to the independence requirements are permitted provided the engaging party explicitly agrees to these modifications in the terms of the engagement.
12. Regardless of whether the practitioner is required to be independent, the ED requires disclosure of independence in the report.
13. If the practitioner is not required to be independent and has not otherwise agreed in the terms of the engagement to comply with independence requirements, the AUP report includes a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply.
14. If the practitioner is required to be independent or has agreed in the terms of the engagement to comply with independence requirements, the AUP report includes a statement that the practitioner has complied with relevant ethical requirements and identification of those requirements.

Question for respondents

- 1. Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, please explain why not.**

2.1.2 Restriction on Use

15. The ED does not require the AUP report to be restricted to those parties that have agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter. This is in recognition that AUP reports are often provided to users who are not parties to the terms of the engagement.
16. The ED does, however, require identification of the purpose of the AUP report and a statement that the agreed-upon procedures may not be suitable for another purpose. The ED does not preclude use of a restriction paragraph. Paragraph A54 includes factors the practitioner may consider in deciding whether to restrict the AUP report. The decision on whether to restrict the AUP report rests with the practitioner.
17. APS-1 (revised) requires the use of the report to be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter.

Question for respondents

2. Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, please explain why not.

2.1.3 Use of Professional Judgement

18. The practitioner's use of professional judgement is addressed in paragraphs 13(j), 18 and A21-A23 of the exposure draft.
19. The use of professional judgement in an agreed-upon procedures engagement is limited, but professional judgement is never completely suspended. Accordingly, the exposure draft requires the use of professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement. Application material is included to provide examples of areas where professional judgement may be applied and to explain the unique role that professional judgement plays in an AUP engagement.

Question for respondents

3. Do you support the way in which the exercise of professional judgement is dealt with in the exposure draft? If not, please explain why not.

2.1.4 Relationship to Quality Control Standards

20. ISRS 4400 (Revised) is premised on the basis that the firm is subject to ISQC 1² or requirements that are at least as demanding. There is no equivalent standard issued by the XRB applicable to related services engagements as the scope of Professional and Ethical Standard 3 (Amended)³ does not include related services engagements.
21. The IAASB currently has underway a project to revise its quality standards. These standards are expected to be approved by the IAASB at its September 2020 meeting. Following approval of the IAASB's quality management standards, the NZAuASB will consider proposals to revise PES 3 (Amended). These proposals will include extending the scope of PES 3 (Amended) to include related services engagements, in line with the revised mandate of the XRB.
22. For purposes of this ED, references to ISQC 1 in ISRS 4400 (Revised) are changed to "relevant quality control standards" and mean PS-1⁴ issued by the New Zealand Institute of Chartered Accountants. This is a temporary measure until such time as the NZAuASB's quality standards extend to related services engagements.

² International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

³ Professional and Ethical Standard (PES) 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance*.

⁴ PS-1 *Quality Control* issued by the New Zealand Institute of Chartered Accountants

Question for respondents

- 4. Is use of the term relevant quality control standards clear? If not, please explain why not and provide suggestions as to an alternative way to describe the relationship to quality control standards.**

2.2 Effective Date

23. The proposed effective date of the finalised standard is for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022 and is consistent with the effective date of ISRS 4400 (Revised).
24. An effective date based on the date of the AUP report was not supported by the IAASB as it would not address circumstances when the AUP engagement commences under extant ISRS 4400 (Revised) but is ultimately completed and the AUP report issued after the effective date of ISRS 4400 (Revised).
25. The ED provides guidance to address circumstances when the terms of engagement cover multiple years.

Question for respondents

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

EXPOSURE DRAFT NZAuASB 2020-2

Proposed Standard on Related Services Engagements (New Zealand), *Agreed-upon Procedures Engagements*

The grey shaded material is subject to change to align with the revisions to the proposed standards on quality management, currently under revision by the IAASB.

Introduction

Scope of this ISRS

1. This International Standard on Related Services (New Zealand) (ISRS (NZ)) deals with:
 - (a) The practitioner's responsibilities when engaged to perform an agreed-upon procedures engagement; and
 - (b) The form and content of the agreed-upon procedures report.
2. This ISRS (NZ) applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

*Relationship with Relevant Quality Control Standards*⁵

3. Quality control systems, policies and procedures are the responsibility of the firm. Relevant quality control standards apply to firms of professional accountants in respect of a firm's agreed-upon procedures engagements. The provisions of this ISRS (NZ) regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to relevant quality control standards or requirements that are at least as demanding. (Ref: Para. A3–A8)

Commented [SW1]: References to ISQC 1 are changed to relevant quality control standards. PES 3 (Amended) does not address quality control for related services engagements. It is expected that practitioners follow NZICA standards or requirements that are at least as demanding.

The Agreed-Upon Procedures Engagement

4. In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.
5. The value of an agreed-upon procedures engagement performed in accordance with this ISRS results from:

⁵ For related services engagements, including agreed-upon procedures engagements, relevant quality control standards means PS-1 *Quality Control* issued by the New Zealand Institute of Chartered Accountants.

- (a) The practitioner's compliance with professional standards, including relevant ethical requirements; and
 - (b) Clear communication of the procedures performed and the related findings.
6. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

Authority of this ISRS (NZ)

7. This ISRS (NZ) contains the objectives of the practitioner in following the ISRS (NZ), which provide the context in which the requirements of this ISRS (NZ) are set. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an agreed-upon procedures engagement.
8. This ISRS (NZ) contains requirements, expressed using "shall," that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ISRS (NZ) contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ISRS (NZ).
10. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRS (NZ) that assists in the application of the requirements.

Effective Date

11. This ISRS (NZ) is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. (Ref: Para. A9)

Objectives

12. The practitioner's objectives in an agreed-upon procedures engagement under this ISRS (NZ) are to:
- (a) Agree with the engaging party the procedures to be performed;
 - (b) Perform the agreed-upon procedures; and
 - (c) Communicate the procedures performed and the related findings in accordance with the requirements of this ISRS.

Definitions

13. For purposes of this ISRS (NZ), the following terms have the meanings attributed below:
- (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)
 - (b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)

- (c) Engagement partner⁶ – The partner or other person in the firm who is responsible for the engagement and its performance, and for the agreed-upon procedures report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engaging party – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A11)
- (e) Engagement team – All partners and staff performing the agreed-upon procedures engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.
- (f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ISRS (NZ) exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)
- (g) Intended users – The individual(s) or organisation(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed. (Ref: Para. A10)
- (h) Practitioner – The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ISRS (NZ) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used.
- (i) Practitioner's expert – An individual or organisation possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner's responsibilities for the agreed-upon procedures engagement. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert.
- (j) Professional judgement - The application of relevant training, knowledge and experience, within the context provided by this ISRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.
- (k) Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking agreed-upon procedures engagements. These requirements ordinarily comprise the Professional and Ethical Standard (PES) 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* together with national requirements that are more restrictive.
- (l) Responsible party - The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

Commented [SW2]: Footnote is added for consistency with EG Au4.

Requirements

⁶ "Engagement partner", "partner", and "firm" should be read as referring to their public sector equivalents where relevant.

Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ISRS (NZ)

14. The practitioner shall have an understanding of the entire text of this ISRS (NZ), including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

Complying with Relevant Requirements

15. The practitioner shall comply with each requirement of this ISRS (NZ) unless a particular requirement is not relevant to the agreed-upon procedures engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement.
16. The practitioner shall not represent compliance with this ISRS (NZ) unless the practitioner has complied with all requirements of this ISRS (NZ) relevant to the agreed-upon procedures engagement.

Relevant Ethical Requirements

17. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A14–A20)

Professional Judgement

18. The practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A21–A23)

Engagement Level Quality Control

19. The engagement partner shall take responsibility for:
- (a) The overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner's expert; and (Ref: Para. A24)
 - (b) The engagement being performed in accordance with the firm's quality control policies and procedures by:
 - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
 - (ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon procedures engagement;
 - (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)
 - (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - (v) Taking responsibility for appropriate engagement documentation being maintained.
20. If the work of a practitioner's expert is to be used, the engagement partner shall be satisfied that the practitioner will be able to be involved in the work of a practitioner's expert to an extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report. (Ref: Para. A27)

Engagement Acceptance and Continuance

21. Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)
22. The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A28–A31)
 - (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
 - (b) The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
 - (c) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; (Ref: Para. A32–A36)
 - (d) The practitioner has no reason to believe that relevant ethical requirements will not be complied with; and
 - (e) If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with. (Ref: Para. A37–A38)
23. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.

Agreeing the Terms of the Engagement

24. The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following: (Ref: Para. A39–A40)
 - (a) Identification of the subject matter(s) on which the agreed-upon procedures will be performed;
 - (b) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
 - (c) If applicable, the responsible party as identified by the engaging party, and a statement that the agreed-upon procedures engagement is performed on the basis that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
 - (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;
 - (e) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A37–A38)
 - (f) The nature of the agreed-upon procedures engagement, including statements that:

- (i) An agreed-upon procedures engagement involves the practitioner performing the procedures agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
 - (ii) Findings are the factual results of the agreed-upon procedures performed; and
 - (iii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
- (g) Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
- (h) Identification of the addressee of the agreed-upon procedures report;
- (i) The nature, timing and extent of the procedures to be performed, described in terms that are clear, not misleading and not subject to varying interpretations; and (Ref: Para. A41–A42)
- (j) Reference to the expected form and content of the agreed-upon procedures report.
25. If the agreed-upon procedures are modified during the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A43)

Recurring Agreed-Upon Procedures Engagements

26. On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)

Performing the Agreed-Upon Procedures

27. The practitioner shall perform the procedures as agreed upon in the terms of the engagement.
28. The practitioner shall consider whether to request written representations. (Ref: Para. A45)

Using the Work of a Practitioner's Expert

29. If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A46–A47, 50)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner's expert;
 - (b) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; (Ref: Para. A48–A49)
 - (c) Determine whether the nature, timing and extent of the work performed by the practitioner's expert is consistent with the work agreed with the expert; and
 - (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

The Agreed-Upon Procedures Report

30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)
- (a) A title that clearly indicates that the report is an agreed-upon procedures report;

- (b) An addressee as set forth in the terms of the engagement;
- (c) Identification of the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A52)
- (d) Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; (Ref: Para. A53–A54)
- (e) A description of an agreed-upon procedures engagement stating that:
 - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
 - (ii) Findings are the factual results of the agreed-upon procedures performed; and
 - (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
- (f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
- (g) A statement that the engagement was performed in accordance with ISRS 4400 (Revised);
- (h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;
- (i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
- (j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;
- (k) A statement that the practitioner complies with the ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;
- (l) With respect to independence:
 - (i) If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or
 - (ii) If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;
- (m) A statement that the firm of which the practitioner is a member applies relevant quality control standards, or other professional requirements, or requirements in law or regulation, that are at least as demanding as relevant quality control standards. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as relevant quality control standards;

- (n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement; (Ref: Para. A55–A57)
 - (o) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A55–A56)
 - (p) The practitioner’s signature;
 - (q) The date of the agreed-upon procedures report; and
 - (r) The location in the jurisdiction where the practitioner practices.
31. If the practitioner refers to the work performed by a practitioner’s expert in the agreed-upon procedures report, the wording of the report shall not imply that the practitioner’s responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert. (Ref: Para. A58)
32. If the practitioner provides a summary of findings in the agreed-upon procedures report in addition to the description of findings as required by paragraph 30(o):
- (a) The summary of findings shall be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and
 - (b) The agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.
33. The practitioner shall date the agreed-upon procedures report no earlier than the date on which the practitioner completed the agreed-upon procedures and determined the findings in accordance with this ISRS (NZ).

Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement

34. The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A59)

Documentation

35. The practitioner shall include in the engagement documentation: (Ref: Para. A60)
- (a) The written terms of engagement and, if applicable, the agreement of the engaging party as to modifications to the procedures;
 - (b) The nature, timing and extent of the agreed-upon procedures performed; and
 - (c) The findings resulting from the agreed-upon procedures performed.

Application and Other Explanatory Material

Scope of this ISRS (NZ) (Ref: Para. 2)

- A1. Reference to “subject matters” in this ISRS (NZ) encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.

A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:

- Financial subject matters relating to:
 - The entity's financial statements or specific classes of transactions, account balances or disclosures within the financial statements.
 - Eligibility of expenditures claimed from a funding program.
 - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
 - Capital adequacy ratios for regulatory authorities.
- Non-financial subject matters relating to:
 - Numbers of passengers reported to a civil aviation authority.
 - Observation of destruction of fake or defective goods reported to a regulatory authority.
 - Data generating processes for lottery draws reported to a regulatory authority.
 - Volume of greenhouse gas emissions reported to a regulatory authority.

The above list is not exhaustive. Additional types of subject matters may arise as external reporting demands evolve.

Relationship with Relevant Quality Control Standards (Ref: Para. 3)

A3. Relevant quality control standards deal with the firm's responsibilities to establish and maintain its system of quality control for related services engagements, including agreed-upon procedures engagements. Those responsibilities are directed at establishing:

- The firm's quality control system; and
- The firm's related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.

A4. Under relevant quality control standards, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.⁷

A5. A jurisdiction that has not adopted relevant quality control standards in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRS (NZ) regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of relevant quality control standards. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of relevant quality control standards, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

⁷ ISQC 1, paragraph 11

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

A6. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

A7. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the agreed-upon procedures engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that agreed-upon procedures engagement.

A8. A deficiency in the firm's system of quality control does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.

Effective Date (Ref: Para. 11)

A9. For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement so that the agreed-upon procedures engagements will be conducted in accordance with this ISRS (NZ) on or after the effective date.

Definitions

Engaging Party and Other Intended Users (Ref: Para. 13(a), 13(b), 13(d), 13(g), 24(f)(i), 24(g), 30(e)(i), 30(e)(iii))

A10. In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.

A11. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ISRS include multiple engaging parties when relevant.

Findings (Ref: Para. 13(f))

- A12. Findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results. Findings exclude the expression of an opinion or a conclusion as well as any recommendations that the practitioner may make.
- A13. Practitioners may use the term “factual findings” in place of “findings”, for example, in cases when the practitioner is concerned that the term “findings” may be misunderstood. This may be the case in jurisdictions or languages where the term “findings” may be understood as including results that are not factual.

Relevant Ethical Requirements (Ref: Para. 17)

Objectivity and Independence

- A14. A practitioner performing an agreed-upon procedures engagement is required to comply with relevant ethical requirements. Relevant ethical requirements ordinarily comprise PES 1, together with national requirements that are more restrictive. PES 1 requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.
- A15. PES 1 does not contain independence requirements for agreed-upon procedures engagements. However, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

*Non-Compliance with Laws and Regulations*⁸

- A16. Law, regulation or relevant ethical requirements may:
- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
 - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.⁹
- A17. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
 - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
 - (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.
- A18. The practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the agreed-upon procedures engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional

⁸ Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of PES 1.

⁹ See, for example, paragraphs R360.36 to 360.36A3 of PES 1.

judgement and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A19. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.¹⁰

A20. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).¹¹

Professional Judgement (Ref: Para. 18)

A21. Professional judgement is exercised in applying the requirements of this ISRS (NZ) and relevant ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.

A22. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgement is exercised, for example, in:

Accepting the engagement

- Discussing and agreeing with the engaging party (and if relevant, other parties) the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement).
- Determining whether engagement acceptance and continuance conditions have been met.
- Determining the resources necessary to carry out the procedures as agreed in the terms of the engagement, including the need to involve a practitioner's expert.
- Determining appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.

Conducting the engagement

- Determining appropriate actions or responses if, when performing the agreed-upon procedures, the practitioner becomes aware of:
 - Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations.
 - Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement or that indicate that the information may be misleading.
 - Procedures that cannot be performed as agreed.

¹⁰ See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of PES 1.

¹¹ See, for example, paragraph 360.39 A1 of PES 1.

Reporting on the engagement

- Describing the findings in an objective manner and in sufficient detail, including when exceptions are found.

A23. In conducting the agreed-upon procedures engagement, the need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.
- The agreed-upon procedures and the findings that result from performing those procedures are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
- The findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results.

Engagement Level Quality Control (Ref: Para. 19–20)

A24. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasise the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ISRS (NZ).

A25. **Relevant quality control standards require** the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

A26. **Relevant quality control standards** set out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ISRS (NZ) sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

A27. If the practitioner is unable to meet the requirement in paragraph 20, it may be appropriate for the practitioner to agree with the engaging party to limit the scope of the agreed-upon procedures engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage an expert to perform the other procedures.

Engagement Acceptance and Continuance (Ref: Para. 21–23)

A28. In obtaining an understanding of the purpose of the agreed-upon procedures engagement, the practitioner may become aware of indications that the procedures the practitioner is asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. For example, the practitioner may be aware of facts or circumstances that indicate:

- The procedures are selected in a manner intended to bias the intended users' decision-making.
- The subject matter on which the agreed-upon procedures are performed is unreliable.
- An assurance engagement or advisory service may better serve the needs of the engaging party or other intended users.

A29. Other actions that may satisfy the practitioner that the conditions in paragraphs 21 and 22 are met include:

- Comparing the procedures to be performed with written requirements set out, for example, in law or regulation, or in a contractual agreement (sometimes referred to as the "Terms of Reference"), where appropriate.
- Requesting the engaging party to:
 - Distribute a copy of the anticipated procedures and the form and content of the agreed-upon procedures report as set out in the terms of engagement to the intended user(s).
 - Obtain acknowledgement from the intended user(s) of the procedures to be performed.
 - Discuss the procedures to be performed with appropriate representatives of the intended user(s).
- Reading correspondence between the engaging party and other intended user(s) if the engaging party is not the only intended user.

A30. If the conditions in paragraphs 21 and 22 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party or other intended users. In such circumstances, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.

A31. All the conditions in paragraphs 21 and 22 also apply to procedures that have been added or modified during the course of the engagement.

Descriptions of Agreed-Upon Procedures and Findings (Ref: Para. 22(c))

A32. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some circumstances, law or regulation may also prescribe the way the procedures or findings are to be described in the agreed-upon procedures report. As set out in paragraph 22(c), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

A33. Agreed-upon procedures are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that they are described at a level of specificity sufficient for an intended user to understand the nature and extent and if applicable, the timing, of the procedures performed. It is important to recognize that any term could potentially be used in an unclear or misleading manner, depending on context or the absence thereof. Assuming that the terms

are appropriate in the context in which they are used, examples of descriptions of actions that may be acceptable include:

- Confirm.
- Compare.
- Agree.
- Trace.
- Inspect.
- Inquire.
- Recalculate.
- Observe.

A34. Terms that may be unclear, misleading, or subject to varying interpretations depending on the context in which they are used, may include, for example:

- Terms that are associated with assurance under the IAASB's Standards such as "present fairly" or "true and fair," "audit," "review," "assurance," "opinion," or "conclusion."
- Terms that imply expression of an assurance opinion or conclusion such as "we certify," "we verify," "we have ascertained" or "we have ensured" with regard to the findings.
- Unclear or vague phrases such as "we obtained all the explanations and performed such procedures as we considered necessary."
- Terms that are subject to varying interpretations such as "material" or "significant."
- Imprecise descriptions of procedures such as "discuss," "evaluate," "test," "analyse" or "examine" without specifying the nature and extent, and if applicable, the timing, of the procedures to be performed. For example, using the word "discuss" may be imprecise without specifying with whom the discussion is held or the specific questions asked.
- Terms that suggest that the findings do not reflect factual results such as "in our view," "from our perspective" or "we take the position that."

A35. For example, a procedure such as "review cost allocations to determine if they are reasonable" is unlikely to meet the condition for terms to be clear, not misleading, or not subject to varying interpretations because:

- The term "review" may be misinterpreted by some users to mean that the cost allocation was the subject of a limited assurance engagement even though no such assurance is intended by the procedure.
- The term "reasonable" is subject to varying interpretations as to what constitutes "reasonable."

A36. In circumstances when law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 22(c) by, for example, requesting the engaging party to:

- Modify the procedure or the description of the procedure so that it is no longer unclear, misleading, or subject to varying interpretations.

- If a term that is unclear, misleading or subject to varying interpretations cannot be amended, for example because of law or regulation, include a definition of the term in the agreed-upon procedures report.

Compliance with Independence Requirements (Ref: Para. 22(e), 24(e))

A37. Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering engagement acceptance and continuance or agreeing the terms of engagement, the practitioner's knowledge of the following matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate for the purpose of the agreed-upon procedures engagement:

- The purpose of the agreed-upon procedures engagement;
- The identity of the engaging party, other intended users and responsible party (if different from the engaging party);
- The nature, timing and extent of the procedures to be performed; or
- Other engagements that the practitioner is performing or has performed for the engaging party, other intended users or the responsible party (if different from the engaging party).

A38. The practitioner may be the auditor of the financial statements of the engaging party (or responsible party if different from the engaging party). In such a circumstance, if the practitioner is also engaged to conduct an agreed-upon procedures engagement, intended users of the agreed-upon procedures report may assume that the practitioner is independent for the purpose of the agreed-upon procedures engagement. Therefore, the practitioner may agree with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. In such a case, a statement that the practitioner is required to comply with such independence requirements is included in the terms of the engagement, in accordance with paragraph 24(e).

Agreeing the Terms of the Engagement (Ref: Para. 24–25)

A39. When relevant, additional matters may be included in the engagement letter, for example:

- Arrangements concerning the involvement of a practitioner's expert in some aspects of the agreed-upon procedures engagement.
- Any restrictions on the use or distribution of the agreed-upon procedures report.

A40. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.

A41. The practitioner may agree with the engaging party that the procedures to be performed will include quantitative thresholds for determining exceptions. If so, these quantitative thresholds are included in the descriptions of the procedures in the terms of the engagement.

A42. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 24(i), the practitioner agrees the timing and extent of procedures to be performed with the engaging party so that the engaging party has a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement.

A43. In some circumstances, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other circumstances, agreeing the terms of engagement and performing the agreed-upon procedures is an iterative process, with changes to the agreed-upon procedures being agreed as the engagement progresses in response to new information coming to light. If procedures that have been previously agreed upon need to be modified, paragraph 25 requires the practitioner to agree the amended terms of engagement with the engaging party. The amended terms of engagement may, for example, take the form of an updated engagement letter, an addendum to an existing engagement letter, or other form of written acknowledgement.

Recurring Engagements (Ref: Para. 26)

A44. The practitioner may decide not to send a new engagement letter or other written agreement for a recurring engagement. However, the following factors may indicate that it is appropriate to revise the terms of the engagement, or to remind the engaging party of the existing terms of the engagement:

- Any indication that the engaging party misunderstands the purpose of the agreed-upon procedures engagement or the nature, timing or extent of the agreed-upon procedures.
- Any revised or special terms of the engagement, including any changes in the previously agreed-upon procedures.
- A change in legal, regulatory or contractual requirements affecting the engagement.
- A change in management or those charged with governance of the engaging party.

Performing the Agreed-Upon Procedures (Ref: Para. 28)

A45. The practitioner may decide to request written representations in some circumstances, for example:

- If the agreed-upon procedures involve inquiries, the practitioner may request written representations on the responses that have been provided verbally.
- If the engaging party is not the responsible party, the practitioner may agree with the engaging party to include, as an agreed-upon procedure, requests for written representations from the responsible party.

Using the Work of a Practitioner's Expert (Ref: Para. 29)

A46. Using the work of a practitioner's expert may involve the use of an expert to assist the practitioner in:

- Discussing with the engaging party the agreed-upon procedures to be performed. For example, a lawyer may provide suggestions to the practitioner on the design of a procedure to address legal aspects of a contract; or
- Performing one or more of the agreed-upon procedure(s). For example, a chemist may perform one of the agreed-upon procedures such as determining the toxin levels in a sample of grains.

A47. A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality control. The practitioner is

entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ISRS (NZ).

A48. If the practitioner's expert is performing one or more of the agreed-upon procedure(s), the agreement of the nature, scope and objectives of that expert's work as required by paragraph 29(b) includes the nature, timing and extent of the procedure(s) to be performed by the practitioner's expert. In addition to the matters required by paragraph 29(b), it may be appropriate for the practitioner's agreement with the practitioner's expert to include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A49. The matters noted in paragraph A47 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and the practitioner's external expert is often in the form of an engagement letter.

A50. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 29 at the engagement acceptance or continuance stage.

The Agreed-Upon Procedures Report (Ref: Para. 30–33)

A51. Appendix 2 contains illustrations of agreed-upon procedures reports.

Subject Matter on which the Agreed-Upon Procedures Are Performed (Ref: Para. 30(c))

A52. If applicable, to avoid misunderstanding, the practitioner may wish to clarify that the agreed-upon procedures report does not extend to information beyond subject matters on which the agreed-upon procedures are performed. For example, if the practitioner was engaged to perform agreed-upon procedures on an entity's accounts receivable and inventory, the practitioner may wish to include a statement that the agreed-upon procedures report relates only to these accounts and does not extend to the entity's financial statements taken as a whole.

Purpose of the Agreed-Upon Procedures Report (Ref: Para. 30(d))

A53. In addition to the statement required by paragraph 30(d), the practitioner may consider it appropriate to indicate that the agreed-upon procedures report is intended solely for the engaging party and the intended users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the agreed-upon procedures report. In some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In

other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures report but not its use.

A54. Factors that the practitioner may consider in deciding whether to restrict the distribution or use of agreed-upon procedures report (if permitted to do so) include, for example whether:

- There is an elevated risk of users other than the intended users misunderstanding the purpose of the agreed-upon procedures engagement or misinterpreting the findings.
- The agreed-upon procedures are designed solely for the use of internal users such as management and those charged with governance of the engaging party.
- The agreed-upon procedures or findings involve confidential information.

Agreed-Upon Procedures and Findings (Ref: Para. 30(n)–30(o))

A55. If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:

- Consulting internally (for example, within the firm or network firm);
- Consulting externally (for example, with the relevant professional body or another practitioner); or
- Obtaining legal advice,

to understand the professional or legal implications of taking any particular course of action.

A56. There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.

A57. The practitioner may refer to the date when the agreed-upon procedures were agreed in the terms of the engagement.

Reference to Practitioner's Expert (Ref: Para. 31)

A58. In some circumstances, law or regulation may require a reference, in the agreed-upon procedures report, to a practitioner's expert who performed any of the agreed-upon procedures. For example, such a reference may be required for the purposes of transparency in the public sector. The practitioner may also consider it appropriate in other circumstances, for example, when referring to the practitioner's expert when describing the agreed-upon procedures. Nonetheless, the practitioner has sole responsibility for the findings included in the agreed-upon procedures report, and that responsibility is not reduced by the use of the practitioner's expert. It is important therefore that if the agreed-upon procedures report refers to the practitioner's expert, the report does not imply that the practitioner's responsibility is reduced because of the reference to the practitioner's expert.

Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement (Ref: Para. 34)

A59. A practitioner may be requested to perform other engagements together with the agreed-upon procedures engagement, such as providing recommendations arising from the agreed-upon

procedures engagement. Such requests may take the form of one request for the practitioner to perform agreed-upon procedures and make recommendations, and the terms of the various engagements may be set out in a single engagement letter. To avoid misunderstanding, paragraph 34 requires that the agreed-upon procedures report be clearly distinguished from the reports of other engagements. For example, the recommendations may be:

- Provided in a separate document from the agreed-upon procedures report; or
- Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon procedures report and the recommendations in separate sections of the document.

Documentation (Ref: Para. 35)

A60. Documentation of the nature, timing and extent of the agreed-upon procedures performed may include a record of, for example:

- The identifying characteristics of the subject matter(s) on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matter(s) on which the agreed-upon procedure is performed. For example:
 - For a procedure on purchase orders, the practitioner may identify the documents selected by their dates and unique purchase order numbers.
 - For a procedure requiring selection of all items over a specific amount from a given population, the practitioner may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register for a specific period, all timesheets for hours recorded over a certain number for specified months or every tenth item on a specific list).
 - For a procedure requiring inquiries of specific personnel, the practitioner may record the dates of the inquiries, the names and job designations of the personnel and the specific inquiries made.
 - For an observation procedure, the practitioner may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.
- Who performed the agreed-upon procedures and the date such procedures were performed.
- Who reviewed the agreed-upon procedures performed, and the date and extent of such review.

Appendix 1

(Ref: Para. A40)

Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

The following is an example of an engagement letter for an agreed-upon procedures engagement that illustrates the relevant requirements and guidance contained in this ISRS (NZ). This letter is not authoritative and is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISRS (NZ). It will need to be adapted according to the requirements and circumstances of individual agreed-upon procedures engagements. It is drafted to refer to an agreed-upon procedures engagement for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ISRS (NZ). It may be appropriate to seek legal advice that any proposed letter is suitable.

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement on the procurement of [xyz] products. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent.

An agreed-upon procedures engagement performed under ISRS (NZ) 4400 involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your procurement of [xyz] products is compliant with your procurement policies.¹² Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

We have agreed to perform the following procedures and report to you the findings resulting from our work:

- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products ("listing") and identify all contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether each contract was subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List."
- For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the contractor and determine whether the amount ultimately paid is the same as the agreed amount in the contract.

¹² In this case, the engaging party is also the intended user.

The procedures are to be performed between [Date] and [Date].

Our Agreed-Upon Procedures Report

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report].

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm's name]

Acknowledged and agreed on behalf of [Engaging party's name] by:

[Signature]

[Name and Title]

[Date]

Appendix 2

(Ref: Para. A51)

Illustrations of Agreed-Upon Procedures Reports

Illustration 1

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the addressee and the only intended user. The engaging party is not the responsible party. For example, the regulator is the engaging party and intended user, and the entity overseen by the regulator is the responsible party.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is no restriction on the use or distribution of the report.
- There are no independence requirements with which the practitioner is required to comply.
- A quantitative threshold of \$100 for reporting exceptions in Procedure 3 has been agreed with the engaging party.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressee]

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting [Engaging Party] in determining whether its procurement of [xyz] products is compliant with its procurement policies and may not be suitable for another purpose.

Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in [describe the relevant ethical requirements]. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies [describe relevant quality control standards], and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the procurement of [xyz] products.

	Procedures	Findings
1	Obtain from management of [Responsible Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products ("listing") and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1]. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]'s "Pre-qualified Contractors List."	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]'s "Pre-qualified Contractors List."
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Responsible] to the contractor and determine whether the amount ultimately paid is within \$100 of the agreed amount in the contract.	We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Responsible Party] to the contractor. We found that the amounts ultimately paid were within \$100 of the agreed amounts in all of the 37 contracts with no exceptions noted.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

Illustration 2

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the responsible party. The intended user, who is different from the engaging party, is an addressee in addition to the engaging party. For example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.
- Exceptions were found.
- The practitioner engaged a practitioner's expert to perform an agreed-upon procedure and a reference to that expert is included in the agreed-upon procedures report.
- There is a restriction on the use and distribution of the report.
- The practitioner is the auditor of the financial statements of the engaging party (who is the responsible party). The practitioner has agreed with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressees]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting [Intended User] in determining whether the [Engaging Party]'s procurement of [xyz] products is compliant with [Intended User]'s procurement policies and may not be suitable for another purpose. This report is intended solely for [Engaging Party] and [Intended Users], and should not be used by, or distributed to, any other parties.

Responsibilities of the Engaging Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Engaging Party (also the Responsible Party)] is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in [describe the relevant ethical requirements] and the independence requirements in accordance with [describe the relevant independence requirements].¹³

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party] in the terms of engagement dated [DATE], on the procurement of [xyz] products.

	Procedures	Findings
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products ("listing") and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1]. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.

¹³ For example, if PES 1 is the relevant ethical requirements and Part 4A of PES 1 is the relevant independence requirements, this sentence may be worded along the following: "We have complied with the ethical requirements of Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) and the independence requirements in Part 4A of PES 1."

2	<p>For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List." For records of bidding that were submitted in [foreign language], translate the records of bidding with the assistance of a translator engaged by the practitioner before performing the comparison.</p>	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. Of the records of bidding related to the 37 contracts, 5 were submitted in [foreign language]. We engaged a translator to assist us in the translation of these 5 records of bidding.</p> <p>We found that 36 of the 37 contracts were subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List."</p> <p>We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.</p> <p>The engagement of the translator to assist us in the translation of the records of bidding does not reduce our responsibility for performing the procedures and reporting the findings.</p>
3	<p>For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the supplier and determine whether the amount ultimately paid is the same as the agreed amount in the contract.</p>	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Engaging Party] to the supplier.</p> <p>We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X1.</p>

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1
Meeting date: 3 June 2020
Subject: Update on the XRB's COVID-19 response
Date: 20 May 2020
Prepared By: Sylvia van Dyk

Action Required

For Information Purposes Only

Agenda Item Objectives

- i. To receive an update from the XRB Chair, and to have an opportunity to ask questions, about the XRB's strategic approach in response to the impact of Covid-19 on financial reporting and the assurance framework in New Zealand.
- ii. To note the proposed XRB actions to Covid-19 and provide feedback on any further actions to consider.
- iii. To note and provide any fatal flaw feedback on the NZASB's proposed additional going concern disclosures.

Background

High level overview of the XRB strategic Approach

1. Michele Embling will join the Board for this agenda item to provide an overview on the XRB's approach to Covid-19, and to answer any questions you may have about the XRB's strategic approach.
2. The XRB Board has agreed an overall COVID-19 response structure and response, to meet the following objective:

A cross-organisation team working proactively, collaboratively, with agility and transparency, leveraging from the unique structure, skills and experience of the XRB Boards to ensure the XRB effectively manage the risks that Covid-19 poses to the XRB's financial reporting framework and to the trust and confidence in the standards issued by the XRB, NZASB and NZAuASB. The XRB should also identify the opportunities presented at this time.

3. The XRB has identified the following risks and opportunities:

Risks:

- Framework and standards judged with the benefit of hindsight not to have supported NZ
- Users believe that they did not get the information they thought necessary to make decisions
- Lack of confidence in the capital markets linked back to standards
- As an organisation the XRB is siloed and operating as separate parts and not coordinated
- Relevance of the XRB challenged.

Opportunities:

- Improve and strengthen important relationships with stakeholders
 - Strengthen relationships with international standard setters
 - Raise profile and relevance of the XRB
 - Improve how we operate as an organisation and ensure that we are one XRB structure and operate as one XRB team
 - Development for our people (CE, and Directors) in leading the organisation and co-ordination
 - Reassess operations and structures from lessons learned.
4. The XRB Board has developed a Response Structure to assist the Board to determine how to position the XRB organisation to best respond to the risks and opportunities during the immediate Covid-19 period, driven by 31 March and 30 June reporting deadlines. The working group (consisting of the CE, XRB Chair and Deputy Chair, Chairs of the NZASB and the NZAuASB and the two Directors) envisages meeting briefly every two weeks to act as an oversight and advise mechanism for the XRB Covid-19 response.
 5. Overtime the XRB will need to consider whether the Framework needs to change as the New Zealand economy/market will look very different. The Board acknowledges the tension between processes and responsiveness; and that solutions might need to be temporary rather than permanent, which is different from how the XRB has operated previously. The XRB Response Structure diagram is included in Appendix 1 for noting,
 6. The table at Appendix 2 provides a summary and an update on the status of the proposed XRB actions.

Proposals to improve going concern disclosures

7. At the joint meeting of the NZAuASB and the New Zealand Accounting Standards Board (NZASB) in February 2020, the Boards considered ways in which they could work to influence the international debate to develop a holistic solution to calls for increased focus on the going concern assessment by those charged with governance, management and auditors.
8. Feedback from the joint Board meeting indicated support for accounting standards to include enhanced disclosure requirements for entities to provide better information about management's assessment of an entity's ability to continue as a going concern – especially when this decision required significant judgement and/or included consideration of material uncertainties.
9. Both Boards agreed, as an outcome of the joint meeting, to consider ways in which they could seek to influence the international debate on improving going concern disclosures. However, in response to the COVID-19 pandemic, which suggests that a timelier response is needed, the NZASB decided at its 7 May 2020 meeting to commence a domestic project to develop improved going concern disclosure requirements.
10. The NZASB is planning to approve an ED at its meeting on 4 June and is keen to receive feedback from the NZAuASB of a fatal flaw nature. There will be further opportunity to provide comments during the exposure period.
11. Anthony Heffernan, Director Accounting Standards, has prepared a memo outlining the proposals on improving going concern disclosures, which is available at agenda 6.2 for the Board's consideration.

Matters to Consider

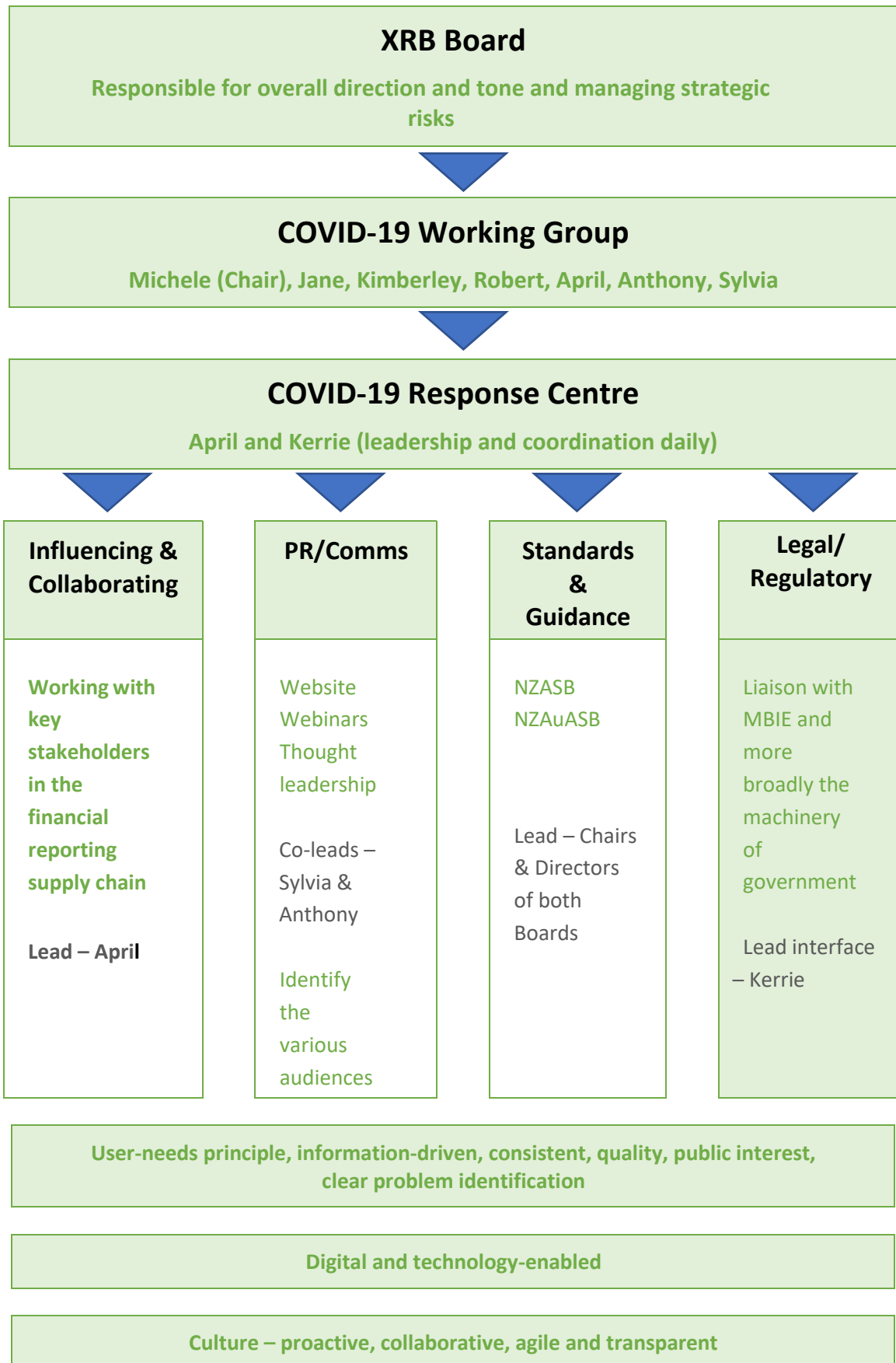
- i. Does the Board have any questions for the XRB Chair on the XRB's strategic approach?
- ii. The proposed NZASB and NZAuASB actions in support of the XRB's approach to COVID-19, is summarised in Appendix 2. Are there any other actions that should be considered?
- iii. Does the Board have any fatal flaw comments on the proposals to improve going concern disclosures, as outlined in the memo at agenda 6.2?

Material Presented

Agenda item 6.1
Agenda item 6.2

Board Meeting Summary Paper
Memo on proposals to improve going concern disclosures

APPENDIX 1: XRB RESPONSE STRUCTURE










APPENDIX 2 : Planned XRB actions in response to COVID-19




The proposed XRB actions will require review and amendment over time as the current impact of the COVID-19 pandemic and the resulting economic impact continues to evolve – the actions below represent our current thinking.





Short-term actions have either already been completed or are currently in progress.






The table below includes actions that will be conducted by both the NZASB and NZAuASB, actions noted as completed by “Both” are where the NZASB and NZAuASB will work together to develop an XRB organisational response.



Planned XRB Actions	Update 21 May 2020	Lead by	Short-term	Medium-term	Long-term
General					
XRB webpage: Collation of guidance and other useful information issued by other parties related to COVID-19 implications for accounting and auditing standards on a dedicated XRB COVID-19 webpage. This will include leveraging of guidance issued by IASB, IPSASB and IAASB (and other parties). Link to XRB COVID-19 Webpage	Done The website is live and is continually being updated. The website has been advertised through XRB Newsletters and CA ANZ and CPA communications.	Staff			
Release XRB Position Statement in response to COVID-19 COVID-19: Trust and Confidence—XRB's actions	Done E-mail sent to all stakeholders on 28 April from CE and XRB Chair setting out overall response to COVID-19.	CEO			
Conducting focused constituent engagement activities to stay ahead of the curve on accounting and assurance issues in response to COVID-19 as they start to evolve – based on issues identified appropriate actions in response will be considered.	Ongoing <i>Recent activities</i> <ul style="list-style-type: none"> Recent meetings with FMA, Charities Services, Treasury, OAG, IFINZ, assurance leaders. CA ANZ webinar panel discussion (NZASB and NZAuASB Director) on reporting and auditing implications of COVID-19 SOLGM webinar (NZASB Director) on accounting implications of COVID- 	Staff	 1	 2	

	19 for local government.				
Reconsideration of NZASB and NZAuASB Work Plan and priorities to allow for increased resource capacity to appropriately respond to COVID-19 (this will include taking into account changes to the IASB, IPSASB and IAASB Work Programs).	<p style="text-align: center;">Ongoing</p> <p><i>Recent activities</i></p> <ul style="list-style-type: none"> The updated NZASB Work Plan considered at their 7 May meeting. The updated NZAuASB Work Plan will be considered at their July meeting 	Both			
Use of the regular NZASB/NZAuASB Update online newsletters and other XRB communication channels to highlight international and local standard-setting developments in response to COVID-19.	<p style="text-align: center;">Ongoing</p> <p><i>Recent activities</i></p> <ul style="list-style-type: none"> 4 NZASB Update Newsletters have been issued from March 2020 highlighting actions response to COVID-19 4 NZAuASB Update Newsletters have been issued from March 2020 highlighting actions response to COVID-19. 25 + posts on XRB LinkedIn Page promoting the awareness of accounting and auditing response to COVID19. Article in the NBR 	Staff			
<p>Consider issuing a statement from the XRB and/or some other form of guidance to users to explain:</p> <ul style="list-style-type: none"> more material uncertainties on going concern are likely given the uncertain outlook for many entities; what the various audit reports mean: unmodified, qualified, disclaimer, adverse the accounting and auditing standards on going concern have not changed, key messages for directors and those charged with governance in relation to going concern disclosure and assurance requirements This could be supported by short video, 	<p style="text-align: center;">Done</p> <ul style="list-style-type: none"> Guidance issued aimed at users on what the various audit reports means <p style="text-align: center;">In Progress</p> <ul style="list-style-type: none"> Guidance on key messages for directors and those charged with governance on going concern disclosure planned to complete during May. 	XRB			

newsletter, articles, press releases.					
<p>Continue to liaise with international and national standard-setters on their response to COVID-19, to identify:</p> <ul style="list-style-type: none"> resources to add to XRB website; and any emerging accounting or assurance issues arising around the world <p>Based on any issues identified appropriate actions in response will be considered.</p>	<p style="text-align: center;">Ongoing</p> <ul style="list-style-type: none"> Director Assurance Standards participated in 2 IAASB/NSS coordination meetings during April Director and NZAuASB Chair participated in IAASB and IESBA NSSs May meeting to share actions to date. 	Staff			
<p>Encourage international standard-setters that have not yet done so to review their Work Plans in response to disruptions caused by COVID-19 (e.g. the IPSASB). This could include extending the comment period for their documents currently open for comment.</p>	<p style="text-align: center;">Done</p> <ul style="list-style-type: none"> Director of Accounting Standards together with the IPSASB New Zealand member encouraged the IPSASB to consider the comment period for documents currently open for comment. As a result of pressure from New Zealand and other national standard-setters the comment period for IPSASB ED 70, ED 71 and ED 72 has been extended. The IASB has recently reconsidered their Work Plan in response to COVID-19, resulting in deferrals of the effective date of new standards and extensions to comment periods. 	Staff			
<p>Raise accounting and assurance issues arising from COVID-19 (identified from local constituent engagement activities) with the IASB, IPSASB and IAASB to promote an international standards-setters response.</p>	<p style="text-align: center;">Ongoing</p> <ul style="list-style-type: none"> NZAuASB staff participating in discussions at the IAASB to consider the international response to COVID-19. NZASB Chair has discussed going concern disclosure matters with IASB staff 	Staff			

	<ul style="list-style-type: none"> The IPSASB's response to COVID-19 will be discussed at their June meeting, where the New Zealand members will raise any domestic concerns noted. 				
Continue to liaise on a regular basis with regulators (e.g. FMA and Charities Services) to discuss issues in response to COVID-19 – based on issues identified appropriate actions in response will be considered.	<p style="text-align: center;">Done</p> <ul style="list-style-type: none"> The CE and Directors have recently met with FMA and Charities Services and all parties agreed to maintain an ongoing dialogue and coordinated approach in response to COVID-19. 	Staff			
Liaise with other organisations, for example the Institute of Directors, on key accounting and assurance requirements for which directors should give increased attention to in response to COVID19 – based on any issues identified appropriate actions in response will be considered.	<p style="text-align: center;">In progress</p> <ul style="list-style-type: none"> Articles to be developed (with an initial focus on going concern) over the month of May 2020. 	Staff			
NZAuASB specific activities					
In response to specific COVID-19 assurance issues, identified from general activities above, consider if any changes are required to assurance standards or where additional guidance should be developed (to the extent necessary and appropriate in accordance with our current standard-setting framework).	<p style="text-align: center;">Ongoing</p> <ul style="list-style-type: none"> None identified to date. 	NZAuASB			
NZASB specific activities					
For-profit: Tier 1 and Tier 2					
Consider developing local standards-level guidance on disclosures in relation to the going concern assumption where there are material uncertainties. This guidance would be developed in consultation with the NZAuASB.	<p style="text-align: center;">Done</p> <ul style="list-style-type: none"> NZASB to consider proposed amendments to improve going concern disclosures at its June meeting. 	NZASB			

<p>Other awareness raising activities to highlight why current accounting requirements continue to remain fit-for-purpose and important during this period of business disruption and increased uncertainty. This could include developing talking points for staff and Board members on the importance of for-profit standards remaining converged with IFRS.</p>	<p style="text-align: center;">In progress</p> <ul style="list-style-type: none"> To be developed by end of May 2020. 	<p style="text-align: center;">Staff</p>			
PBE: Tier 1 and Tier 2					
<p>Consider developing local standard level guidance on disclosures in relation to the going concern assumption where there are material uncertainties. This guidance would be developed in consultation with the NZAuASB.</p>	<p style="text-align: center;">Done</p> <ul style="list-style-type: none"> NZASB to consider proposed amendments to improve going concern disclosures at its June meeting. 	<p style="text-align: center;">NZASB</p>			
<p>Consider whether to defer the effective date on any new PBE Standards issued but not yet effective (based on consideration of cost/benefit arguments).</p>	<p style="text-align: center;">Done</p> <ul style="list-style-type: none"> Included on 7 May NZASB Agenda. The NZASB is considering whether to provide some form of relief for PBE FRS 48 <i>Service Performance Reporting</i> 	<p style="text-align: center;">NZASB</p>			
PBE: Tier 3 and Tier 4					
<p>Consider whether additional guidance is needed (either in the simple format standards or through staff Q&A's) in response to issues identified through constituent outreach activities (going concern has been identified as an area where additional guidance could be helpful). This guidance would be developed in consultation with the NZAuASB.</p>	<p style="text-align: center;">In progress</p> <ul style="list-style-type: none"> Plan is to take proposals to the June NZASB meeting. 	<p style="text-align: center;">NZASB</p>			
<p>Liaise with Charities Services to develop initiatives to help support (to the extent appropriate in our role as a standard-setting body) the large number of Tier 3 and Tier 4 charities in meeting their reporting and assurance requirements during this period – in response to the</p>	<p style="text-align: center;">In progress</p> <ul style="list-style-type: none"> Will be developed through ongoing dialogue with Charities Services. 	<p style="text-align: center;">Staff</p>			

significant impact on volunteer resources and funding expected as a result of COVID19.					
Liaise with other Tier 3 and Tier 4 representative groups to monitor the accounting challenges arising from the application of the simple format reporting standards in response to COVID19 related issues.	<p style="text-align: center;"><i>In progress</i></p> <ul style="list-style-type: none"> Will be progressed through general constituent t engagement activities (with a focus in COVID-19) – this will involve, for example, presenting and receiving feedback from NFP Special Interest Groups. 	Staff			
Reconsider the <i>Tier 3 & Tier 4 Post-Implementation Review</i> project plan in response to COVID-19.	<p style="text-align: center;"><i>Ongoing</i></p> <ul style="list-style-type: none"> The Tier 3 and Tier 4 PiR project has been commenced. Staff will consider the implications of COVID-19 and the impact in the project plan as the project is advanced. 	NZASB			



Date: 19 May 2020
To: Members of the NZAuASB
From: Anthony Heffernan, Director Accounting Standards
Subject: **Improving going concern disclosures**

Introduction and purpose¹

1. The purpose of this agenda item is to provide an overview and seek COMMENTS from the NZAuASB on the recently commenced NZASB project to improve disclosures about going concern through amendments to our accounting standards for Tier 1 and Tier 2 for-profit and public benefit entities (PBEs).
2. This domestic project on going concern disclosures will involve developing additional going concern disclosures through amendments to FRS-44 *New Zealand Additional Disclosures* and PBE IPSAS 1 *Presentation of Financial Statements*.
3. We welcome the NZAuASB's feedback on the draft proposed additional going concern disclosures provided in [paragraph 35](#).

Background

4. At the joint meeting of the NZASB and NZAuASB in February 2020 the Boards considered ways in which they could work to influence the international debate to develop a holistic solution to calls for increased focus on the going concern assessment by those charged with governance, management and auditors.
5. Feedback from the joint Board meeting indicated support for accounting standards to include enhanced disclosure requirements for entities to provide better information about management's assessment of an entity's ability to continue as a going concern – especially when this decision required significant judgement and/or included consideration of material uncertainties.
6. The joint Board meeting paper highlighted that:

It was not clear what 'adequate disclosure' should look like in financial statements prepared on a going concern basis, where there was material uncertainty relating to an event or condition that cast significant doubt on the entity's ability to continue as a going concern.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

7. It was also noted that there were inconsistencies between the:
 - (a) going concern disclosure requirements in the accounting standards; and
 - (b) specific information the auditing standards expected an entity to disclose when significant judgement and/or material uncertainties were involved in the going concern assessment.
8. When assessing the adequacy of going concern disclosures, the auditor is required to assess the inclusion of information that is considered by some to be more specific than the disclosures required by the accounting standards.
9. Both Boards agreed, as an outcome of the joint meeting, to consider ways in which they could seek to influence the international debate on improving going concern disclosures. However, in response to the COVID-19 pandemic, which suggests that a timelier response is needed, the NZASB has decided at its 7 May 2020 meeting to commence a domestic project to develop improved going concern disclosure requirements.
10. The impact of COVID-19 is expected to have a significant impact on the going concern position of a large number of entities in New Zealand. Some entities which were previously a going concern may no longer be. Many other entities will be required to apply significant judgement and will be required to consider the impact of material uncertainties in assessing the entity's ability to continue as a going concern.
11. Therefore, we believe that the economic impacts of COVID-19 will put added pressure on entities to provide users with relevant and useful information about:
 - (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and
 - (b) management's plans to address any material uncertainties around the entity's ability to continue as a going concern.

Current project status

12. The NZASB at its 7 May 2020 meeting agreed:
 - (a) to add a domestic project on going concern disclosures to its Work Plan;
 - (b) the scope would be focused on situations where an entity determines the going concern basis of preparation applies, but that assessment has involved significant judgement and/or the consideration of material uncertainty;
 - (c) the proposed amendments would be based on the going concern disclosure expectations contained in ISA (NZ) 570 (to the extent appropriate and useful); and
 - (d) the proposed amendments would be developed for Tier 1 and Tier 2 for-profit entities and Tier 1 and Tier 2 PBEs.
13. Staff are currently developing Exposure Drafts and Invitations to Comment for amendments to FRS-44 and PBE IPSAS 1 for consideration at the 4 June NZASB meeting. In this memo we have provided a preliminary draft of the proposed new disclosures.

14. The NZASB decided that it would be better to consider improved going concern disclosures for Tier 3 and Tier 4 PBEs as a separate project which could include amendments to the Tier 3 and Tier 4 PBE Standards or additional guidance in the form of staff “Q&As” on existing requirements.
15. In addition to the domestic standards-level project on going concern disclosures, we will:
 - (a) continue to seek to influence the International Boards to add a project on going concern (which could be broader than just disclosure) to their respective Work Plans; and
 - (b) in the interim, as part of the XRB’s response to COVID-19, develop in conjunction with the NZAuASB, non-authoritative guidance to explain the key messages for directors and those charged with governance in relation to going concern disclosures and the associated assurance requirements.

Structure of this memo

16. The remainder of this paper is organised as follows:
 - (a) Current disclosure requirements in accounting and auditing standards
 - (b) Tension between the accounting and auditing standards
 - (c) Draft proposed going concern disclosures
 - (d) Appendix 1: Extracts from accounting and auditing standards
 - (e) Appendix 2: Example of going concern disclosures

Current disclosure requirements in accounting and auditing standards

Going concern disclosure requirements — Accounting Standards

17. Paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires any material uncertainties about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern to be disclosed in the financial statements.

Going concern	
25	When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.
26	In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial

resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

18. In addition to the above requirements dealing with going concern, the general disclosure requirements in paragraph 122 of NZ IAS 1 would also be relevant when an entity has been required to apply significant judgements to reach the view that:
- (a) there are no material uncertainties related to events or conditions that cast significant doubt upon an entity’s ability to continue as a going concern; or
 - (b) there are material uncertainties related to events or conditions that cast significant doubt upon an entity’s ability to continue as a going concern (but ultimately the entity has determined that it should prepare its financial statements on a going concern basis) that require disclosure in accordance with paragraph 25 of NZ IAS 1.

122 An entity shall disclose along with significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the progress of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

19. Paragraph 125 of NZ IAS 1 may also be relevant if the assumptions and uncertainties considered as part of the going concern assessment also represented estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Therefore, the application of paragraph 125 may result in entities’ providing useful information about the realisable amount of assets and liabilities where an entity has applied significant judgement or there are material uncertainties related to the going concern assessment.

Sources of estimation uncertainty

125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature, and**
- (b) their carrying amount as at the end of the reporting period.**

20. PBE IPSAS 1 includes disclosure requirements that are substantially aligned with the for-profit disclosure requirements discussed above.
21. Full extracts from NZ IAS 1 in relation to the paragraphs noted above and the equivalent paragraphs in PBE IPSAS 1 are provided in [Appendix 1](#).

Going concern disclosure considerations — Auditing Standards

- 22. When applying New Zealand Auditing Standards, an auditor is required to consider the adequacy of disclosures in relation to management’s assessment of going concern, with the primary audit requirements set out in paragraphs 19 and 20 of ISA (NZ) 570.
- 23. There are broadly four categories of going concern circumstances for which the auditing standards provide different considerations when providing assurance over the adequacy of a reporting entity’s going concern disclosures:

(a)	No events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern.
(b)	Events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern – but these are not considered material uncertainties. <i>(ISA (NZ) 570, paragraph 20)</i>
(c)	Events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern – which are considered material uncertainties, but the going concern basis of accounting is considered to remain appropriate. <i>(ISA (NZ) 570, paragraph 19)</i>
(d)	Management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, resulting in the going concern basis of accounting no longer being considered appropriate.

- 24. The current project focuses on the shaded categories (b) and (c) which cover the scenarios of when an entity determines that the going concern basis should be applied but making this assessment has involved significant judgement and/or consideration of material uncertainties. The auditing standards include specific disclosure expectations about management’s basis for the going concern assessment in these circumstances.
- 25. Paragraph 19 of ISA (NZ) 570 relates to circumstances in which management has assessed the entity as continuing to be a going concern, but material uncertainties have been identified and considered in forming this view (i.e. the scenario described in paragraph 22(c) above).

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists	
19	If the auditor concludes that management’s use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: <ul style="list-style-type: none"> (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and management’s plans to deal with these events or conditions; and (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

26. Paragraph 20 of ISA (NZ) 570 relates to circumstances in which management has assessed the entity as continuing to be a going concern and there are no material uncertainties related to this decision, but events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern (i.e. the scenario described in paragraph 22(b) above).

Adequacy of Disclosures When Events or Conditions Have Been Identified but <u>No</u> Material Uncertainty Exists	
20	If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

27. In practice auditors are required to consider paragraph 20 of ISA (NZ) 570 when management has applied significant judgement in reaching the decision that there are no “material uncertainties” in relation to the entity’s ability to continue as a going concern. These are described as the “close-call situations” as to whether there is a material uncertainty or not, in circumstances when events or conditions exist that may cast significant doubt on the entity’s ability to continue operating as a going concern.
28. It is important to highlight that when considering the adequacy of disclosure when applying paragraph 20 of ISA (NZ) 570, the auditor is required to make this assessment giving consideration to the disclosure requirements of the “applicable financial reporting framework”. NZ IAS 1 includes general requirements to disclose information about significant judgements but does not include specific disclosure requirements in relation to the going concern assessment unless there are material uncertainties.
29. The existence of events or conditions which require auditor consideration of paragraph 19 or 20 of ISA (NZ) 570 will often lead to a key audit matter (KAM) being raised in the audit report. The adequacy of the financial statement disclosures in relation to any KAMs concerning going concern will directly impact the nature of the audit opinion issued.
30. Full extracts from ISA (NZ) 570 in relation to the paragraphs discussed above (including accompanying application guidance) are provided in [Appendix 1](#).

Tension between the accounting and auditing standards

31. We have heard concerns from auditors that it is not clear from the relevant disclosure requirements in NZ IFRS and PBE Standards what “adequate disclosures” would look like when management’s going concern assessment involves significant judgement and/or the consideration of material uncertainties.
32. Compared to the disclosure requirements in NZ IFRS and PBE Standards, paragraph 19 and 20 of ISA (NZ) 570 sets out specific disclosure expectations where there are events or conditions that may cast doubt on the entity’s ability to continue as a going concern, including disclosures on:

- (a) the principal events or conditions that may cast doubt on the entity’s ability to continue as a going concern — ISA (NZ) 570.19(a) and ISA (NZ) 570.20;
 - (b) management’s plans for dealing with such events or conditions — ISA (NZ) 570.19(a);
 - (c) when applicable, that there is material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern — ISA (NZ) 570.19(b); and
 - (d) where there is material uncertainty identified, that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business — ISA (NZ) 570.19(b).
33. In practice the more specific disclosure requirements imposed on preparers by the auditing standards has at times caused tension between the preparer and auditor. Although the preparers are not required to comply with the auditing standards, for an auditor to meet the requirements of ISA (NZ) 570 they are required to assess whether the going concern disclosure are adequate based on the requirements and guidance in the auditing standards.

Draft proposed going concern disclosures

- 34. The draft proposed going concern disclosures outlined below are provided for illustrative purposes only and will require further staff development.
- 35. The proposed domestic going concern disclosure requirements have been developed giving consideration to paragraph 19 and 20 in ISA (NZ) 570.

Draft additional going concern disclosure requirements for FRS-44

Going concern

- xx When preparing financial statements, paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity’s ability to continue as a going concern. It requires an entity to prepare financial statements on a going concern basis unless management intends to liquidate or to cease trading, or has no realistic alternative but to do so. Furthermore, when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:
 - (a) that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern;
 - (b) information about the principal events or conditions giving rise to those material uncertainties;
 - (c) information about management’s plans to mitigate the effect of those events or conditions; and

(d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

xx Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraph 122 and 125 of NZ IAS 1, where an entity that prepares its financial statements on a going concern basis has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.

36. The requirement in part (d) for an entity to make the assertion "*that it may be unable to realise its assets and discharge its liabilities in the normal course of business*" may not be welcomed by some entities. Some might question whether the disclosure of such a statement would be appropriate in circumstances in which management has ultimately determined that the going concern basis should be applied, albeit if there are material uncertainties. Some could argue that such a statement may become a self-fulfilling prophecy. We feel that such a disclosure is appropriate and encourages a fair and transparent presentation of the company's financial position.
37. We note that disclosures of this nature are already commonly included in the financial statements of Tier 1 and Tier 2 entities due to the existing disclosure expectations in the auditing standards – a recent example is provided in [Appendix 2](#).

Question for the Board

Do Board members have any feedback on the draft proposed additional going concern disclosures?

Appendix 1: Extracts from accounting and auditing standards

NZ IAS 1 Presentation of Financial Statements**Going concern**

- 25 **When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.**
- 26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Disclosure of accounting policies

- 122 **An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**

Sources of estimation uncertainty

- 125 **An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**
- (a) their nature, and**
 - (b) their carrying amount as at the end of the reporting period.**
- 126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.
- 127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex,

and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

- 128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.
- 129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:
- (a) the nature of the assumption or other estimation uncertainty;
 - (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
 - (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
 - (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

PBE IPSAS 1 Presentation of Financial Statements

Going concern

38. **When preparing a financial report, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial report. Financial reports shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial report are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern.**
39. Financial reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial report.
40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:
- (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and
 - (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may

be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial report may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Disclosure of accounting policies

- 137 **An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity’s accounting policies that have the most significant effect on the amounts recognised in the financial report.**

Key sources of estimation uncertainty

- 140 **An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**
- (a) Their nature; and**
 - (b) Their carrying amount as at the reporting date.**
141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.
142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management’s most difficult, subjective, or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).
144. The disclosures in paragraph 140 are presented in a manner that helps users of a financial report to understand the judgements management makes about the future and about other key sources of

estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

- (a) The nature of the assumption or other estimation uncertainty;
- (b) The sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation, including the reasons for the sensitivity;
- (c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- (d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

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ISA (NZ) 570 (Revised) Going Concern

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists

19. If the auditor concludes that management’s use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23)
- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and management’s plans to deal with these events or conditions; and
 - (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management’s evaluation of the significance of the events or conditions relating to the entity’s ability to meet its obligations; or
- Significant judgements made by management as part of its assessment of the entity’s ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management’s consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the

entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgements made by management as part of its assessment of the entity's ability to continue as a going concern.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation. Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

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Appendix 2: Example of going concern disclosures**Kathmandu Interim Report for the 6 months ending 31 January 2020**

Report is available here: [link to full interim financial statements](#)

Note 16 Going Concern (page 16)

The Group has reviewed the impact on the business from the rapidly evolving COVID-19 situation. As at the date of this report the Group has sufficient inventory levels for the forthcoming season for all brands. However, there has been significant reduction in foot traffic across the Group's store footprint globally with Government enforced shutdowns of store locations. Given the New Zealand Government announced move to Stage 4 all New Zealand stores are now closed until notified by the Government. The Group also closed the Australian retail stores as of 27 March 2019.

Providing accurate forecasts in this rapidly evolving environment is challenging however the Directors are of the view that there will be a material adverse impact to earnings in the next 12 months.

In response to these trading conditions the Group is taking decisive actions, specifically in reducing operating expenses, deferring non-essential capital projects, optimising labour costs, managing inventory levels and has implemented a travel and hiring freeze. The Group has also accessed available government incentives.

Even after taking these steps into consideration the Group is forecasting to breach its bank covenants within the immediate future. The Directors have therefore decided to proceed with a capital raise to provide sufficient liquidity headroom given the uncertainty of future earnings presented with the COVID-19 situation.

In addition, the Group has sought support from its banking syndicate in the form of a waiver of current covenant measurements until the 31 July 2021 measurement point and is renegotiating the terms of its banking facilities. The covenant waiver is dependent on the successful completion of the proposed capital raise by April 2020. The Directors have taken all reasonable steps to ensure the successful completion of the capital raise including signing an underwriting agreement with Craigs Investment Partners Limited, Forsyth Barr Limited, Credit Suisse AG and Jarden Limited as Joint Lead Managers and Joint Bookrunners ("JLMs") of the capital raise, however these steps do not eliminate the inherent equity market risk.

Having taken these actions the Directors have concluded that it is appropriate that these financial statements are prepared on a going concern basis. However, it is acknowledged that there are material uncertainties with respect to the Group successfully renegotiating revised terms on its banking facilities, forecasting revenue in the COVID-19 environment, whether the capital raise can be achieved and whether the amount raised is sufficient to meet the Group's funding requirements for the next 12 months.

The Directors acknowledge that if the Group does not complete its capital raise and successfully renegotiate revised terms on its banking facilities, or is unable to secure alternative funding then the going concern assumption may not be appropriate. These matters therefore indicate that there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.1

Meeting date: 3 June 2020

Subject: IESBA – Non- Assurance Services and Fees

Date: 20 May 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:
 - APPROVE the draft submissions on the Non-Assurance Services and Fees 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. Outreach activities consisted of:

- targeted interviews with the large firms, the Office of the Auditor-General and the FMA;
- A round table attended by representatives of the mid-tier firms and CA ANZ; and
- targeted questions to members of the XRAP;

7. Additionally, the proposals related to disclosure of fees paid to the auditor was discussed at the joint boards meeting held in February. The Chair and staff also attended the APESB roundtable discussions.

8. 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.

9. The Board expressed the view that the NAS services do not go far enough. In order to address the perception that the assurance practitioner is not independent, the view is that NAS for audit clients that are PIEs should be prohibited. There is a desire for things to be much clearer; a prohibition on NAS for audit clients that are PIEs removed ambiguity and tensions around different perceptions of what is and is not appropriate. The Board discussed the proposals and provided personal views on the proposals. The proposal in the ED sets the self-review threat as a more significant threat than the other threats. This is not the case and all threats need to be given the same level of consideration.

10. It is not the role of the IESBA to set accounting disclosures. Rather the IESBA should be strongly encouraging the IASB to address this area. Getting the disclosure right is key to good decision making. Not only should fees for other services to the auditor of the entity be disclosed, but also fees paid to other practitioners in order to give a full picture.

11. The Board agreed to establish a working group to support staff in the preparation of the draft submissions. We would like to thank Robert Buchanan, John Kensington and Chong Lim for the support given to staff.

12. The submission is due on 4 June 2020.

Issue for Board Consideration

13. Paragraph R400.32 of the NAS exposure draft addresses the situation where a firm has provided a non-assurance service prior to appointment as auditor of a public interest entity:

R400.32 *A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that would create a self-review threat in relation to the financial statements on which the firm will express an opinion unless the provision of such service has ceased and:*

- (a) The results of the services were subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm;*
- (b) The firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an engagement quality review; or*
- (c) The public interest entity engages another firm to:
 - i. Evaluate the results of the non-assurance service; or*
 - ii. Re-perform the service,**

In either case, to the extent necessary to enable the other firm to take responsibility for the result of the service.

14. Our outreach indicated concerns over practical challenges around implementing the new requirement in paragraph R400.32. The firm is not always able to time its appointment to fit neatly around the requirements of the paragraph; it may be costly for the entity to engage a new firm to re-perform the non-assurance service; and it may be difficult to engage another professional accountant/firm to perform the EQR style review, for example, would the outgoing audit firm perform the review? If an entirely separate firm were to perform the EQR style review, the independence and competence of that firm would need to be considered.
15. Some of our constituents suggested the Code could include a more principles-based approach, following the conceptual framework, however, this suggestion is at odds with the general thrust of our submission.
16. We also heard further concerns from one of the working group members who is of the view that it is not ideal to be in the situation where (b) is an option. A tender process usually takes several months, and there is often a lead in period before the engagement begins. If this is the case, there is time for the firm to disengage itself from the provision of the non-assurance service so that independence is not an issue in relation to the financial statements on which the firm will opine. If the firm is unable to disengage itself from the non-assurance service in sufficient time, should we be supporting a position that effectively permits this?
17. Our view is that option (b) is not an appropriate safeguard against a threat of independence in appearance and should be excluded from the options. We do not consider there are any other safeguards available, and unless options (a) or (c) are used, the firm should not accept the engagement. This is the view we have noted in the draft submission, and we ask whether the Board agrees with this.

Action Requested

18. The Board is asked to RESPOND to the issue noted in paragraphs 13-17 of this paper and to APPROVE the draft submissions to the IESBA.

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Draft submission NAS
Agenda item 7.3	Draft submission Fees
Agenda item 7.4	Mike Bradbury – Draft Report NZ Evidence on Audit and NAS Fees



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

4 June 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 Non-Assurance Services Provisions of the Code

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revisions to the Non-Assurance Services 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 supports the IESBA's objective to ensure that all NAS provisions in the International Independence Standards are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms. The proposal to prohibit non assurance services to audit clients that are public interest entities is a step in the right direction, however, the NZAuASB questions whether the proposals go far enough.

In order to address the perception that the provision of non-assurance services impairs independence, a fundamental change in the Code is required. It is unlikely that all users of the financial statements will understand and appreciate the nuances of the different threats to independence considered by the firm in determining whether to accept an engagement. While the NZAuASB strongly supports the requirement, for public interest entities, to obtain concurrence from those charged with governance for the provision of non-assurance services, leaving the assessment of independence under the Code to be made by the firm, we are concerned that this may not be enough to address external perceptions about the lack of independence even with ongoing regulator oversight.

In New Zealand, the Auditor-General has recently taken the approach of requiring appointed auditors and firms to apply a more stringent test when assessing independence in appearance with regard to non-assurance work, and additional work of an assurance nature, for public sector entities (many of which are also public interest entities under the New Zealand definition). The application of the test by appointed auditors and firms will be monitored and overseen by the Auditor-General's office.

The NZAuASB believes this approach should also now influence the global position. The approach suggests that, in order to effect the necessary change in perception and ensure independence in appearance as well as in fact, all non-assurance services to audit clients that are public interest entities should be prohibited.

The NZAuASB's responses to the detailed questions raised in the explanatory memorandum are set out in the attachment.

In formulating this response, the NZAuASB sought input from New Zealand constituents, including the profession, the supreme audit institution, and the regulator.

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

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Attachment: 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:

The self-review threat is only one of five threats to compliance with the fundamental principles and independence identified in the conceptual framework. Singling out the self-review threat creates a hierarchy of threats where the self-review threat appears to be more important than the other threats. There is a risk that the firm will focus its considerations on whether a self-review threat would be created, which may lead the firm to inappropriately accept an engagement to perform a non-assurance service where another type of threat, for example, an advocacy threat or a familiarity threat, exists.

While establishing a prohibition on providing a non-assurance service that creates a self-review threat to an audit client that is a public interest entity is a step in the right direction, the NZAuASB questions whether the prohibition goes far enough. There is a widespread perception, both globally and in this jurisdiction, that performing non-assurance services for an audit client that is a public interest entity impairs the auditor's independence. Those that hold this view do not necessarily distinguish between the different types of threats identified in the conceptual framework, i.e., it does not matter whether the threat to independence arises due to a self-interest threat, an advocacy threat, or one of the other types of threats.

The NZAuASB recognises and supports the new requirements to strengthen communications with those charged with governance about non-assurance matters, in particular, for public interest entities, the requirement to obtain concurrence from those charged with governance for the provision of non-assurance services. However, the NZAuASB is concerned that this might not be enough to address external perceptions of a lack of independence, even with ongoing regulatory oversight of the firm's judgements under the Code.

Changing these perceptions about auditor independence will require bold change. The perception of independence (i.e., independence in appearance) should be a vital component of any auditor's independence. In New Zealand, independence in appearance is now a matter that those who carry out work on behalf of the New Zealand Auditor-General (including private sector firms) are required to take into account when assessing their independence¹. This assessment requires consideration of how a particular situation would look from the perspective of a reasonable and informed third party with publicly available information. As a result, non-assurance services are prohibited and additional work, over and above the work that is required (or permitted), is limited to "work of an assurance nature". Where the value of the additional work becomes significant when compared to the audit fee, further consideration is required and the application of the reasonable and informed third party test may further limit the amount of additional work that can be performed.

The NZAuASB believes this approach should also now influence the global position. Accordingly, the NZAuASB recommends that in order to ensure independence in appearance, the provision of non-

¹ Many public sector entities are also public interest entities under the New Zealand definition

assurance services to an audit client that is a public interest entity should be prohibited. Such a prohibition would establish consistency in practice and remove any “grey area” of judgement by the firm which might be open to question by users. Further, it would remove the need to establish “black lists” of prohibited services or “white lists” of permitted services.

- 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:

As noted in the response to question 1, the NZAuASB recommends the prohibition of non-assurance services to audit clients that are public interest entities. In such circumstances, this application paragraph would be unnecessary. Should the IESBA determine to proceed with the changes as exposed, the NZAuASB is generally supportive of the application material, however, we do consider that further emphasis could be given to independence in appearance. As noted in the response to question 1, the perception of independence should be a vital component of any auditor’s independence and requires consideration of how a particular situation would look from the perspective of a reasonable and informed third party with publicly available information.

Our outreach with the constituency in New Zealand did not identify any additional factors to be considered. Stakeholders did question whether “and” following sub-paragraph (b) should be “or”, i.e., do all three of the factors need to be present in determining whether the provision of the non-assurance service creates a self-review threat or could the presence of only one of the factors create a self-review threat.

- 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:

The NZAuASB is concerned that tax advisory and tax planning services are specifically scoped out of the self-review threat. As noted in the response to question 1, the NZAuASB recommends the prohibition of non-assurance services to audit clients that are public interest entities. It is the view of the NZAuASB that providing tax advisory and tax planning services to an audit client that is a public interest entity creates a self-review threat, regardless of whether one of the conditions identified in paragraph 604.12 A3 is present.

While the NZAuASB acknowledges that there may be some advantages to audit and tax services being provided by the same firm, for example, knowledge of the client, in order to change the perception that there is a lack of independence, it is important that the provision of all tax services be prohibited. Anecdotal evidence indicates that firms can receive large fees for the provision of tax services to audit clients. This, in itself, creates the perception that the firm is not independent, and the perception is reinforced by the fact that the judgement under the Code sits with the firm, despite being subject to regulatory oversight.

- 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:

The NZAuASB is supportive of Approach 2 as presented at the May 2020 National Standard Setters meeting, i.e., a longer more broadly defined list which local regulators may refine by tightening definitions, setting size criteria and adding or exempting certain types of entities.

Stakeholders in New Zealand are generally of the view that our broad definition of public interest entity extends well beyond the extant global position. New Zealand is not unique in this regard. The NZAuASB believes it is in the public interest to have a wider range of entities identified as public interest entities in the global standard.

The source of funding is a key factor to be considered in determining the types of entities to be included as public interest entities.

- 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:

Notwithstanding the view expressed in response to question 1, that the provision of non-assurance services to audit clients that are public interest entities should be prohibited, the NZAuASB supports the removal of the materiality qualifier. Outreach indicated that materiality can be a difficult concept to apply, resulting in inconsistencies in practice. The NZAuASB considers that a requirement to apply materiality considerations when obtaining the concurrence of those charged with governance would be extremely difficult and unlikely to achieve consistency.

- 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, the NZAuASB supports the prohibition of the identified non-assurance services to all audit clients. The NZAuASB does, however, question whether the prohibition should be limited to the effectiveness of the advice being dependent on a particular accounting treatment or presentation and the audit team having doubt about the appropriateness of that treatment or presentation. As noted in the response to

question 1, the NZAuASB recommends the prohibition of all non-assurance services to audit clients that are public interest entities.

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:

Notwithstanding the view expressed in question 1, that the provision of non-assurance services to audit clients that are public interest entities should be prohibited, the NZAuASB supports the proposals for improved communication with those charged with governance.

Those charged with governance are responsible for the financial statements, including ensuring that the services provided by the auditor do not impair independence. Clear communication between the auditor and those charged with governance is an important part of that responsibility. Our constituency feedback indicated that such communications are already happening in New Zealand to a large extent. Adding a requirement to the Code (while binding only on practitioners, not those charged with governance) may have a significant educational impact and could lead to this practice being more fully embraced by the director community.

Documentation, either by the auditor or those charged with governance, of the communications and decisions made demonstrates the fulfilment of those responsibilities. Obtaining the concurrence of those charged with governance will help to dispel concerns about auditor independence only if the new requirements are supported by strong public disclosure by those charged with governance, i.e., the considerations of those charged with governance need to be observable by users.

The Code needs to be clear that the concurrence of those charged with governance can only be sought if the auditor has concluded that the non-assurance service is permitted under the Code. This provision should not be used as a mechanism whereby those charged with governance provide a “waiver” to the auditor.

The NZAuASB recommends that the concurrence of those charged with governance required by paragraph R600.19 be obtained in writing.

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:

The NZAuASB supports the repositioning of the provision relating to assuming a management responsibility.

Outreach indicated concerns over practical challenges around implementing the new requirement in paragraph R400.32. The firm is not always able to time its appointment to fit neatly around the requirements of the paragraph and it can be costly for the firm to engage a professional accountant to perform the required review or for the entity to engage another firm to evaluate or re-perform the procedures sufficient to take responsibility for the result of the non-assurance service. In smaller markets, firms already face challenges in managing the services provided to clients.

Further, the NZAuASB is concerned about the implications of the requirement to engage a professional accountant, who is not a member of the firm expressing the opinion, to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an engagement quality review. The proposal in the Code is clear that the provision of a non-assurance service to an audit client that is a public interest entity is prohibited if a self-review threat will be created in relation to the financial statements on which the firm will express an opinion. It is the NZAuASB's view that the proposed subparagraph (b) is not an appropriate safeguard against a threat of independence in appearance. We do not consider there are any alternative safeguards available, and unless (a) or (c) are used, the firm should not accept the engagement.

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, the NZAuASB supports the proposal to elevate the extant application material relating to the provision of multiple non-assurance services to the same audit client as a requirement and the related application material.

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, the NZAuASB supports the proposed revisions identified in question 10.

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

Response:

The NZAuASB considers that the proposed amendments to Section 950 could be more robust, and encourages the IESBA to consider further whether certain non-assurance services provided to an assurance client that is a public interest entity should be prohibited. In particular, the NZAuASB

considers the firm's consideration of multiple non-assurance services provided to an assurance client in paragraph 950.7 A1 should be elevated to 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:

The NZAuASB has not identified any other sections of the Code that warrant conforming change as the result of the IESBA's non-assurance services project.

DRAFT

4 June 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.

We refer you to the NZAuASB's response to the IESBA's Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*, in which the NZAuASB recommends the prohibition of all non-assurance services to audit clients that are public interest entities. This recommendation could have a significant impact on the nature of the fees proposals. However, our comments on the fees proposals are made on the basis of the exposure drafts, as drafted, rather than an expected outcome that non-assurance services to audit clients that are public interest entities will be prohibited.

In general, the NZAuASB supports the proposals, however, while the NZAuASB is supportive of the objective of transparency of fee-related information, it is concerned that the proposal to require fee-related disclosures other than by the professional accountant is beyond the mandate of the IESBA. In this regard, the NZAuASB encourages the IESBA to pursue a solution through the International Accounting Standards Board. It is the view of the NZAuASB that disclosure of financial information is management's responsibility and should not be imposed on the auditor through the Code.

The NZAuASB's response to the detailed questions raised in the explanatory memorandum are set out in the attachment.

In formulating this response, the NZAuASB sought input from New Zealand constituents.

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

Attachment: 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:

The NZAuASB supports the premise underlying the proposals that threats to independence are created when fees are negotiated with and paid by an audit or assurance client.

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:

The NZAuASB supports the requirement to determine whether the threats to independence created by the fees proposed to the client are at an acceptable level, before accepting an audit or other engagement for an audit client.

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:

The NZAuASB did not identify, through its outreach, any further factors relevant to evaluating the level of threats created when fees for an audit or other engagement are paid by the audit client.

While we are aware that some jurisdictions require an independent committee that advises the firm on governance matters that might impact independence. The existence of such a committee is not a requirement in New Zealand.

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:

The NZAuASB supports the requirement in paragraph R410.6. Outreach indicated that, in New Zealand, the level of audit fee is not influenced by the provision of services other than audit to an audit client. This position is further supported by review of academic research in New Zealand.

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:

In its response to the IESBA's Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*, the NZAuASB recommends the prohibition of all non-assurance services to audit clients that are public interest entities. Acceptance of that recommendation would mean that the application of the guidance in paragraphs 410.10 A1 to 410.10 A3 would be limited to audit clients that are not public interest entities.

In relation to the guidance included in proposed paragraphs 410.10 A1 – 410.10 A3, paragraph 410.10 A2 identifies the ratio of fees for services other than audit to the audit fee as a factor that is relevant in evaluating the level of threats to the auditor's objectivity when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client.

The consideration of the ratio of fees for services other than audit to audit fee is, in the NZAuASB's view, overly simplified as it does not take into account the broader category of "audit related services", i.e., those services provided by the auditor that require audit knowledge. These services may be required, for example, by a regulator, to be performed by the auditor, or it may not make sense for another practitioner to perform them. Combining assurance services that are compulsory with non-assurance services may provide a misleading picture of the total other services provided to the entity. As noted in our response to question 11, it is the NZAuASB's view that a more granular consideration of fees is necessary than simply distinguishing between fees for audit and fees for services other than audit. We recommend that in evaluating the level of the threat, the factors in paragraph 410.10 A2 consider the ratio of combined fees for audit and "audit-related services" to 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:

The NZAuASB has concerns about the proposals in paragraph R410.14, in particular, the proposed threshold. The general reaction from the outreach performed is that five years seems long and 30% seems high. The NZAuASB recognises that there can be reasons for a high level of fee dependency,

for example, when a new firm enters the market and is establishing itself. However, such a level of fee dependency would not be expected to last.

It is difficult to for the firm to maintain independence when there is a high level of fee dependency on an audit client. The NZAuASB is not convinced that setting timelines and establishing numerical thresholds is the best response to fee dependency as there may be qualitative factors that need to be considered.

If the IESBA determines that a numerical threshold is necessary, the NZAuASB recommends 15% for consistency with the requirements for public interest entities. It is the NZAuASB's view that high levels of fee dependency should be discouraged. The NZAuASB also recommends a reference back to paragraph 410.13 A4. The last three bullet points in this paragraph provide examples of ways to manage the client base.

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:

After five consecutive years where total fees from an audit client that is not a public interest entity exceed 30% of the total fees received from the firm, paragraph R410.14 (and for on-going fee dependency paragraph R410.15) would require the firm to determine whether either a pre- or post-issuance review is an acceptable safeguard, and if so, apply it. The requirement is unclear as to the type or extent of the review to be performed. In paragraph R410.17, the requirement for an audit client that is a public interest entity is clear that the review needs to be the equivalent of an engagement quality review. The NZAuASB recommends the requirement be made clear as to the extent of review required.

Further, if the firm determines that either a pre or post issuance review is not an acceptable safeguard, there appears to be no consequence. In this regard, the NZAuASB believes the consequence needs to be clear. If the review cannot be performed, i.e., safeguards cannot reduce the threat to an acceptable level, the firm should withdraw from the engagement.

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:

The NZAuASB supports the proposed action to reduce the threats created by fee dependency to an acceptable level in the case of an audit client that is a public interest entity.

The proposal does not address circumstances where an engagement quality review performed by a professional accountant who is not a member of the firm is determined not to be a safeguard to reduce threats to an acceptable level. In this regard, the NZAuASB believes that the requirement could be clearer, i.e., require an engagement quality review to be performed or, if this is not possible, require withdrawal from the engagement.

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:

The NZAuASB agrees with the proposal to require a firm to cease to be the auditor if fee dependency continues after five consecutive years for an audit client that is a public interest entity.

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

Response:

The NZAuASB supports the exception in circumstances when there is a compelling reason, in the public interest, for the engagement to continue. We expect such circumstances to be extremely rare.

Sub paragraph (b) refers to a “pre-issuance review”. While we note that “pre-issuance review” is defined in paragraph R410.17 some of our stakeholders questioned whether this is intended to be a different type of review than the engagement quality review referred to in paragraph R410.17. As noted in response to question 7, the type of review required when an audit client is not a public interest entity is not specified. For clarity, the NZAuASB recommends consistent use of wording throughout Section 410 and that defined and described terms be added to the glossary.

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:

While the NZAuASB supports public disclosure of fee-related information, the NZAuASB has a number of concerns about the proposed requirement in paragraph R410.25.

The NZAuASB is concerned that a requirement to disclose fee related information extends beyond the mandate of the IESBA. Disclosure of financial information is the responsibility of the preparer of financial statements, not the auditor. In New Zealand, FRS 44¹ requires disclosure of the audit or review fee, and fees for all other services performed during the reporting period. In addition, the entity is required to describe the nature of other services. We urge the IESBA to work with the International Accounting Standards Board to enhance the transparency of fee-related information through enhanced disclosure by the entity.

The requirement is for the firm to be satisfied that the information is publicly disclosed in a timely and accessible manner. There is no consistent location for this information to be disclosed. The guidance indicates, if the information is disclosed by the entity, it could be in the financial statements, annual report or proxy statement. If disclosed by the firm, such information might be disclosed by the firm in a manner deemed appropriate for the circumstances. Not having the information available in a consistent location, for example, the entity’s financial statements, will make it difficult for users to find, and consequently, reduce its usefulness.

Further, if there is a conflict between the requirements of the financial reporting framework and the requirements in R410.25, which will prevail? It is not desirable for the auditor to be required to disclose

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

information that the entity itself is not required to disclose in accordance with the applicable financial reporting framework.

The objective of providing fee-related disclosures is so that the users of the information can make their own determinations about the independence of the auditor. The ability to make good decisions depends on the decision usefulness of the information presented. The NZAuASB considers that more granular disclosures are necessary. Comparing the audit fee to all fees from the client does not give a clear picture as the auditor often provides additional services, that require independence and an audit level of knowledge, for example, the audit of regulatory reports required by the regulator. These “audit related” services need to be considered separately from other services. Additionally, it may also be useful to disclose fees paid to other professional accountants for both assurance and non-assurance services. Such information would then give a fuller picture of the total spend by the entity for assurance and non-assurance services and where any other close relationships might be.

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

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

Response:

Public transparency of fee-related information is important as it allows users to form their own conclusions as to independence. However, as noted in response to the preceding question, the NZAuASB considers that it is important to distinguish between fees for audit/assurance and related services from fees for other services, as well as fees paid to other firms for assurance and non-assurances services.

The ability of users to make decisions depends on the “decision usefulness” of the information presented. Fuller disclosures provide for better decision making.

It is good governance practice for those charged with governance to be aware of the services the auditor performs for the entity. The NZAuASB is also of the view that it is the responsibility of management, rather than the auditor, to provide such information to those charged with governance.

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 respond to this question.~~ We have no comment on this matter.

- 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:

The NZAuASB is supportive of the proposed consequential and conforming amendments.

While payment of overdue fees from an assurance client prior to issuance of the report is certainly desirable, the NZAuASB considers overdue fees need to be considered on a case by case basis.

- 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:

The NZAuASB has not identified any other areas within the Code that may warrant a conforming change.

DRAFT

Audit and Non-Audit Fees: New Zealand Evidence

M. E. Bradbury

Draft dated: 12 May 2020.

1. Introduction

Regulatory and academic concern over auditor provision of non-audit services (NAS) dates back, at least, as far as 1957 (Schulte 1985). The major concern of regulators is that NAS creates an economic bond between the auditor and client, thereby threatening auditor independence. A related concern is that NAS may impair investors' perceptions of auditor independence. However, it is also recognised that NAS might create 'knowledge spillover', which improves the audit efficiency and effectiveness. Hence, the impact of providing NAS is an open empirical question. How much is too much? And, what is the state of practice?

In this report I review the research undertaken on New Zealand data that examines issues related to non-audit services (NAS). Fourteen studies were found covering data from 1995 to 2013. The evidence in these studies can be summarised:

- The general level of non-audit fees (NAF) seems to have stabilised since 2005 to around 30 percent of the annual audit fee. Although there is no evidence later than 2011.
- However, there are some very large fees for non-audit services. It is not clear if this is a small group of firms (and auditors) or whether it is a random effect from year to year.
- There is no evidence that auditors reduce audit fees to increase NAS.
- There is mixed evidence on whether fees for NAS and the audit fee are jointly determined.
- There is no evidence that NAS impacts accounting quality.
- There is mixed evidence on whether NAS is related to a lower propensity to issue going concern.
- On the whole, client importance does not seem to be a relevant determinant. There is weak evidence (on small samples) that combining measure of client importance might impact audit independence.
- There is consistent evidence that knowledge spillover enhanced audit efficiency.

My conclusion is that, on average, there does not seem to be an auditor independence problem related to non-audit services. However, there are cases where non-audit fees are extremely large and there exists the possibility of some client dependency on NAS. This could easily be 'fixed' by limiting the level of NAS.

While I do not see NAS resulting in a lack of independence *in fact*, the evidence from the FMA clearly indicates a problem relating to the financial statement users' perceptions of

auditor independence. To gain more insight into this issue I also review a limited range of research on the audit expectation gap. This evidence supports the view that underlying issue of audit independence is one of perception not of fact.

This structure of this report is as follows. The next section outlines the research approach and the sample. Section 3 describes the results of the review in three sub-sections: descriptive evidence, auditor independence, and knowledge spillover. Section 4 is a review of the audit expectation gap. There appendix is a short summary of each study.

2. Research Approach and Sample

An initial set of studies was found using google scholar using the following search criteria: [*New Zealand* (all the words) and *non-audit* (exact phrase)] and [*New Zealand* (all the words) *spillover* (exact phrase)]. The reference lists in these articles were searched for additional studies. No unpublished studies were found. These procedures identified 14 relevant studies, which are summarised in Table 1.

In Table 1 I classify the studies into three issues related to NAS: (1) descriptive evidence, (2) evidence on auditor independence and (3) evidence on knowledge spillover. In reviewing the evidence, it became obvious there are natural clusters in terms of when the data were collected.¹ This is important because, the reporting and use of non-audit services is not isolated from changes in regulations, authoritative guidelines, economic conditions and incentives. For example, the adoption of International Financial Reporting Standards (IFRS) in 2007 and establishing the Financial Markets Authority (FMA) in 2011. Another consideration is that several studies use over-lapping data and therefore cannot be considered independent. For example, several studies by different authors from the University of Auckland use data from 1999-2001.

Another limitation is that, with one exception, is that data are collected from listed firms and therefore the results cannot be extrapolated to other sectors.

3. Results

3.1 Descriptive Evidence

The typical evidence presented in descriptive studies compares the fees for non-audit services to the level of audit fees. Very few studies prove an analysis of the components of NAS. Two studies examine report on non-audit fees in relation to regulation and enforcement.

NAS relative to audit fees

Descriptive evidence on NAS is provided by Chan et al. (2002), Griffin et al. (2009), FMA (2019) and Bradbury and Scott (2020). I also incorporate the descriptive evidence that is reported in other studies.

Although reported in various ways, the primary descriptive measure across studies is the relation between audit fees and fees for non-audit services (NAF). Where possible I have converted various reported ratios into a common measure: the non-audit fee ratio (NAFR). This ratio is computed as non-audit fee / (audit fee + non-audit fee). Hence a ratio of 0.5

¹ That is, the discussion is ordered in relation to the chronology of the data, rather than the chronology of when the studies are published.

indicates that the fees for non-audit services are equal to the audit fee. A ratio greater than 0.5 indicates the fees for NAS are greater than the audit fee.

In Table 2, I report the average (mean) NAFR from various studies. As the mean can be distorted by large outliers (or indeed several firms have no fees from NAS), I also report the median as a measure of central tendency. In addition, concern over NAS might not be on the average, but on those firms that undertake large amounts of NAS. I therefore report, where available, the maximum ratio.

The general trend, which is more obvious if we focus on the median, is that the ratio fluctuated around 0.4 over the period 1996 to 2002. This is the NAS being equivalent to 67 percent of the audit fee. From 2003 to 2011, there has been a gradual (monotonic) decrease in the ratio to 0.23. This is a NAF of 30 percent of the audit fee. However, over the period there are maximum ratios in excess of 0.9, representing a NAF of 10 times the audit fee. Although there is no data on maximum NAFR over the period 2003 to 2010, in 2011 the maximum ratio was 0.778, which is equivalent to a NAF of 3½ times the audit fee. What we do not know is if the maximum NAFR is from the same group of firms or auditors (i.e., there is systematic purchasing of NAS by a small number of firms) or whether the maximums are isolated incidents that vary randomly from year to year.

NAS components

Not many studies report the components of NAS.

Alexander and Hay (2013) classified firms (1995 to 2001) into whether they purchased audit only (18%), tax only (25%), audit and consulting (9%) and audit, tax and consulting (47%). Clearly, the bulk of firms purchased several services for auditors and there was insufficient disclosures reported.

Dodd and Rainsbury (2007) report an analysis of NAF for seven firms (out of the top 50 in in 2006) where the total NAF is greater than the audit fee. Fees for tax services is the largest component (71%) and most common. Other services are difficult to compare because of the non-standardised disclosures.

Regulation and enforcement

Griffin, Lont and Sun (2009) examine the changes in audit fees and non-audit fees in response to the incidence of regulatory reforms, both overseas (Sarbanes-Oxley, CLERP 9) and in New Zealand over the period 2002-2007. The results support the view of no change in audit fees and non-audit fees over the 2002-2003 period, coincident with the passage of SOX and similar overseas reporting regulation. They find that audit fees significantly increased in years surrounding IFRS adoption, but no similar association with NAF.

Bradbury and Scott (2019) describe the NZ Securities Commission's enforcement actions subsequent to the adoption of IFRS (2007 – 2010)). They note that out of the 77 enquiries related to IAS 1, 23 (30%) related to audit fees and non-audit fees. Of these enquires, 65% resulted in firm's agreeing to adjust their disclosure, 30% required no adjustment and 1 case was referred to an enforcement agency.

The Financial Markets Authority (2019) issued a report on a survey on the perceptions of audit quality (from directors, audit committee chairs, investors and auditors). With regard to the independence of auditors, investors (disagree to agree ratio of 27%/45%) have different perceptions on the from directors (9% 71%) and auditors (5%/ %).

3.2 Audit Independence

Table 1 indicates there are six studies that examine auditor independence. To examine auditor independence, researchers undertake four types of tests.

The *first test* examines the relation between the audit fee and the non-audit fee. If auditors reduce audit fees in order to ‘capture’ clients and generate high non-audit fees, then we would expect to see a negative relation between audit fees and non-audit fees. All studies find either a positive or no relation between NAF and audit fees (Hay et al. 2006; Alexander and Hay, 2013; Dunmore and Shao 2006).

On further testing Hay et al. (2006) find that NAF and audit fees are jointly determined and that size is that largest determinant of both. However, a re-examination of this test using 2011 data by Wang and Hay (2013) finds no evidence of joint determination.

The *second test* is whether auditors receiving higher levels of NAF are less likely to qualify or modify audit opinions. Hay et al. (2006) find no evidence of a relation between NAS and a going concern opinion. Wang and Hay (2013) find a strong negative relation between NAF and going concern, which is inconsistent with Hay et al. (2006).

The third test is whether higher levels of NAS are related to lower financial statement quality. As financial statement quality is not directly observable, researchers develop ‘proxies’, such as abnormal accruals (Cahan et al. 2008) or conservatism (Zhang and Emanuel 2008). No evidence is found to support the view that accounting quality is lower with higher levels of NAS.

The fourth test is that NAS reduces auditor independence where there is ‘client importance’. Several measures of client importance are employed. Hay et al (2006) measure client importance by tenure or auditor change, on the basis that non-independent auditors are less likely to resign by refusing to compromise their principles. Cahan et al. (2008) use several measures of client importance – growth in NAF, the length of years that NAS are provided (NAS strings), NAF dependence (the amount of client NAF divided by the total NAF for all clients of the auditor), and total fees dependence (the amount of total fees from a client divided by the total fees for all clients of each auditor). Alexander and Hay (2013) use taxation services as a measure of recurring NAS or client dependence.

Generally, there is no support for the association between independence and ‘client importance’. However, Cahan et al. (2008) do find weak results when they combine (interact) NAS strings and the NAF dependence.

3.3 Spillover

One potential positive outcome to the provision of non-audit services is that it improves the efficiency of the audit. That is, knowledge spillovers from non-audit services can potentially result in a more efficient audit, as long as the services do not undermine audit quality.

There is evidence that the joint supply of audit and non-audit services results in shorter audit lag either in the current year (Knechel et al. 2012) or in the following year (Walker and Hay 2013). Knechel et al (2012) also show with a lower reporting delay there is no significant loss in audit quality. They also find that spillover benefits only begins to accrue after a moderate level on non-audit services is reached (i.e., once the level of non-audit services approximately reaches the median level of all non-audit services). At extreme levels of non-audit service provision there is less benefit from knowledge spillovers. Bradbury et al. (2018) find that knowledge spillover exists for some NAS and not others. Hence, it is important to differentiate when 'knowledge spillover' is likely.

4. Audit Expectation Gap

The FMA study clearly shows there are different perceptions of auditor independence between auditors and directors on one hand and financial statement users on the other. This is the well-known audit expectation gap.

The audit expectation-performance gap is the difference between auditors' performance and society's expectations. Brenda, Ó hÓgartaigh and Baskerville (2012) present a descriptive analysis of the audit expectation-performance gap in New Zealand for the years 1989, 1999, and 2008. Furthermore, they decompose the audit expectation gap into three components: (1) reasonableness gap, (2) deficient standards gap, and (3) deficit performance gap. The relation between these is depicted in Figure 1.

Financial statement users have little understanding and, in general, expect more from auditors than is feasible for them to provide. The difference between what society expects and what is reasonable is the 'reasonableness gap'. The performance gap comprises potential deficiencies in auditing standards and deficiencies in audit performance. Porter et al. (2012) estimate the audit performance gap components as performance deficiency (7%), standards deficiency (43%) and reasonableness gap (50%).

Regardless of how well these components are measured, the over-whelming focus would be to improve the reasonableness (unreasonable expectation) gap. This also is evident from the FMA survey. A strong push must be made educate users.

The standards deficiency gap is much larger than I expected. This suggest that the Porter et al. (2012) study needs to be examined further to understand (1) how this is measured and (2) how this gap might be reduced.

I note that FMA audit reviews on covers the smallest part of the audit expectation gap.

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Table 1 Summary of New Zealand studies on non-audit services

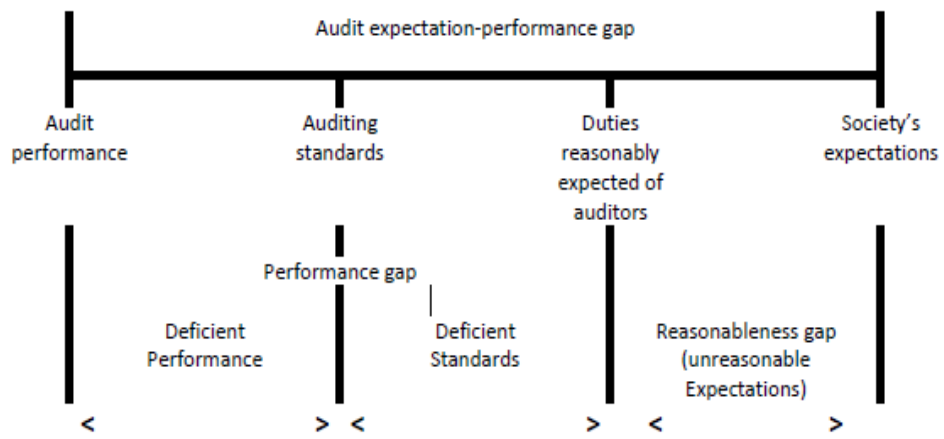
		Journal	Research Objective	Sample Years	Sample Size
Chan, Wong, and Wong	2002	CAJ	Descriptive	1996-2000	28
Hay, Knechel and Li	2006	JBFA	Independence	1999-2001	644
Cahan, Emanuel, Hay and Wong	2008	A&F	Independence	1995-2001	237
Zhang and Emanuel	2008	ARJ	Independence	1995-2001	528
Alexander and Hay	2013	MAJ	Independence	1995-2001	643
Dunmore and Shao	2006	PAR	Independence	2002	83
Dodd and Rainsbury	2007	CAJ	Descriptive	2000-2007	30
Griffin, Lont, Sun	2009	A&F	Descriptive	2002-2006	653
Knechel, Sharma, and Sharma	2012	JBFA	Spillover	2004-2005	230
Walker and Hay	2013	Medatari	Spillover	2004-2005	260
Wang and Hay	2013	A.&MIS	Independence	2011	99
Bradbury, Raftery and Scott	2018	JCAE	Spillover	2005-2013	72
Bradbury and Scott	2020	A&F	Descriptive	2007-2010	167
FMA	2019	FMA	Descriptive	2018	357

Table 2 Analysis of NAFR over time

	<u>Source</u>	<u>Mean</u>	<u>Median</u>	<u>Maximum</u>
1996	Chan et al. (2002)	0.395	0.415	0.789
1997	Chan et al. (2002)	0.383	0.364	0.859
1998	Chan et al. (2002)	0.447	0.459	0.934
1999	Hay et al. (2006)	0.416	0.414	0.932
2000	Hay et al. (2006)	0.454	0.446	0.922
2001	Hay et al. (2006)	0.465	0.475	0.887
2002	Dunmore and Shao (2006)	0.543	0.390	0.912
2003	Griffin et al. (2009)	0.322	0.304	
2004	Griffin et al. (2009)	0.297	0.299	
2005	Griffin et al. (2009)	0.253	0.265	
2006	Griffin et al. (2009)	0.248	0.243	
2007	Griffin et al. (2009)	0.248	0.228	
2008				
2009				
2010				
2011	Wang and Hay (2013)	0.302	0.189	0.778

NAFR = non-audit fee / (non-audit fee + audit fee)

Figure 1 Audit Expectation Gap Components



Appendix C: Summary of each study

Acronym Key

<i>NAS</i>	Non-audit services
<i>NAF</i>	Non-audit fees
<i>NAFR</i>	Non-audit fee ratio – NAF / AF
<i>AF</i>	Audit fees

Chan, Wong, Wong and Chan (2002) provides descriptive evidence of non-audit fees paid by the Top 40 New Zealand listed companies over the period 1996 to 2000. They report that the NAFR increased from 39.5% in 1996 to 49.8% in 2000.

Hay, Knechel and Li (2006) undertake three tests to examine whether auditors providing more NAS are less independent: (1) the relation between NAF and audit fees, (2) the relation between NAF and audit report qualification or modification, and (3) the relation between non-audit fees and stability of audit tenure. The analysis is based on 644 financial reports of the top 200 New Zealand companies in 1999, 2000, and 2001.

In relation to each of the test, the results provide evidence that: (1) there is no significant relation between audit qualification or modification and NAF (i.e., independence is not compromised by NAF); and (2) there is no significant relation between auditor change and NAF. (3) AF and NAF are positively related. Additional tests shows that audit fees and non-audit fees are jointly determined, and the strongest determinant of each is size.

Cahan, Emanuel, Hay and Wong (2008) examine whether abnormal accruals are related to the amount spent on NAF, the growth in NAF, and the length of NAF relation between client and auditor ('strings'). They argue that faster growth in NAF and length of NAF strings relation increases the auditor dependence on a client. From a data base of 814 firm-year observations, they use a basic sample of 237 firm-year observations of firms listed over the 1997-2001. The small sample size arises because of the data requirements to measure growth.

They do not find any support for the relation between NAF growth or NAF strings and abnormal accruals (their measure of earnings management). However, they do find evidence of a positive and significant bond between the interaction of NAF string and client importance (measured as the revenues derived from the client). This suggests that the economic bond between auditor and client that arises from NAF is strong when the client is more important, and auditor independence could be compromised.

Zhang and Emanuel (2008) examine whether the provision of non-audit services by incumbent auditors is associated with a reduction in conservatism (a measure of earnings quality). Conservatism is measured using the Basu (1997) model. This model implies that bad news is reflected in market prices in a more timely fashion than good news. It also implies that the effect of bad news on the earnings time-series will tend to be transitory, whereas positive earnings changes will tend to persist.

The model is not improved when NAF and NAFR is added. Overall, they find that higher levels of NAF are not found to be associated with reduced earnings conservatism. These results are based on 528 firm-year observations from 1995 to 2001.

Alexander and Hay (2013)

The study examines associations between audit and non-audit fees in New Zealand, for 643 firm-year observations over the period 1995 to 2001. They examine whether there are differences between firms that purchase recurring or non-recurring audit services and those that do not, and whether auditors discount their audit fees. The use tax as a 'proxy' for recurring services.

They find tax services are more likely to be recurring and consulting is more likely to be non-recurring. Fees paid for tax services are positively related to audit fees. No statistical association is found between consulting and audit fees. For firms purchasing a combination of tax and consulting services the level on NAF is positively related audit fees. They conclude that auditors do not reduce their audit fee when non-audit services are purchased.

Dunmore and Shao (2006) examine the argument, originated by Simunic (1980), that auditors cross-subsidise audit fees with non-audit work. The argument is that competitive pressures in the audit market compel auditors to discount audit fees, so that higher profit on non-audit fees is associated with lower audit fees. In particular, they focus on developing a well-specified model (in a statistical sense). The average NAF/total fees ration (NAFR) was 0.087. They argue that the positive association between audit fees and NAF observed in prior research was an artefact of faulty specification. They test the model using 86 firms from 2002 and do not find an association between NAF and audit fees.

Dodd and Rainsbury (2007) examine the top 50 companies in New Zealand over the period 200 to 2007. They show that non-audit fees relative to audit fee declined over the period 2002 to 2004 and were relatively stable over the period 2004 to 2007. The average NAFR goes from 0.48 in 2002 to 0.29 in 2006. They also report a breakdown of the non-audit fees for seven firms where the NAF were greater than the audit fees. Although comparison it is difficult because the disclosures are not reported consistently, in the five cases where fees for tax services are reported they are in excess of the 50% of the total for NAFs (average 71%).

Griffin, Lont and Sun (2009) examine the timing of changes in audit fees and NAF in relation to the incidence of regulatory reforms, both overseas (Sarbanes-Oxley, CLERP 9) and local (NZX listing rules, NZSC corporate governance principles, and adoption of IFRS). They examine this issue using audit fee and NAF changes over the 2002-2007 period, resulting in a sample of 653 firm-year observations.

They find audit fees increased with the transition to IFRS and not with earlier overseas governance reforms. They find a decrease in NAF over the period (NAFR of 0.506 in 2002 to 0.333) in 2007. However, they find no statistical association of IFRS effect on NAF.

Knechel, Sharma and Sharma (2012) test for knowledge spillover in relation if NAS on 239 firm-year observations for 2004 and 2005. They measure audit efficiency using the audit lag (i.e., the length of time between year end and the audit report date) and audit quality (using abnormal accruals).

The results suggest that the joint supply of audit and non-audit services results in shorter audit lag without a significant loss in audit quality. They also find that spillover benefits only begins to accrue after a moderate level on non-audit services is reached (i.e., once the level of

non-audit services approximately reaches the median level of all non-audit services). At extreme levels of non-audit service provision there is less benefit from knowledge spillovers.

Walker and Hay (2013) test audit knowledge spillover by examining the whether the provision of NAS is related to the audit report lag They use 260 firm-year observations from New Zealand public companies for the period 2004-2005. This is similar to Knechel et al. (2012). However, they are argue, test and find that the spillover arises in the following year.

Wang and Hay (2013) re-examine the issue of non-audit services and auditor independence for New Zealand companies in 2011, a decade after Hay et al. (2006). They use a sample of 99 publicly listed New Zealand companies.

Similar to Hay et al. (2006) they find a positive relation between audit fee and NAF. However, when they undertake additional tests, they do not find the audit fees and NAS fees are jointly determined, which is inconsistent with Hay et al. (2006). They find a negative relation between NAF and the probability of issuing a going concern opinion, which they argue is "...evidence of that non-audit services might impair the auditor's independence".

Bradbury, Raftery and Scott (2018) examine spillover of audit knowledge from the audit of municipal long-term plans (LTP) for a large sample of New Zealand municipals over the period 2005-2013. They find there is 'knowledge spillover' between the complementary activities of the LTP audit and the annual audit, but not between other NAS and the audit. Hence, it is important to differentiate the nature of the NAS to determine if knowledge spillover is likely.

Financial Markets Authority (2019)

As part of a survey on audit quality, the FMA asked directors, chairs of audit and risk committees, investors and auditors whether they agreed or disagreed with the statement that “auditors are sufficiently independent from the entities they audit”. The results show:

	<i>N</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agreed</i>
Investors	203	27%	29%	45%
Directors and audit committee chairs	56	9%	13%	71%
Auditors	62	5%	0%	94%

The FMA provided test to see if the differences are statistically significant. Based on my own statistical analysis of the data (Chi-square tests) the perceptions of auditors and directors are not statistically different. However, the perceptions of investors are statistically different.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	3 June 2020
Subject:	Actual vs Planned update – Strategic Implementation Plan 2019/20
Date:	21 May 2020
Prepared By:	Sylvia van Dyk

Action Required

For Information Purposes Only

Agenda Item Objectives

For the Board to:

- NOTE the update on specific actions undertaken on the NZAuASB's Strategic Action Plan, as noted in the 2019/20 Implementation Plan for the period 1 July 2019 to 21 May 2020.

Background

- The Board approved the NZAuASB Strategic Action Plan (SAP) document for the five-year period 1 July 2019 to 30 June 2024 (SAP) at the October 2019 meeting
- The Board also noted at that meeting the progress made on the draft implementation plan (approved at the October meeting) for the period 1 July 2019 to 30 September 2019.
- We have now updated the specific actions undertaken against the planned actions for the 2019/20 Implementation Plan to show the progress against the 2019/20 Implementation Plan to date. This is available at agenda item 8.2.
- The Board will note there are some planned actions for 2019/20 that are behind schedule, due to competing priorities. These are:

<u>SAP action</u>	<u>Planned Action</u>	<u>Original Planned completion date per SAP</u>
1B.1	Examination of Prospective Information standard	July 2020
1B.3	Review Standard on SPI	Dec 2020
1B.4	Alternative Engagement for small NFPs	Dec 2020
1B.5	PI of Compliance Standard	June 2020
1B.7	Review of compelling reason test	June 2020
2.1	Research – discuss with Commerce Commission need for guidance on re KAMs for other assurance	June 2020
2.3	Promoting an evidence informed strategy, by looking at AUASB Strategy	June 2020

5. These will be carried forward and considered as part of the next update of the NZAuASB's 5-year Strategic Action Plan. We intend to include a strategic planning session on the agenda for the July meeting. This will also be a good opportunity to reconsider the priorities on our work plan in the current environment (for example audit quality and any further impacts of Covid-19), and to align it with the Work Plans of the international standard setting boards that have been revised because of the impact of COVID-19.

Recommendations

6. We recommend that the Board
 - NOTE the progress against the NZAuASB Strategic Action Plan, as noted in the 2019/20 Implementation Plan, for the period 1 July 2019 to 21 May 2020.

Material Presented

Agenda item 8.1
Agenda item 8.2

Board Meeting Summary Paper
NZAuASB Strategic Action Plan 2019/20 Update

Actual actions against planned actions as at June 2020

Specific Strategy 1: Standards are Fit-for-Purpose

PART A: Business as Usual

<p>Key: Green – ongoing activity and on track Orange – action is work in progress and on track Red – no action taken</p>				
<p>NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process</p>		<p>Timing</p>	<p>2019/20 Planned Actions</p>	<p>2019/20 Actual Actions</p>
<p><i>The NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>				
<p>a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Issue newsletters when international documents issued • Organise consultation events as appropriate, with a focus on "why" the change • Promote awareness on social media 	<p>Newsletters highlighting consultation documents were issued for all international documents issued:</p> <ul style="list-style-type: none"> • IESBA ED Role and Mindset (Aug 2019) • IAASB DP Audits of Less Complex Entities (Aug 2019) • IAASB ED conforming amendments for the revised Code (Dec 2019) • IESBA EDs on fees, non-assurance services and objectivity of engagement quality reviewers (Feb 2020) • IAASB Consultation paper EER assurance (March 2020) • IAASB ED Group Audit standard (May 2020) 	

			<p>Events organised:</p> <ul style="list-style-type: none"> • Assurance update webinar (Sept 2019) • Consultation on less complex entities <ul style="list-style-type: none"> ◦ Webinar (Aug 2019) ◦ One on one targeted interviews (Aug 2019) ◦ Online survey (Aug 2019) • Presentation by Sylvie Soulier on IESBA Fees and non-assurance services ED (Jan 2020) • Public presentation by IAASB Chair and Deputy Chair (March 2020) • Domestic outreach on IESBA NAS and Fees EDs, including: <ul style="list-style-type: none"> ◦ meeting with each of the large firms, OAG and FMA ◦ Roundtable other interested parties (mid-tier firms, CA ANZ) • IAASB Audit Evidence outreach, including targeted interviews with practitioners from large and medium sized firms, OAG and FMA. • EER outreach event in conjunction with the AUASB (June)
<p>b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate;</p>		<ul style="list-style-type: none"> • Prepare comment letters • Liaise with AUASB in accordance with established protocol before letters finalised • Liaise with APESB to the extent considered appropriate in each case 	<p>Submissions provided timely to all due process documents. Submissions provided to the following International Boards on the following topics:</p> <p>IAASB</p> <ul style="list-style-type: none"> • Less complex entities consultation (Sept 2019) • ED Conforming amendments to the IAASB International Standards as a Result of the Revised IESBA Code (Jan 2020) • EER Assurance (July 2020) <p>IESBA</p>

			<ul style="list-style-type: none"> ED Role and Mindset (Oct 2019) ED Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers (March 2020) ED Proposed Revisions to the Non-Assurance Services Provisions of the Code (June 2020) ED Proposed Revisions to the Fee-Related Provisions of the Code (June 2020)
c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.		<ul style="list-style-type: none"> Participate in events in NZ or Australia (or elsewhere on an exceptional basis) 	<ul style="list-style-type: none"> Senior project manager attended APESB roundtable PJC Inquiry into Regulation of Auditing (Sep 2019) Chair and senior project manager attended APESB virtual roundtables on NAS and Fees (April 2020)

NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suite of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, as appropriate, and including working with the AUASB to ensure any changes are appropriately harmonised; and	Ongoing	<ul style="list-style-type: none"> Amend standards following due process as documents issued by IAASB Liaise with AUASB in accordance with harmonisation process protocol 	<p>The following standards/guidance have been approved and issued to NZ constituents following due process</p> <ul style="list-style-type: none"> ISA (NZ) 315 (Revised) and Conforming Amendments (Feb 2020)

<p>b. Incorporating any ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IESBA • Interact with APESB staff and Chair as appropriate • Observe some APESB meetings to build relationships with staff and the Board • Agree a communications protocol with the APESB • Develop harmonisation process protocol with APESB • Apply APESB harmonisation protocol 	<p>The following standards/guidance have been approved and issued to NZ constituents following due process</p> <ul style="list-style-type: none"> • Part 4B re ISAE (NZ)3000 Amendments (Feb 2020) • Issued ED to amend PES-1 to incorporate Part 2 of the Code (April 2020). • Regular ongoing liaison with APESB CEO and staff. • APESB CEO dial into April 2020 meeting to discuss Fees and non-assurance services EDs • Number of meetings between Chair and APESB CE alongside AUASB meetings.
<p>c. Responding as appropriate to any gaps /issues identified with the current suite of standards</p>		<ul style="list-style-type: none"> • Develop an appropriate response where such matters are identified. • Utilisation of research and stakeholder engagement where appropriate. 	<p><i>FMA raised matter re ISA (NZ) 560 to clarify timing of communications by auditors.</i></p> <ul style="list-style-type: none"> • Amend ISA (NZ) 560 (respond to FMA concerns about clarity) (Feb 2020) <p>Response to COVID-19</p> <ul style="list-style-type: none"> • Covid-19 webpage created with FAQs and linkages to relevant information • Publication issued to users on modified opinions.
<p>d. Incorporating any amendments to international auditing and assurance standards to domestic</p>		<ul style="list-style-type: none"> • Amend standards following due process and agreed policy. 	<ul style="list-style-type: none"> • Consider impact of ISA 315 (Revised), ISA 540 (Revised) on NZ AS 1, and other domestic standards – in progress.

standards where applicable, including liaising with the AUASB.			
e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised		<ul style="list-style-type: none"> Develop or amend domestic standards following due process and agreed policy. 	<ul style="list-style-type: none"> Amending NZ SRE 2410 for new reporting requirements in progress, in collaboration with the AUASB.
f. Liaising with the New Zealand Accounting Standards Board (NZASB) during the development stage of new or amending accounting standards and any post-implementation reviews to identify any audit or assurance considerations.		<ul style="list-style-type: none"> Liaise with the NZASB as appropriate NZAuASB staff to attend at least 3 NZASB staff briefing or education sessions during the year to receive and provide update on work plans Invite NZASB Chair and Director to meetings to provide update on NZASB workplan. 	<ul style="list-style-type: none"> Senior project managers attended NZASB staff briefing on Intangible Assets Senior project manager attended Sept 2019 NZASB meeting to obtain views on NZ SRE 2410 proposals Director Accounting Standard provided an update to the Board in July 2019 on the accounting framework PIR. Director Assurance Standards provided an update to NZASB in August 2019 and May 2020. NZASB Senior project manager briefed the NZAuASB on the primary financial statements proposals (Feb 2020) NZASB staff requested feedback on 3 accounting pronouncements at June meeting. NZAuASB staff to seek feedback from NZASB on EER assurance at June meeting
NZAuASB Action 1A.3: Monitoring the Assurance Environment	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will monitor the wider assurance environment, liaise with key participants in the financial and non-financial reporting "supply chain", and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			

<p>a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;</p>	<p>Ongoing</p>	<p>Passive monitoring via media, public sources, and relationship contacts, specifically:</p> <ul style="list-style-type: none"> • implementation of new auditor reporting for FMC reporting entities • implementation of auditing of accounting estimates • implementation of the revised and restructured Code of Ethics • auditing of SSPs <p>Monitor modified auditor reports and report half yearly to Board</p>	<ul style="list-style-type: none"> • Ongoing monitoring occurring • Joint report of KAM reporting with FMA including analysis of KAM reporting for all FMC reporting entities (May 2020) <p>Monitoring matters regarding COVID-19 including:</p> <ul style="list-style-type: none"> - ongoing meetings with FMA and with assurance leaders about standards re Covid -19. - Director meeting every three weeks with group of NSS representatives and IAASB staff to discuss possible issues. <p>Actions to date:</p> <ul style="list-style-type: none"> • Update to auditors' responsibilities description on XRB website to cover service performance information (Oct 2019) • Modified auditor reports update provided in September <p>Response to Covid-19:</p> <ul style="list-style-type: none"> • Developed COVID-19 webpage, linkages to supporting guidance and FAQs • Issued guidance on interim reporting and use of EOM and paragraphs on material uncertainty related to going concern • Issued publication to users on modified auditor reports in May 2020.
<p>b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Take action as appropriate as matters arise during the year 	<p>Ongoing monitoring occurring. Practitioners attended Sept 2019 NZAuASB meeting.</p> <p>Matters identified:</p>

			<ul style="list-style-type: none"> - Consider if guidance is required for KAMs in other assurance engagements (See Action 2.1) - FMA issue re ISA 560 Subsequent events. (See action 1A.2) <p>Response to COVID-19</p> <ul style="list-style-type: none"> • Meeting with FMA, other NSS, IAASB staff and with assurance leaders to discuss issues re Covid -19 – no issues or gaps with standards identified to date.
c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and considering the implications for the New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> • Monitor projects, including: <ul style="list-style-type: none"> - global extended external reporting developments - academic research - use of data analytics and artificial intelligence in auditing; - <u>auditing for SMEs</u> - <u>non-assurance services</u> 	<ul style="list-style-type: none"> • Ongoing monitoring occurring. Environmental scanning report standard agenda item.
d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> • Director continue to participate at FMA Audit Oversight Committee meetings and report as necessary to the Board • Analyse results of QA reviews for standards issues. 	<ul style="list-style-type: none"> • Ongoing attendance at Audit Oversight Committee meetings and reporting to the Board as necessary. • Ongoing regular liaison with FMA on audit quality review issues and reporting to the Board as necessary. • FMA raised issue re SA 560 Subsequent Events (Oct 2018). Completed Feb 2020 • Report on FMA QA findings considered Dec 2019- matters re journal testing for fraud

		<ul style="list-style-type: none"> Liaise with FMA on reviews conducted. 	<p>noted for follow up. Raised with IAASB at NSS meeting as part of IAASB fraud project information gathering.</p>
e. Assisting the XRB to contribute to government policy work relating to auditing and assurance and other related services standards	Ongoing	<ul style="list-style-type: none"> Interact with MBIE and other agencies as requested by them, or as identified as necessary 	<ul style="list-style-type: none"> Ongoing contact with MBIE regarding progress on change in mandate for AUP standard. Mandate change made Ongoing contact with RBNZ regarding auditor reporting. Ongoing contact with MBIE regarding sustainability reporting and assurance
f. Monitoring the XRB EER project, contributing to the development of guidance as appropriate, and work with others to ensure that any assurance gaps are identified, understood, researched if necessary and addressed.		<ul style="list-style-type: none"> Monitor developments and consider if any action is required Collaborate with others in researching innovation in EER assurance engagements 	<ul style="list-style-type: none"> Ongoing monitoring. Assistance to AUASB on EER survey Update to XRB website on EER assurance matters
g. Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group review and major reviews in other jurisdictions, and considering the implications for the New Zealand auditing and assurance standards		<ul style="list-style-type: none"> Monitor developments and consider if any action is required 	<ul style="list-style-type: none"> Ongoing No action required to date.
h. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit impact, and by supporting the targeted review of the accounting standards framework.			<ul style="list-style-type: none"> Joint board meeting Feb 2020 considered: <ul style="list-style-type: none"> EER developments Going concern Audit fee disclosures Perspectives on Impairment of Assets

Specific Strategy 1: Standards are Fit-for-Purpose

Part B: Address Critical Issues

NZAuASB Action 1B.1: Developing an Assurance Standard on the Examination of Prospective financial information	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective financial information.</i></p> <p>This action will comprise:</p>			
<p>Developing the standard in accordance with the due process for domestic standards, ensuring harmonisation with the AUASB standard as appropriate.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> Approve updated project plan and continue development of standard in accordance with the agreed project plan 	<ul style="list-style-type: none"> In progress. Significantly delayed due to competing priority with other projects. New timeline to establish to complete in 2020/2021.
NZAuASB Action 1B.2: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relative assurance products, and develop guidance where identified	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will consider what further guidance is needed in the New Zealand environment. The action will comprise:</i></p>			

<p>Considering what further guidance is needed</p> <p>Developing appropriate guidance.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> • Consider if there is a need for further guidance on the use of the assurance standards. • Liaise with the AUASB staff when they update/develop guidance and consider if equivalent guidance needed in NZ • Develop further guidance in accordance with the approved project plan and in collaboration with the AUASB where applicable • Include guidance on website • Promote the guidance 	<ul style="list-style-type: none"> • Guidance on use of Management's Expert approved for development in NZ, based on Australian guidance. Expect final to be issued in June 2020.
<p>NZAuASB Action 1B.3:</p> <p>Developing a review standard on service performance information</p>	<p>Timing</p>	<p>2019/20 Planned Actions</p>	<p>2019/20 Actual Actions</p>
<p><i>The NZAuASB will develop a review standard on service performance information for Public Benefit Entities (PBEs)</i></p> <p>The action will comprise:</p>			
<p>Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.</p>	<p>Commence 2nd half 2019-20 and complete 2020-21.</p>	<ul style="list-style-type: none"> • Approve project plan and commence development of the engagement standard in accordance with the agreed project plan. 	<ul style="list-style-type: none"> • Delayed due to competing priority with other projects. New timeline to establish.

NZAuASB Action 1B.4: Developing an engagement standard/guidance for smaller NFPs	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</i></p> <p>The action will comprise:</p>			
Developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year. – to complete 2020-21.	<ul style="list-style-type: none"> Commence development of the engagement standard/guidance in accordance with the agreed project plan 	<ul style="list-style-type: none"> In progress. Significantly delayed due to competing priority with other projects. New timeline to establish to complete in 2020/2021
NZAuASB Action 1B.5 Perform a post implementation review of the Compliance Engagement Standard	Timing	2019/20 Planned Actions	<u>2019/20 Actual Actions</u>
<p><i>The NZAuASB will perform a post implementation review of the Compliance Engagement standard jointly with the AUASB to determine if further guidance is needed.</i></p> <p>This action will comprise:</p>			
Performing a post implementation review of the Compliance standard jointly with the AUASB. Considering if further application guidance is needed.	Commence 2nd half 2019-20	<ul style="list-style-type: none"> Liaise with the AUASB and develop a joint project plan for the post implementation review Perform the post implementation review in accordance with the approved project plan Consider the results together with the AUASB 	<ul style="list-style-type: none"> Commenced discussion with AUASB Director re timing. Significantly delayed due to competing priority with other projects. New timeline to establish to complete in 2020/2021

		and decide whether further application guidance is needed.	
NZAuASB Action 1B.6: Amending NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<i>The NZAuASB will amend NZ SRE 2410 for the new auditor reporting requirements.</i>			
This action will comprise:			
Amending the standard in collaboration with the AUASB and in accordance with the due process for domestic standards	Complete first half 2019/20.	<ul style="list-style-type: none"> Amend the standard in accordance with the approved project plan 	<ul style="list-style-type: none"> In progress. Approved by the NZAuASB subject to approval by AUASB (April 2020). Expect completion in first quarter 2020/2021.
NZAuASB Action 1B.7 Perform a review of the compelling reason test and the harmonisation policy jointly with the AUASB	Timing	2019/20 Planned Actions	<u>2019/20 Actual Actions</u>
<i>The NZAuASB will perform a review of the compelling reason test, in collaboration with the AUASB, to determine if it remains fit for purpose in the current auditing and assurance environment globally and in the two jurisdictions</i>			
This action will comprise:			
Performing a review of the compelling reason test and the harmonisation policy together with the AUASB about any changes that may be needed	Commence 2 nd half 2019-20	<ul style="list-style-type: none"> Staff to liaise with AUASB staff and to prepare a joint issues paper for the 2 Boards to consider at concurrent meetings. Both Boards to consider outcome of the 	<ul style="list-style-type: none"> Agreed timing with AUASB Director – to be completed by September 2020.

		respective meetings, and staff to jointly prepare an update for Boards to approve at subsequent meetings.	
NZAuASB Action 1B.8 Perform a follow up joint review with the FMA on auditor reporting in New Zealand The Action will comprise:	Timing	<ul style="list-style-type: none"> 2019/20 Planned Actions 	<u>2019/20 Actual Actions</u>
a. Developing and issuing a follow up joint report with the FMA on auditor reporting and issuing a joint report	Whole year	<ul style="list-style-type: none"> Staff to liaise with the FMA and prepare a project plan Prepare a joint draft report for the Board's comments Issue the report jointly with the FMA 	Follow up joint report with the FMA on the New Zealand experience of the new auditor reporting requirements completed May 2020.
b. Considering if further guidance is needed on auditor reporting	As needed	<ul style="list-style-type: none"> Consider if there is a need for further guidance 	Response to Covid 19: <ul style="list-style-type: none"> Issued publication to users on modified auditor reports May 2020. Issued guidance on interim reporting and use of EOM and paragraphs on material uncertainty related to going concern.
NZAuASB Action 1B.10 Considering and addressing the implications of the XRB mandate The action will comprise:	Timing	2019/20 Planned Actions	<u>2019/20 Actual Actions</u>

Addressing issues arising as a result of the XRB's mandate and any changes to the mandate	Whole year	Consider issues arising as a result of the XRB's legal mandate on the professional and ethical standards	<ul style="list-style-type: none"> Issued ED to amend XRB Au1 to reflect the amended mandate (Feb 2020).
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Specific Strategy 2: Standards are Evidenced-Informed as to User Needs

NZAuASB Action 2.1:	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p>The NZAuASB will undertake, organised research into needs of the various users of NZAuASB standards as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international standard setting boards.</p> <p>This action will comprise:</p>			
<p>a. Identifying and performing applicable user needs research to undertake where appropriate.</p>	Whole year.	<p>The NZAuASB has identified the following in house research projects:</p> <ul style="list-style-type: none"> Discuss with Commerce Commission and research if there is a need to develop guidance on KAMs for other assurance reports Perform survey on extent and type of EER assurance engagements performed in NZ in collaboration with AUASB. 	<ul style="list-style-type: none"> Discussion with Commerce Commission not yet commenced. Survey on EER developed in conjunction with AUASB, however response rate very low.

<p>b. Considering output of research available (including in liaison with the AUASB) and how this can best contribute to the quality of standard setting work.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Monitor outputs of research projects conducted on assurance matters • Perform search to identify available research on current IAASB, IESBA and NZAuASB projects and consider relevance of research output to the projects 	<ul style="list-style-type: none"> • Ongoing • Research articles made available by Nives Redmayne (NZASB member), David Hay and Michael Bradbury (XRB Board member)
<p>NZAuASB Action 2.2: Developing relationships with academia and other “think tanks”</p>	<p>Timing</p>	<p>2019/20 Planned Actions</p>	<p>2019/20 Actual Actions</p>
<p><i>The focus of the NZAuASB specific actions will be to develop relationships with academia and other ‘think tanks’ to direct user needs research to contribute to the standard setting process.</i></p> <p>This action will comprise:</p>			
<p>a. Leveraging collaboration between academic members of the NZAuASB and the AUASB;</p>			<ul style="list-style-type: none"> • Ongoing • Progress is being made with academic liaison through the academic members on the boards of the NASS group, and in particular between the NZAuASB and AUASB members. They are both involved in initiatives by the Association of Finance Academics of Australia and New Zealand (AFAANZ) to include a range of audit topics on the agenda for this year’s annual conference and Special Interest Group meeting, as well as the potential for a committee to bring together academic responses to proposed auditing standards.

b. Meeting with academic constituent groups on a rolling basis as part of the NZAuASB's regular meetings;		Invite representatives from academia (lecturers and researches) to a Board meeting to explore ways to best engage.	<ul style="list-style-type: none"> Included on liaison schedule to invite to a meeting.
c. Taking opportunities to meet with academics in other fora, including at events hosted by them.		<ul style="list-style-type: none"> Present a seminar at least at one university about the audit environment. 	<ul style="list-style-type: none"> Senior project manager attended conference ran by Deakin University
NZAuASB Action 2.3: Promoting an evidence informed standard setting strategy	Timing	2019/20 Planned Actions	2019/20 Actual Actions
a. Reviewing the AUASB's strategy and refining the NZAuASB's approach under this strategy.			<ul style="list-style-type: none"> Not yet commenced.

Specific Strategy 3: High Quality Global Standards Applicable in New Zealand

NZAuASB Action 3.1: Building Relationships with the IAASB	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i>			
The Action will comprise:			

<p>a. Attending relevant meetings and events (including National Standard Setters meetings);</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Chair and Director to attend NSS meetings • Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost • Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	<ul style="list-style-type: none"> • Ongoing attendance by Director at all IAASB meetings, and report provided to the Board on each meeting.
<p>b. Taking opportunities to meet with IAASB members and staff;</p>		<ul style="list-style-type: none"> • Interact with key staff and Chair as appropriate • NZAuASB representative and staff to attend the NSS meeting in May 2020. 	<ul style="list-style-type: none"> • Ongoing interaction at staff level. • Chair and Director participated in virtual NSS meeting in May.
<p>c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups;</p>		<ul style="list-style-type: none"> • Support Lyn Provost as IAASB member (see 3,3) and interact regularly with Fiona Campbell at IAASB meetings and on specific topics as required • Work with AUASB at chair and staff level to influence international agenda. 	<ul style="list-style-type: none"> • Ongoing support provided to Lyn Provost • Ongoing liaison with Fiona Campbell at IAASB meetings.
<p>d. Hosting IAASB members and staff in visits to New Zealand as appropriate.</p>		<ul style="list-style-type: none"> • Host IAASB members and staff as appropriate 	<ul style="list-style-type: none"> • Hosted IAASB Chair and Deputy Chair (March 2020)

e. Responding as appropriate to requests for information from the IAASB and any other relevant working groups		<ul style="list-style-type: none"> Respond to requests for information as appropriate 	<ul style="list-style-type: none"> Provided EER example from the public sector perspective for IAASB EER CP Assisted IAASB with outreach on Audit Evidence project Provided information on going concern, fraud issues and our response to COVID-19 ahead of the NSS meeting.
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high quality way.</i></p> <p>The Action will comprise:</p>			
a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB/APESB and/or other NSS on joint projects; and	Ongoing	<ul style="list-style-type: none"> Identify possible topic to present on at NSS in May 2020 	Truncated virtual meeting held so no opportunity to present on any topic.
b. Identifying appropriate, mutually beneficial IAASB and IESBA projects and contributing technical resources in support of those projects.	Ongoing	<ul style="list-style-type: none"> Contribute resources to mutual beneficial projects as opportunities arise 	<ul style="list-style-type: none"> Director participating as task force member on IAASB ISA 540 Implementation project. Senior project manager assisted IAASB staff with QA review on proposed amendment t to ISAs for changes to the Code (September). Advised IAASB on additional conforming amendments arising from ISA 315. Performing information gathering on behalf of IAASB – signing partner survey developed and issued in May 2020.

			<ul style="list-style-type: none"> • Director participating as task force member of IAASB auditor reporting implementation working group. • Senior project manager on part time secondment (until June 2021) to IESBA to assist with project on technology
NZAuASB Action 3.3:	Timing	2019/20 Planned Actions	2019/20 Actual Actions
Supporting Lyn Provost in her role as IAASB member			
<p><i>The NZAuASB will provide support to Lyn Provost in her role as IAASB member.</i></p> <p>The Action will comprise:</p>			
a. Inviting Lyn Provost to Board meetings and providing high level support for her role (and monitoring the inputs of the Technical Advisory group)	Ongoing	<ul style="list-style-type: none"> • Invite Lyn Provost to Board meetings • Providing high level support for Lyn’s role and monitoring the inputs of the Technical Advisory Group • Arrange high-level discussions between Lyn Provost and the NZAuASB when appropriate 	<ul style="list-style-type: none"> • Ongoing meetings occurring with technical advisory group before each IAASB meeting, with report back to the Board. • Lyn Provost attended meeting in April 2020
b. The Director Assurance Standards attending IAASB meetings as Technical Advisor (TA) to Lyn Provost.		<ul style="list-style-type: none"> • Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost 	<ul style="list-style-type: none"> • Ongoing attendance at all IAASB meetings, and report back to the Board.
NZAuASB Action 3.4:	Timing	2019/20 Planned Actions	2019/20 Actual Actions

Building Relationships with the IESBA			
<i>The NZAuASB will seek to build relationships with IESBA members and staff.</i>			
The Action will comprise:			
a. Attending relevant meetings and events (including NSS meetings);	Ongoing	<ul style="list-style-type: none"> Chair and Director to attend NSS meeting in May 2020. Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	<ul style="list-style-type: none"> Chair and Director participated in virtual NSS meeting in May.
b. Taking opportunities to meet with IESBA members and staff; and		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	<ul style="list-style-type: none"> Ongoing contact at staff level – senior project manager assisting IESBA with new project on technology. Chair interacted with IESBA Chair on a number of occasions during the year regarding the NSS collaboration project.
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	No action to date
d. Hosting IESBA members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IESBA members and staff as appropriate 	<ul style="list-style-type: none"> Former IESBA member Sylvie Soulier visit (Jan 2020)
e. Responding, as appropriate, to requests for information from the IESBA and any other relevant working group.		Respond to requests for information as appropriate	<ul style="list-style-type: none"> Provided information on the NZ PIE definition ahead of the NSS meeting, and Senior Project manager had further discussions with IESBA staff and TF Chair on the PIE definition.
NZAuASB Action 3.5:	Timing	2019/20 Planned Actions	2019/20 Actual Actions

<p>Working with the IESBA and CA ANZ, as appropriate, to explore transfer of the eCode to New Zealand</p> <p>The Action will comprise:</p>			
<p>a. Contributing technical resource to the next phase of the IESBA project</p>	<p>Whole year</p>	<ul style="list-style-type: none"> Senior project manager to assist with the project 	<ul style="list-style-type: none"> Ongoing assistance provided during the year. Phase 2 of eCode complete. (May 2020)
<p>b. Assisting IESBA with testing the eCode application adjusted for jurisdictional provisions in New Zealand</p>		<ul style="list-style-type: none"> Test the eCode in New Zealand 	<ul style="list-style-type: none"> Transfer on hold by IFAC as they explore technology-enabled solutions for all IFAC's standard setting Boards.
<p>NZAuASB Action 3.6:</p> <p>Collaborating with other NASSs to ensure global standards are fit for purpose at jurisdictional levels.</p> <p>The Action will comprise:</p>	<p>Timing</p>	<p>2019/20 Planned Actions</p>	<p>2019/20 Actual Actions</p>
<p>a. Leading the exploration internationally of how NASSs can work more collaboratively with each other to address issues associated with current and recently released IAASB standards (e.g. the impact of technology on the audit, SMP/LCE audit issues, and the implementation of new or updated standards).</p>		<ul style="list-style-type: none"> Jointly develop and agree a NASS Vision with the lead group of 4. Agree Vision with the wider NASS group at the NSS meeting in May 2020 Have quarterly phone calls with the NASS G4 group, and in-person meetings alongside the IAASB meetings. Establish and maintain a NASS communications network Share work plans and identify specific projects 	<p>In progress.</p> <ul style="list-style-type: none"> NASS vision has been agreed with the lead group of 4. Will be agreed with the wider NASS group when the next NSS in person meeting is held during 2020/2021 Work plans have been shared with NASS G4 group and projects agreed to collaborate on Regular video call meetings occurring.

		amongst NASS G4 group to collaborate on.	
b. Identifying and exploring opportunities for the IAASB and National Assurance Standard Setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work.		<ul style="list-style-type: none"> • Liaise with the IAASB staff on NSS matters to work collaboratively on. • Contribute to planning NSS meetings. • Develop relationship with the new IAASB Chair. 	<ul style="list-style-type: none"> • In progress • Chair had discussions with the new IAASB Chair (Sept) and during his visit to NZ in March 2020. • The three board chairs (NZAuASB Chair and the Chairs of the Canadian and Australian Boards) were consulted by the IAASB's and IESBA's Chairs and senior staff in the planning of the annual NSS meeting • Director participating in regular calls with IAASB staff and other NSS representatives on COVID matters (2 calls to date since April).
c. Continuing to develop an understanding of how NASS as a stakeholder group can better inform the implementation of the IAASB's current and future strategies, through global and regional actions that increase the value and perception of the audit.		<ul style="list-style-type: none"> • Participate in NASS meetings • Build relationships with other NASS in the ASIA PACIFIC region. • Develop a database of NASS contacts and invite them to join the NASS communications network. • Obtain support for a wider participation at annual NASS meetings 	<ul style="list-style-type: none"> • In progress • Discussion of the initiative to promote inter-NSS activities has been deferred until the next opportunity for an in-person meeting.

<p>d. Work with the IAASB and the IESBA in support of their joint project to foster “quadrilogue” and project specific collaboration between the two boards and their respective NSS groups</p>		<ul style="list-style-type: none"> • Continue dialogue with the IAASB and IESBA Chairs and Directors to identify joint projects. • Plan and host the joint Boards’ session at the NSS meeting in May 2020. • Liaise with APESB and the Canadian Ethics Standards Board to establish a communications network for national ethic standard setters. 	<ul style="list-style-type: none"> • In progress • The three board chairs (NZAuASB Chair and the Chairs of the Canadian and Australian Boards) were consulted by the IAASB’s and IESBA’s Chairs and senior staff in the planning of the annual NSS meeting. • Joint Board’s session was held in May – truncated video meeting – PIE definition discussed. Discussion of the initiative to promote inter-NSS activities to be deferred until the next opportunity for an in-person meeting.
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Specific Strategy 4: Standards Developed Collaboratively with Constituency

NZAuASB Action 4.1: Enhancing Auditing and Assurance Standards Due Process Consultation	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.</i></p> <p>The Action will comprise:</p>			
<p>a. Identifying and implementing innovative, targeted consultation methods with a focus on “why” the change, that are high value-added but relatively low-effort from the constituents’ point of view; and</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Continue current due process engagement methods • Develop new communications & engagement approach that reflects different target groups and helps 	<ul style="list-style-type: none"> • Targeted interviews on LCEs (Sep 2019) • Online surveys (LCEs, 2410 revision) (Sep 2019) • Blog (2410 revision) (Sep 2019) • Targeted interviews on Audit evidence project

		to explain “why” changes are needed.	<ul style="list-style-type: none"> Director Assurance Standards and Director Accounting standards participated in video panel during lockdown on COVID-19 matters arranged by CAANZ. XRB Staff Alert issued on modified reports May 2020 Media article in NBR re COVID -19. <p>Targeted online roundtable of EER CP (June 2020)</p>
b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences Promote other Topics as arise Identify and engage with relevant groups about major new exposure drafts and standards. 	<ul style="list-style-type: none"> Updates provided to XRAP members and the NZASB on assurance standards. Targeted consultations on new exposure drafts, for example NAS and FEES, EER, Interim Review standard. XRB Staff Alert issued on modified reports May 2020
NZAuASB Action 4.2: Undertaking On-Going Dialogue	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i>			
The Action will comprise:			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB’s regular meetings;	Ongoing	<ul style="list-style-type: none"> Update and include liaison schedule as a standard agenda item 	<ul style="list-style-type: none"> Ongoing. Liaison schedule standard agenda item.

		<ul style="list-style-type: none"> Organise regular meetings with key stakeholders identified on the liaison schedule - 	
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and	Ongoing	<ul style="list-style-type: none"> Organise seminars & round tables Attend other fora Attend mid-tier forum 	<ul style="list-style-type: none"> Consulted with investors on auditor reporting implementation for joint report with the FMA. Director participated in Audit Summit meeting arranged by CAANZ and practitioners on COVID-19 matters (April 2020). Director and CE held discussions with assurance leaders to discuss COVID-19 matters (April 2020).
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> Built relationships with key groups identified. 	<ul style="list-style-type: none"> Ongoing
NZAuASB Action 4.3: Promoting understanding of the auditing and assurance standards and engagements	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The NZAuASB will undertake activities throughout the life-cycle of developing standards to promote an increased understanding of the auditing and assurance standards</i></p> <p>The Action will comprise:</p>			
a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness of:		<ul style="list-style-type: none"> Speaking engagements as opportunities arise Targeted meetings with users 	<ul style="list-style-type: none"> Assurance update webinar (Sept 2019) Australian Accounting Review "International Code of Ethics for Professional Accountants: A behind the Scenes look at the eCode" (Sept 2019)

<ul style="list-style-type: none"> assurance practitioners about new and revised auditing and assurance standards users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility 		<ul style="list-style-type: none"> Journal articles Targeted newsletters Social media notifications 	<ul style="list-style-type: none"> Perspectives Article ISA 315 (Revised) Senior project manager assurance update BakerTilly presentation (Nov 2019) CAANZ Audit conference (Nov 2019) <ul style="list-style-type: none"> NZ AS 1 presentation LCE project update Audit summit meeting update on quality management standards (Dec 2019) <p>Senior project manager presented AUT auditing 3rd year paper guest lecture (March 2020)</p>
<p>b. Promoting awareness of the IAASB and the IESBA implementation support activities.</p>		<ul style="list-style-type: none"> Targeted newsletters Social media notifications 	<ul style="list-style-type: none"> Ongoing – business as usual. Targeted newsletters and social media notifications issued to promote any such material as they become available

NZAuASB Action 4.5: Support the XRB to Promote Understanding of the factors that Affect Audit Quality	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p><i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i></p> <p>This action will comprise:</p>			

<p>a. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> Promote the audit quality framework as opportunities arise Liaise with IOD to do an awareness raising session as part of the director education series 	<ul style="list-style-type: none"> IOD guest at October meeting. Ongoing liaison with Felicity Caird from IoD. Analysis of UK Brydon review recommendations commenced (Feb/April 2020) IoD agreed to promote XRB publications at director education series
<p>b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality</p>		<ul style="list-style-type: none"> Speaking engagements as opportunities arise XRBrief article Promote guidance developed. 	<p>Other than specific due process consultations and various presentations noted under other actions, no specific actual actions undertaken.</p> <p>This will be more of a focus during 2020/2021 when we decide what the actions are in response to the Australian Inquiry and the Brydon review.</p>

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	9.1
Meeting date:	3 June 2020
Subject:	Conforming Amendments to IAASB's standard for updated Code
Date:	19 May 2020
Prepared By:	Sharon Walker

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

1. To
 - APPROVE the standard *Conforming Amendments to Auditing and Assurance Standards: Implications of the Revised Professional and Ethical Standard 1 on the NZAuASB's Standards*. This standard incorporates both the IAASB's approved changes and domestic changes to the NZAuASB's standards.
 - APPROVE the draft signing memorandum.
 - APPROVE changes to guidance issued by the NZAuASB.

Background

2. The IAASB's international standards refer to the IESBA Code in various ways, ranging from simple references to the title to detailed references to specific paragraphs in the IESBA Code as it existed before April 2018. Accordingly, the IAASB undertook a project to update the IAASB's international standards to align the extant wording with the revised and restructured IESBA Code.
3. The IAASB issued its exposure draft in November 2019, and comments were due by 10 January 2020.
4. The final changes to the IAASB's standards were approved by the IAASB at its February 2020 teleconference. The standard received IOB approval in March and was issued in April. The conforming amendments are effective as of 15 July 2020.
5. In addition to the changes made by the IAASB, a concurrent project to capture necessary changes to the New Zealand specific paragraphs and the NZAuASB's domestic standards was undertaken. ED NZAuASB 2019-3 was issued in December 2019 with submissions due 24 January 2020. No submissions were received in response to the ED.

Wording of the Auditor's Responsibilities

6. ISA (NZ) 700 (Revised)¹ permits the description of the auditor's responsibilities for the audit of the financial statements to be moved out of the auditor's report and referred instead to a website of an appropriate authority.
7. For audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, the statement required by paragraph NZ40(b)(1) is amended:

For audits of FMC reporting entities considered to have a higher level of public accountability, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards actions taken to eliminate threats or safeguards applied;

8. We consider this amendment to be of an editorial nature only, rather than a substantive change to the auditor's responsibilities.
9. The question for the Board is whether this amendment would give rise to the need to create a new set of auditor responsibility descriptions for the website, given that auditors may already have issued reports with links to the extant wording.
10. Given the editorial nature of the change, we consider that creating a new set of descriptions is not necessary. Rather, we recommend amending the descriptions on the website to align the wording with the revised Code. While we recognise that changes to the auditor responsibilities on the website will create a change in auditor's reports already issued, we do not consider that the change creates a substantive change to the auditor's responsibilities.
11. **Does the Board agree with the recommendation to update the website rather than creating a new set of auditor responsibilities?**

Communicating NOCLAR in a Review Engagement

12. ISRE (NZ) 2400 indicates that the assurance practitioner may have additional responsibilities under law, regulation or other relevant ethical requirements regarding an entity's non-compliance with laws and regulations which may go beyond ISRE (NZ) 2400, such as, communicating identified or suspected non-compliance with laws and regulations to, for example, a group engagement partner.²

¹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 41(c)

² ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner*, paragraph NZA88.1

13. In the IAASB's conforming amendments, this paragraph references to paragraphs R360.31-360.35 A1 of the IESBA Code which deal with communication of matters to the entity's external auditor. The material in the IESBA Code applies to professional services other than audits of financial statements (i.e., includes review engagements). In Professional and Ethical Standard 1, R360.31-360.35 A1 are applicable to assurance services other than audits and reviews of financial statements only. This is because in PES-1 we have elevated the requirements for review engagements to be the same as for audits.
14. Paragraph NZ R360.16.1 of Professional and Ethical Standard 1, applicable to audit and review engagements, establishes a requirement for the assurance practitioner to communicate identified or suspected non-compliance to the group engagement partner.
15. For purposes of the conforming amendment, we have identified this is a difference between ISRE 2400 and ISRE (NZ) 2400 (denoted by the prefix NZ).
16. **Does the Board agree that it is appropriate to reference paragraphs NZR360.16.1-360.18 A1 in paragraph NZA88.1 of ISRE (NZ) 2400 (Refer section B21 in agenda item 10.2)? (that is, to reference to the section dealing with communication to the group engagement partner, rather than to the section R360.31-R360.35 A1 (for engagements other than audits or reviews) that deals with communication to the entity's external auditor)**

ISAE (NZ) 3402

17. While preparing the amendments to ISAE (NZ) 3402, we noticed that paragraph A44 is worded differently to both extant ISAE 3402 (as well as the approved amendments to ISAE 3402) and to the wording of Professional and Ethical Standard 1.
18. Extant paragraph A44 uses wording that dates back to Rule 2 of Professional and Ethical Standard 1, *Ethical Standards for Assurance Providers*, adopted from NZICA on inception of the XRB which has been superseded.
19. The wording in paragraph A44 is now amended to reflect the requirement in Professional and Ethical Standard 1, R111.2.

Changes to NZAuASB Guidance

20. In finalising the conforming amendments, we also identified a number of changes to be made to guidance documents issued by the NZAuASB. These amendments are set out in agenda item 10.4 and affect the following publications:
 - IAPN (NZ) 1000 *Special Considerations in Auditing Financial Statements*
 - EG Au1 *Overview of Auditing and Assurance Standards*
 - EG Au1A *Framework for Assurance Engagements*
 - EG Au8 *Audit Implications of the Use of Service Organisations for Investment Management Services*

21. We also identified changes to EG Au4 *Glossary of Terms*. We do not propose making these changes at this time. We are currently working on a project to update EG Au4 for various other changes and expect a full revision of the Glossary to be available for the Board to consider at its July 2020 meeting.

Recommendations

We recommend that the Board APPROVE the conforming amendments standard, the related signing memorandum and the amendments to various guidance issued by the NZAuASB.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Conforming Amendments Standard
Agenda item 9.3	Signing Memorandum
Agenda item 9.4	Amendments to Guidance issued by the NZAuASB



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

Agenda item 9.2

CONFORMING AMENDMENTS TO AUDITING AND ASSURANCE STANDARDS AS A RESULT OF THE REVISED PROFESSIONAL AND ETHICAL STANDARD 1

This Standard was issued on **10 June 2020** by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on **8 July 2020**.

An auditor that is required to apply the amendment in this Standard is required to apply it for audits of financial statements for periods beginning on or after **15 July 2020**. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to address the implications of the revised Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, on the NZAuASB's standards.

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**Conforming Amendments to Auditing and Assurance Standards as a Result of
the Revised Professional and Ethical Standard 1**

CONTENTS

A: INTRODUCTION

B: AMENDMENTS TO AUDITING AND ASSURANCE STANDARDS

C: EFFECTIVE DATE

A: INTRODUCTION

This document sets out amendments to the NZAuASB's auditing and assurance standards, including professional and ethical standards, and various guidance documents as a result of the issuance of Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

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

The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to those compiled standards.

B: Amendments to Auditing and Assurance Standards as a Result of the Revised Professional Ethical Standard 1

B.1 Professional and Ethical Standard 3 (Amended) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements

- NZ12.9 Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking audits or reviews of financial statements, or other assurance engagements, which ordinarily comprise the provisions of Professional and Ethical Standard 1⁺ (Revised) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), and other applicable law or regulation.
21. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to: (Ref: Para. A10)
- (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and
 - (b) Identify ~~and evaluate circumstances and relationships that create~~ threats to independence, evaluate whether the identified threats are at an acceptable level, and if not address them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.
22. Such policies and procedures shall require: (Ref: Para. A10)
- (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
 - (b) Personnel to promptly notify the firm of circumstances and relationships that create a threats to independence so that appropriate action can be taken; and
 - (c) The accumulation and communication of relevant information to appropriate personnel so that:
 - (i) The firm and its personnel can readily determine whether they satisfy independence requirements;
 - (ii) The firm can maintain and update its records relating to independence; and

⁺ Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

(iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.

25. The firm shall establish policies and procedures: (Ref: Para A10)

- (a) Setting out criteria for determining the need to eliminate the circumstances that create a threat of long association with an entity to an acceptable level, for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time or criteria for applying safeguards to reduce the threat; and (Ref: Para. A14)
- (b) Requiring, for audits of financial statements of public interest entities, the rotation of the key assurance partner, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12-A17)

A7. Professional and Ethical Standard 1 (~~Revised~~) establishes the fundamental principles of ~~professional~~ ethics, which ~~are include~~:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

The fundamental principles of ethics establish the standard of behavior expected of an assurance practitioner.

A8. ~~Part B of Professional and Ethical Standard 1 (Revised) illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats. Professional and Ethical Standard 1 provides a conceptual framework that~~ establishes the approach which an assurance practitioner is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, Professional and Ethical Standard 1 sets out *International Independence Standards (New Zealand)* established by the application of the conceptual framework to threats to independence in relation to those engagements.

A9. The fundamental principles are reinforced in particular by:

- The leadership of the firm;
- Education and training;
- Monitoring; and
- A process for dealing with breaches non-compliance.

Definition of “Firm,” “Network” and “Network Firm” (Ref: Para. 20-25)

A10. The definitions of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this Professional and Ethical Standard. For example, Professional and Ethical Standard 1 (~~Revised~~) defines the “firm” as:

- (i) A sole practitioner, partnership or corporation undertaking assurance engagements;
- (ii) An entity that controls such parties, through ownership, management or other means; and
- (iii) An entity controlled by such parties, through ownership, management or other means.

Professional and Ethical Standard 1 (~~Revised~~) also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Written Confirmation (Ref: Para. 24)

A11. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating a breach non-compliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.

~~Familiarity Threat~~ Long Association with an Entity (Ref: Para. 25)

A12. Professional and Ethical Standard 1 (~~Revised~~) discusses the ~~familiarity~~ threat that may be created as a result of an individual’s long association with:

- The entity and its operations;
- The entity’s senior management; or
- The underlying subject matter and subject matter information of the assurance engagement. by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.

A13. Professional and Ethical Standard 1 includes examples of factors that are relevant to evaluating the level of a threat that may arise when an individual is involved in an assurance engagement over a long period of time. Professional and Ethical Standard 1 also provides examples of actions to address threats, including:

- Eliminating the threat, by rotating the individual off the engagement team; or
- Applying safeguards to reduce the threat to an acceptable level, for example by performing regular independent internal or external quality reviews of the engagement.
- ~~Determining appropriate criteria to address familiarity threat may include matters such as:~~
- ~~The nature of the engagement, including the extent to which it involves a matter of public interest; and~~
- ~~The length of service of the senior personnel on the engagement.~~

~~Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.~~

NZA14.1 Professional and Ethical Standard 1 ~~(Revised)~~ recognises that the familiarity threat is particularly relevant in the context of financial statement audits of public interest entities. For these audits, Professional and Ethical Standard 1 ~~(Revised)~~ requires the rotation of the key audit partner² after a pre-defined period, normally no more than seven years, and provides related standards and guidance³.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation (Ref: Para. 46)

A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements to do so.⁴ Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

B.2 ISA (NZ) 200 Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)

Ethical Requirements Relating to an Audit of Financial Statements (Ref: Para. 14)

A16. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the provisions of Professional and Ethical Standard 1 ~~(Revised)~~⁵ related to an audit of financial statements.

A17. Professional and Ethical Standard 1 ~~(Revised)~~ establishes the fundamental principles of professional ethics, ~~which are: relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by Professional and Ethical Standard 1 ~~(Revised)~~ are:~~

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and

² Professional and Ethical Standard 1 ~~(Revised)~~, Definitions:

³ ~~Paragraph 290.151 of Professional and Ethical Standard 1, section 540, Long Association of Personnel (including Partner Rotation) with an Audit or Review Client ~~(Revised)~~~~

⁴ See, for example, paragraphs R114.1, 114.1 A1 and R360.26 ~~Section 140.7 and Section 225.35~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

⁵ Professional and Ethical Standard 1 ~~(Revised)~~, ~~“International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) ~~(Compiled)~~”~~.

(e) Professional Behaviour.

~~Part B of Professional and Ethical Standard 1 (Revised) illustrates how the conceptual framework is to be applied in specific situations. The fundamental principles of ethics establish the standard of behavior expected of an assurance practitioner.~~

Professional and Ethical Standard 1 provides a conceptual framework that establishes the approach which an assurance practitioner is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, Professional and Ethical Standard 1 sets out *International Independence Standards (New Zealand)* established by the application of the conceptual framework to threats to independence in relation to those engagements.

- A18. In the case of an audit engagement it is in the public interest and, therefore, required by Professional and Ethical Standard 1 ~~(Revised)~~, that the auditor be independent of the entity subject to the audit. Professional and Ethical Standard 1 ~~(Revised)~~ describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.
- A19. Professional and Ethical Standard 3 (Amended),⁶ deals with the firm's responsibilities to establish and maintain its system of quality control for audit engagements. Professional and Ethical Standard 3 (Amended) sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.⁷ ISA (NZ) 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements. These include remaining alert, through observation and making enquiries as necessary, for evidence of ~~breaches of non-compliance with~~ relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have ~~breached not complied with~~ relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.⁸ ISA (NZ) 220 recognises that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.

⁶ Professional and Ethical Standard 3 (Amended), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements".

⁷ Professional and Ethical Standard 3 (Amended), paragraphs 20-25.

⁸ ISA (NZ) 220, "Quality Control for an Audit of Financial Statements," paragraphs 9-12.

B.3 ISA (NZ) 210 Agreeing the Terms of Audit Engagements

NZ21.1 Professional and Ethical Standard 1-(~~Revised~~),⁹ requires assurance practitioners to comply with Auditing Standards; therefore auditors shall not sign an audit report that does not conform to the requirements of this ISA (NZ). In the extremely rare situation described in paragraph 21, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).

B.4 ISA (NZ) 220 Quality Control for an Audit of Financial Statements

7. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (n) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking an audit engagement, which ordinarily comprise the provisions of Professional and Ethical Standard 1-(~~Revised~~)⁴⁰ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board related to an audit of financial statements.
- 9 Throughout the audit engagement, the engagement partner shall remain alert, through observation and making enquiries as necessary, for evidence of ~~breaches of non-compliance with~~ relevant ethical requirements by members of the engagement team. (Ref: Para. A4-A5)
10. If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have ~~breached not complied with~~ relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)
11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (Ref; Para. A5)
 - (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate ~~circumstances and relationships that create~~ threats to independence;
 - (b) Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement; ~~and~~
 - (c) Evaluate whether the identified threats are at an acceptable level; and
 - (de) Take appropriate action to address the threats that are not at an acceptable level by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing eliminate such threats or reduce them

⁹ Professional and Ethical Standard 1-(~~Revised~~), “*International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*” (~~Compiled~~)”.

¹⁰ Professional and Ethical Standard 1-(~~Revised~~), “*International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*”.

~~to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw~~ from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6-A7)

- A4. Professional and Ethical Standard 1 ~~(Revised)~~ establishes the fundamental principles of professional ethics, which include:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional Behaviour.

Definition of “Firm,” “Network” and “Network Firm” (Ref: Para. 9-11)

- A5. The definitions of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA (NZ). For example, Professional and Ethical Standard 1 ~~(Revised)~~ defines the “firm” as:
- (a) A sole practitioner, partnership or corporation undertaking assurance engagements;
 - (b) An entity that controls such parties, through ownership, management or other means; and
 - (c) An entity controlled by such parties, through ownership, management or other means.

Professional and Ethical Standard 1 ~~(Revised)~~ also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 9-11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

- A6. The engagement partner may identify a threat to independence regarding the audit engagement that ~~safeguards~~ may not be ~~at~~ able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11 ~~(de)~~, the engagement partner reports to the relevant person(s) within the firm to determine the appropriate action, which may include eliminating ~~the circumstance that creates activity or interest that creates~~ the threat, applying safeguards to reduce the threat to an acceptable level or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation.
- A9. Law, regulation, or relevant ethical requirements¹¹ may require the auditor to request, prior to accepting the engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor’s judgement, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, where the

¹¹ See, for example, paragraph R320.8 Section 240.44 of Professional and Ethical Standard 1 ~~(Revised)~~.

predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, Professional and Ethical Standard 1 (~~Revised~~) requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.¹²

B.5 ISA (NZ) 240 Quality Control for an Audit of Financial Statements

- A6. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, Professional and Ethical Standard 1 (~~Revised~~), *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial statements.¹³
- A57. The auditor has professional and legal responsibilities in such circumstances and these responsibilities may vary. In some cases, for example, the auditor may be entitled to, or required to, make a statement or report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities. Given the exceptional nature of the circumstances and the need to consider the legal requirements, the auditor may consider it appropriate to seek legal advice when deciding whether to withdraw from an engagement and in determining an appropriate course of action, including the possibility of reporting to shareholders, regulators or others.¹⁴

B.6 ISA (NZ) 250 Consideration of Laws and Regulations in an Audit of Financial Statements

- A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, Professional and Ethical Standard 1 (~~Revised~~), *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors

¹² See, for example, paragraphs R360.22 and R360.23~~Section 225.31~~ of Professional and Ethical Standard 1 (~~Revised~~).

¹³ See, for example, paragraphs NZ R360.16.1-360.18 A1~~Sections NZ225.21.1-NZ225.22.4~~ of Professional and Ethical Standard 1 (~~Revised~~).

¹⁴ Professional and Ethical Standard 1 (~~Revised~~) provides guidance on communications with an auditor replacing the existing auditor.

performing work at components of a group for purposes other than the audit of the group financial statements.¹⁵

- A30. In other cases, the relevant ethical requirements may require the auditor to determine whether reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, Professional and Ethical Standard 1-(Revised), requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.¹⁶ Professional and Ethical Standard 1-(Revised) explains that such reporting would not be considered a breach of the duty of confidentiality under Professional and Ethical Standard 1-(Revised).¹⁷
- A36. Law, regulation or relevant ethical requirements may also set out additional documentation requirements regarding identified or suspected non-compliance with laws and regulations.¹⁸

B.7 ISA (NZ) 260 Communication with Those Charged with Governance

NZ17.1 In the case of FMC reporting entities considered to have a higher level of public accountability, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
- (ii) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats or applying The related safeguards that have been applied to eliminate identified threats to independence or reduce them the threats to an acceptable level. (Ref: Para. A29–A32)

A30 The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed ~~safeguards to be communicated,~~

¹⁵ See, for example, paragraphs NZ R360.16.1-360.18 A1 Sections NZ225.21.1–NZ225.22.1 of Professional and Ethical Standard 1-(Revised).

¹⁶ See, for example, paragraphs 360.21 A1 and 360.25 A1-R360.27 Section 225.29 and Sections 225.33–225.36 of Professional and Ethical Standard 1-(Revised).

¹⁷ See, for example, paragraphs R114.1-114.1 A1 and R360.26 Section 140.7 and Section 225.35 of Professional and Ethical Standard 1-(Revised).

¹⁸ See, for example, paragraph R360.28 Section 225.37 of Professional and Ethical Standard 1-(Revised).

~~varies~~ with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate circumstances that created threats, ~~but generally address:~~

~~(a) Threats to independence, which may be categorised as: self interest threats, self review threats, advocacy threats, familiarity threats, and intimidation threats; and~~

~~(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.~~

A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (Revised)* requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.¹⁹

A49 Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:

...

- Communications regarding independence may be appropriate whenever significant judgements are made about threats to independence and how threats to independence that are not at an acceptable level will be addressed ~~related safeguards~~, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.

...

B.8 ISA (NZ) 300 Planning an Audit of Financial Statements

13. The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by ISA (NZ) 220 regarding the acceptance of the client relationship and the specific audit engagement;²⁰ and
 - (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with Professional and Ethical Standard 1²¹. (Ref: Para. A22)

¹⁹ See, for example, paragraphs R400.80-R400.82 and R400.84 ~~Section 290.39–49~~ of Professional and Ethical Standard 1-(Revised), which addresses breaches of independence.

²⁰ ISA (NZ) 220, paragraphs 12-13.

²¹ PES 1 (Revised), “Code of Ethics for Assurance Practitioners” Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

B.9 ISA (NZ) 510 Initial Audit Engagements – Opening Balances

Appendix

(Ref: Para. A8)

Illustrations of Auditors' Reports with Modified Opinions

Note: Throughout these illustrative auditor's reports, the *Opinion* section has been positioned first in accordance with ISA (NZ) 700 (Revised), and the *Basis for Opinion* section is positioned immediately after the *Opinion* section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new *Basis for Opinion* section.

Illustration 1:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600²² does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210²³.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.²⁴
- The financial position at year end is fairly presented.
- In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance*

²² ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

²³ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

²⁴ If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.

Practitioners (including International Independence Standards) (New Zealand) comprises all of the relevant ethical requirements that apply to the audit.

- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised)²⁵.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701²⁶.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

This example has not been included in ISA (NZ) 510 as there is no law or regulation in New Zealand that prohibits the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.

²⁵ ISA (NZ) 570 (Revised), *Going Concern*.

²⁶ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Illustration 2:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.²⁷
- The financial position at year end is fairly presented.
- An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

²⁷ If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows

We were appointed as auditors of the Company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the statement of cash flows.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1—~~Revised~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

B.10 ISA (NZ) 570 (Revised) *Going Concern*

Appendix

(Ref: Para. A29, A31–A32)

Illustrations of Auditor's Reports Relating to Going Concern

- [NZ] Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- [NZ] Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- [NZ] Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

[NZ] Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600²⁸ does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.²⁹
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~), *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

²⁸ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

²⁹ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*.

[NZ] Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterise this situation as a material uncertainty.
- The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Qualified Opinion

As discussed in Note yy, the Company’s financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for*

Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

[NZ] Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

For purposes of the illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, and the Company is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified/adverse opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Adverse Opinion

The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have

obtained is sufficient and appropriate to provide a basis for our adverse opinion.
Other than in our capacity as auditor we have no relationship with, or interests in, the Company.
...

B.11 ISA (NZ) 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

Appendix 1 (Ref: Para. A19)

Illustration - Example of a Qualified Opinion Where the Group Engagement Team is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion

- Audit of a complete set of consolidated financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit (i.e., ISA (NZ) 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of responsibility of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity method (recognised at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.
- The group engagement team has read the audited financial statements of the component as of December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgement, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.³⁰
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt

³⁰ If, in the group engagement partner's judgement, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA (NZ) 705 (Revised).

on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).

- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

...

Appendix 4

(Ref: Para. A35)

Examples of a Component Auditor's Confirmations

The following is not intended to be a standard letter. Confirmations may vary from one component auditor to another and from one period to the next.

Confirmations often are obtained before work on the financial information of the component commences.

[Component Auditor Letterhead]

[Date]

[To Group Engagement Partner]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects (give a true and fair view of) the financial position of the group as of [date] and of its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].

We acknowledge receipt of your instructions dated [date], requesting us to perform the specified work on the financial information of [name of component] for the year ended [date].

We confirm that:

1. We will be able to comply with the instructions. / We advise you that we will not be able to comply with the following instructions [specify instructions] for the following reasons [specify reasons].
2. The instructions are clear and we understand them. / We would appreciate it if you could clarify the following instructions [specify instructions].
3. We will cooperate with you and provide you with access to relevant audit documentation.

We acknowledge that:

1. The financial information of [name of component] will be included in the group financial statements of [name of parent].
2. You may consider it necessary to be involved in the work you have requested us to perform on the financial information of [name of component] for the year ended [date].
3. You intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of [name of parent].

In connection with the work that we will perform on the financial information of [name of component], a [describe component, for example, wholly-owned subsidiary, subsidiary, joint venture, investee accounted for by the equity or cost methods of accounting] of [name of parent], we confirm the following:

1. We have an understanding of Professional and Ethical Standard 1 (Revised)³¹ issued by the New Zealand Auditing and Assurance Standards Board (referred to as “Ethical Standards”) that is sufficient to fulfill our responsibilities in the audit of the group financial statements, and will comply therewith. In particular, and with respect to [name of parent] and the other components in the group, we are independent within the meaning of Ethical Standards.
2. We have an understanding of the International Standards on Auditing (New Zealand) that is sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of [name of component] for the year ended [date] in accordance with those standards.
3. We possess the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the particular component.
4. We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual] that is sufficient to fulfill our responsibilities in the audit of the group financial statements.

We will inform you of any changes in the above representations during the course of our work on the financial information of [name of component].

[Auditor’s signature]

[Date]

[Auditor’s address]

B.12 ISA (NZ) 610 (Revised 2013) Using the Work of Internal Auditors

A14. In addition, Professional and Ethical Standard 1 (Revised)³² states that a self-review threat is created when the external auditor accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the audit. This is because of the possibility that the engagement team will use the results of the internal audit service without properly evaluating those results or without exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. Professional and Ethical Standard 1 (Revised)³³ discusses the prohibitions that apply in certain circumstances and the threats and the safeguards that can be applied to reduce the threats to an acceptable level in other circumstances.

³¹ PES 1 (Revised), “Code of Ethics for Assurance Practitioners” Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

³² Professional and Ethical Standard 1 (Revised), *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, paragraphs 605.4 A2-605.4 A3 ~~Section 290.199.~~

³³ Professional and Ethical Standard 1 (Revised), paragraphs 605.1-R605.5 ~~Section 290.195-290.200.~~

B.13 ISA (NZ) 620 Using the Work of an Auditor's Expert

- A18. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. ~~Safeguards may eliminate or reduce such threats, and may be created by external structures (for example, the auditor's expert's profession, legislation or regulation), or by the auditor's expert's work environment (for example, quality control policies and procedures). Such threats may be addressed by eliminating the circumstances that create the threats, or applying safeguards to reduce threats to an acceptable level.~~ There may also be safeguards specific to the audit engagement.
- A19. The evaluation of ~~whether the threats to objectivity are at an acceptable level the significance of threats to objectivity and of whether there is a need for safeguards~~ may depend upon the role of the auditor's expert and the significance of the expert's work in the context of the audit. ~~In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level.~~ ~~There may be some circumstances in which safeguards cannot reduce threats to an acceptable level,~~ for example, if a proposed auditor's expert is an individual who has played a significant role in preparing the information that is being audited, that is, if the auditor's expert is a management's expert.

B.14 ISA (NZ) 700 (Revised) Forming an Opinion and Reporting on Financial Statements

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)
- ...
- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and (Ref: Para. A34-A39)
- NZ28(c) In New Zealand, the statement required by paragraph 28(c) shall refer to Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board. ~~Professional and Ethical Standard 1 (Revised) is at least as restrictive as Parts A and B of the IESBA Code related to an audit of financial statements.~~
- ...
40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A50)

...

(b) [Amended by the NZAuASB].

NZ40(b)(1) For audits of FMC reporting entities considered to have a higher level of public accountability, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, ~~related safeguards~~ actions taken to eliminate threats or safeguards applied; and

...

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing (New Zealand) only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)

...

(e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.

NZ50(e)(1) In New Zealand, the independence statement shall refer to Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

...

A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA (NZ) 200 explains that relevant ethical requirements ordinarily comprise Professional and Ethical Standard 1 ~~(Revised)~~.³⁴ When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code.

A39. The ISAs (NZ) do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the Professional and Ethical Standard 1 ~~(Revised)~~ or other ethical requirements to which the group engagement team is subject, nor do the ISAs (NZ) require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA (NZ) 600³⁵ provides guidance for auditors in performing work on the financial information of a component for a group audit, including those

³⁴ ISA (NZ) 200, paragraph A14

³⁵ ISA (NZ) 600, paragraphs 19–20

situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

Illustrations of Independent Auditor’s Reports on Financial Statements Appendix

...

[NZ] Illustration 1 – Auditor’s Report on Financial Statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example NZ IFRS)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. The auditor has also chosen to refer to the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities*

for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1—~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this ISA (NZ) explains that the shaded material below can be located in an Appendix to the auditor’s report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below. Paragraph NZ A57.1 explains that when the auditor refers to a description of the auditor’s responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.asp
x.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.³⁶

³⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

...

[NZ] Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, NZ IFRS)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

...

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Paragraph 41(b) of this ISA (NZ) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.³⁷
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

³⁷ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied ~~related safeguards~~.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

...

[NZ] Illustration 3 – Auditor’s Report on Financial Statements of a Public Benefit Entity that is not a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, Public Benefit Entity Standards)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with Public Benefit Entity Standards³⁸ (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor’s responsibility included on the website of the XRB.

³⁸ The use of Public Benefit Entity Standards is used for the purposes of illustration. The appropriate financial reporting standards to be applied by an entity will be determined by the tier structure established in XRB A1 *Application of the Accounting Standards Framework*. The Auditor’s Report would identify one of the following:

- New Zealand equivalents to International Financial Reporting Standards. (This may also include compliance with International Financial Reporting Standards)
- New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime
- Public Benefit Entity Standards
- Public Benefit Entity Standards Reduced Disclosure Regime
- Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)
- Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit).

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1—~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

[NZ] Illustration 4 – Auditor’s Report on Financial Statements of an Entity Other than a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a General Purpose Compliance Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability required by law or regulation. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

...

B.15 ISA (NZ) 705 Modifications to the Opinion in the Independent Auditor's Report

Appendix

(Ref: Para. A17-A18, A25)

Illustrations of Auditor's Reports with Modifications to the Opinion

- [NZ] Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- [NZ] Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- [NZ] Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- [NZ] Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- [NZ] Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

[NZ] Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600³⁹ does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.⁴⁰
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Qualified Opinion

The Company’s inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from NZ IFRS. The Company’s records indicate that, had management stated the inventories at the lower of cost and net realisable value, an amount of xxx would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders’ equity would have been reduced by xxx, xxx and xxx, respectively.

³⁹ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁴⁰ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

[NZ] Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- ISA (NZ) 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary’s material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under NZ IFRS, the Company should have consolidated this subsidiary and

accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

...

[NZ] Illustration 3 – Qualified Opinion due to the Auditor’s Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Qualified Opinion

The Group’s investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at December 31, 20X1, and ABC’s share of XYZ’s net income of xxx is included in ABC’s income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC’s investment in XYZ as at December 31, 20X1 and ABC’s share of XYZ’s net income for the year because we were denied access to the financial

information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

...

[NZ] Illustration 4 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity’s net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).
- Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) comprises all of the relevant ethical requirements that apply to the audit.
- A more limited description of the auditor’s responsibilities section is required.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group’s consolidated financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor’s report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

...

[NZ] Illustration 5 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600, does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity’s inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) comprises all of the relevant ethical requirements that apply to the audit.
- A more limited description of the auditor’s responsibilities section is required.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Auditor’s Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company’s financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor’s report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

B.16 ISA (NZ) 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report

Appendix 3
(Ref: Para. A17)

Illustration of an Auditor’s Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600⁴¹ does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Between the date of the financial statements and the date of the auditor’s report, there was a fire in the entity’s production facilities, which was disclosed by the entity as a subsequent event. In the auditor’s judgement, the matter is of such importance that it is fundamental to users’ understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period’s financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor’s report on the corresponding figures and has decided to do so.

⁴¹ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1—~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

Illustration of an Auditor’s Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Between the date of the financial statements and the date of the auditor’s report, there was a fire in the entity’s production facilities, which was disclosed by the entity as a subsequent event. In the auditor’s judgement, the matter is of such importance that it is fundamental to users’ understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has not obtained any other information prior to the date of the auditor’s report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Qualified Opinion

The Company’s short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from NZ IFRS. The Company’s records indicate that had management marked the marketable securities to market, the Company would have recognised an

unrealised loss of xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

B.17 ISA (NZ) 720 The Auditor's Responsibilities Relating to Other Information

4. This ISA (NZ) may also assist the auditor in complying with relevant ethical requirements⁴² that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information ~~furnished provided recklessly~~, or omits or obscures ~~required information required to be included~~ where such omission or obscurity would be misleading.
- A38. Remaining alert for other indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated assists the auditor in complying with relevant ethical requirements that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a materially false or misleading statement, a statement ~~furnished provided~~ recklessly, or omits or obscures necessary information such that the other information is misleading.⁴³ Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as:
 - Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to be materially misstated; or
 - An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated.

⁴² Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), paragraph ~~R111.2440.2~~

⁴³ Professional and Ethical Standard 1-~~(Revised)~~, paragraph ~~R111.2440.2~~

B.18 ISA (NZ) 800 Special Considerations – Audits of Financial Statements Prepared Accordance with Special Purpose Frameworks

Appendix 1
(Ref: Para. A14)

Illustrations of Independent Auditor’s Reports on Special Purpose Financial Statements

- [NZ] Illustration 1: An auditor’s report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- [NZ] Illustration 2: An auditor’s report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the tax basis of accounting (for purposes of this illustration, a compliance framework).
- [NZ] Illustration 3: An auditor’s report on a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

[NZ] Illustration 1: An auditor’s report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- An auditor’s report on the complete set of general purpose financial statements was not issued.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise of Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Distribution and use of the auditor’s report are restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor’s Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

[NZ] Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the tax basis of accounting in New Zealand (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in New Zealand (that is, a special purpose framework) to assist the partners in preparing their individual income tax returns. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- Distribution of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Partnership in accordance with Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we

have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor’s Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]

Other than in our capacity as auditor we have no relationship with, or interests in, the Partnership.

...

[NZ] Illustration 3: An auditor’s report on a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised). The disclosure of the material uncertainty in the financial statements is adequate.
- Distribution or use of the auditor’s report is not restricted.
- The auditor is required by the regulator to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s*

Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1—(Revised) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor’s Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

B.19 ISA (NZ) 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Appendix 2

(Ref: Para. A16)

Illustrations of Independent Auditor’s Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

- [NZ] Illustration 1: An auditor’s report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- [NZ] Illustration 2: An auditor’s report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- [NZ] Illustration 3: An auditor’s report on a specific element of a financial statement of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework (for purposes of this illustration, a compliance framework).

[NZ] Illustration 1: An auditor’s report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a balance sheet (that is, a single financial statement) of an entity other than a FMC reporting entity considered to have a higher level of public accountability.
- The balance sheet has been prepared by management of the entity in accordance with the requirements of the applicable financial reporting framework issued by the New Zealand Accounting Standards Board relevant to preparing a balance sheet.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The applicable financial reporting framework is a fair presentation framework designed to meet the common financial information needs of a wide range of users.
- The auditor has determined that it is appropriate to use the phrase “presents fairly, in all material respects,” in the auditor’s opinion.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised). The disclosure of the material uncertainty in the single financial statement is adequate.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701 in the context of the audit of the balance sheet.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR’S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor’s Responsibility section. Also, the Basis for

Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

...

[NZ] Illustration 2: An auditor's report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a statement of cash receipts and disbursements (that is, a single financial statement) of an entity other than a FMC reporting entity considered to have a higher level of public accountability.
- An auditor's report on the complete set of financial statements was not issued.
- The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.⁴⁴
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Distribution or use of the auditor's report is not restricted.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701 in the context of the audit of the statement of cash receipts and disbursements.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

⁴⁴ ISA (NZ) 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

...

[NZ] Illustration 3: An auditor's report on a specific element of a financial statement of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).
- The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.⁴⁵
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Distribution of the auditor's report is restricted.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).

⁴⁵ ISA (NZ) 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

- The auditor is not required, and has otherwise not decided to communicate key audit matters in accordance with ISA (NZ) 701 in the context of the audit of the accounts receivable schedule.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedule* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1—~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after opinion section as required in ISA (NZ) 700 (Revised).]

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

...

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this schedule.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is http://xrb.govt.nz/Site/Auditing_Assurance_Standards/default.aspx.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.⁴⁶
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the schedule or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied~~related safeguards~~.

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor address] [Placement of date and address reversed)]

[Date]

⁴⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the schedule.

B.20 ISA (NZ) 810 Engagements to Report on Summary Financial Statements

A13. In reading the information included in a document containing the summary financial statements and the auditor's report thereon, the auditor may become aware that such information is misleading and may need to take appropriate action. Relevant ethical requirements⁴⁷ require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information ~~furnished~~ provided recklessly, or omits or obscures required information ~~required to be included~~ where such omission or obscurity would be misleading.

B.21 ISRE (NZ) 2400 Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity

17. For purposes of this ISRE (NZ), the following terms have the meanings attributed below:

...

- (i) *Relevant ethical requirements*—Ethical requirements the engagement team is subject to when undertaking review engagements. ~~These requirements~~ ordinarily comprise the provisions of Professional and Ethical Standard 1 (Revised), International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), related to a review of financial statements, together with relevant legal, regulatory or contractual requirements that are more restrictive.

...

27. Throughout the engagement, the engagement partner shall remain alert, through observation and making enquiries as necessary, for evidence of ~~non-compliance with~~ breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have ~~not complied with~~ breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

A15. ~~Part A of Professional and Ethical Standard 1 (Revised) establishes the fundamental principles of professional ethics, which arc assurance practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:~~

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

⁴⁷ Professional and Ethical Standard 1, ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), issued by the New Zealand Auditing and Assurance Standards Board, paragraph R111.24-2.

~~The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner. Part B of Professional and Ethical Standard 1 (Revised) illustrates how the conceptual framework is to be applied in specific situations. In complying with Professional and Ethical Standard 1 (Revised), threats to the assurance practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.~~

~~Professional and Ethical Standard 1 provides a conceptual framework that establishes the approach which an assurance practitioner is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, Professional and Ethical Standard 1 set outs *International Independence Standards (New Zealand)*, established by the application of the conceptual framework to threats to independence in relation to those engagements.~~

NZA88.1 The assurance practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ISRE (NZ), such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and determining whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner;⁴⁸ and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the assurance practitioner's work in accordance with this ISRE (NZ) (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

NZA95.1 In some cases the relevant ethical requirements may require the assurance practitioner to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, Professional and Ethical Standard 1 ~~(Revised)~~ requires the assurance practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations, and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.⁴⁹ Professional and Ethical Standard 1 ~~(Revised)~~ explains that such reporting would not be considered a breach of the duty of confidentiality under Professional and Ethical Standard 1 (Revised).⁵⁰

Commented [SW1]: Refer BMSP paras 12-16

⁴⁸ See, for example, paragraphs NZ R360.16.1-360.18 A1 ~~Sections NZ225.17.1 NZ225.17.5~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

⁴⁹ See, for example, paragraphs R360.19-360.24 A1 ~~Section 225.29~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

⁵⁰ See, for example, paragraphs R114.1, 114.1 A1 and R360.26 ~~Section 140.7 and Section 225.35~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

B.22 ISAE (NZ) 3000 (Revised) Assurance Engagements Other than Audits of Historical Financial Information

3. This ISAE (NZ) is premised on the basis that:
- (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the provisions of Professional and Ethical Standard 1—(Revised)⁵¹ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A30-A34)*
 - (b) The assurance practitioner who is performing the engagement is a member of a firm that is subject to Professional and Ethical Standard 3 (Amended)⁵² or other professional requirements, or requirements in law or regulation, regarding the firm’s responsibility for its system of quality control, that are at least as demanding as Professional and Ethical Standard 3 (Amended). (Ref: Para. A61–A66)
20. The assurance practitioner shall comply with the provisions of Professional and Ethical Standard 1—(Revised)⁵³ related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A30-A34, A60)
34. Throughout the engagement, the lead assurance practitioner shall remain alert, through observation and making enquiries as necessary, for evidence of breaches of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the lead assurance practitioner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have breached not complied with relevant ethical requirements, the lead assurance practitioner, in consultation with others in the firm, shall determine the appropriate action.
69. The assurance report shall include, at a minimum, the following basic elements:
- ...
- (j) A statement that the assurance practitioner complies with the independence and other ethical requirements of Professional and Ethical Standard 1—(Revised), or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of Professional and Ethical Standard 1—(Revised) related to assurance engagements. If the assurance practitioner is not a member of a professional accounting body in public practice, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of Professional and Ethical Standard 1

⁵¹ Professional and Ethical Standard 1 (Revised) “Code of Ethics for Assurance Practitioners.”

⁵² Professional and Ethical Standard 3 (Amended) “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements.”

⁵³ In Professional and Ethical Standard 1—(Revised) the term “engagement partner” should be read as referring to “lead assurance practitioner”.

~~(Revised)~~ related to assurance engagements. (Ref: Para. A173)

...

A30. Professional and Ethical Standard 1 ~~(Revised)~~ establishes the following fundamental principles of ethics, which are ~~with which the assurance practitioner is required to comply:~~

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner.

A31. Professional and Ethical Standard 1 ~~(Revised)~~ also provides a conceptual framework which the assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles, including for assurance practitioners to apply to:

- (a) Identify threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:
 - (i) Self-interest;
 - (ii) Self-review;
 - (iii) Advocacy;
 - (iv) Familiarity; and
 - (v) Intimidation;
- (b) Evaluate whether the significance of the threats identified are at an acceptable level; and
- (c) If the identified threats to compliance with the fundamental principles are not at an acceptable level, addressing them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the assurance practitioner determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the assurance practitioner at that time, that compliance with the fundamental principles is not compromised.

A32. ~~Part B of~~ Professional and Ethical Standard 1 ~~(Revised)~~ sets out requirements and application material on various topics, describes how the conceptual framework in Part A applies in certain situations to assurance practitioners, including:

- ~~Professional appointment;~~

- Conflicts of interest;
- Professional appointments;
- Second opinions;
- Fees and other types of remuneration;
- ~~• Marketing professional services;~~
- Inducements, including gifts and hospitality;
- Custody of client assets; and
- Responding to non-compliance with laws and regulations.
- ~~• Objectivity; and~~
- ~~• Independence.~~

A33. Professional and Ethical Standard 1 also includes the *International Independence Standards (New Zealand)*. Professional and Ethical Standard 1 ~~(Revised)~~ defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism. Matters addressed in Professional and Ethical Standard 1 ~~(Revised)~~ with respect to independence include, for example:

- Fees;
- Gifts and hospitality;
- Actual or threatened litigation;
- Financial interests;
- Loans and guarantees;
- Business relationships;
- Family and personal relationships;
- ~~• Employment with assurance clients;~~
- Recent service with an assurance client;
- Serving as a director or officer of an assurance client;
- Employment with assurance clients;
- Long association of ~~senior~~ personnel with an assurance clients;
- Provision of non-assurance services to an assurance clients; and
- Reports that include a restriction on use and distribution. ~~Fees (relative size, overdue, and contingent fees);~~
- ~~• Gifts and hospitality; and~~
- ~~• Actual or threatened litigation.~~

A34. Professional requirements, or requirements imposed by law or regulation, are at least as demanding as the provisions of Professional and Ethical Standard 1 (Revised) related to assurance engagements when they address all the matters referred to in paragraphs A30–A33 and impose obligations that achieve the aims of the requirements set out in Professional and Ethical Standard 1 (Revised) related to such engagements.

A68. Professional and Ethical Standard 1 (Revised) provides requirements and guidance on the self-interest threat to compliance with the principle of professional competence and due care that is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services ~~requires the assurance practitioner to agree to provide only those services that the assurance practitioner is competent to perform~~⁵⁴. The assurance practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the assurance practitioner's use of the work of an assurance practitioner's expert. Nonetheless, if the assurance practitioner using the work of an assurance practitioner's expert, having followed this ISAE (NZ), concludes that the work of that expert is adequate for the assurance practitioner's purposes, the assurance practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

NZA102.1 The assurance practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond the assurance practitioner's responsibilities under this ISAE (NZ), such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and determining whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor;⁵⁵ and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the assurance practitioner's work in accordance with this and any other ISAE (NZ) or SAE (e.g., regarding the integrity of the responsible party or those charged with governance). Paragraphs A194-A199 further address the assurance practitioner's responsibilities under law, regulation or relevant ethical requirements regarding communicating and reporting identified or suspected non-compliance with laws and regulations.

A128. The evaluation of ~~whether the threats to objectivity are at an acceptable level~~ the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the assurance practitioner's expert and the significance of the expert's work in the context of the engagement. In some cases it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level ~~There may be~~

⁵⁴ Professional and Ethical Standard 1 (Revised), paragraph 320.3 A32-10.6

⁵⁵ See, for example, paragraphs NZR360.31.1-360.35 A1 Sections NZ225.17.1 NZ225.17.5 of Professional and Ethical Standard 1 (Revised).

~~some circumstances in which safeguards cannot reduce threats to an acceptable level, for example, if a proposed assurance practitioner's expert is an individual who has played a significant role in preparing the subject matter information.~~

A173. The following is an illustration of a statement in the assurance report regarding compliance with ethical requirements:

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

A195. Law, regulation or relevant ethical requirements may:

- (a) Require the assurance practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.⁵⁶

A198. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the assurance practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.⁵⁷

A199. The assurance practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).⁵⁸

B.23 ISAE (NZ) 3402 Assurance Reports on Controls at a Service Organisation

6. Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 ~~(Revised)~~⁵⁹ International Code of

⁵⁶ See, for example, paragraphs R360.36-R360.37~~Section 225.29~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

⁵⁷ See, for example, paragraphs R114.1, 114.1 A1 and R360.37~~Section 140.7 and Section 225.35~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

⁵⁸ See, for example, paragraph 360.36 A1~~Section 225.32~~ of Professional and Ethical Standard 1 ~~(Revised)~~.

⁵⁹ ~~Professional and Ethical Standard (PES) 1 (Revised), "Code of Ethics for Assurance Practitioners"~~. In PES 1 ~~(Revised)~~ Professional and Ethical Standard 1, the term "engagement partner" should be read as referring to "lead assurance practitioner."

Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), issued by the New Zealand Auditing and Assurance Standards Board, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding⁶⁰. It also requires the lead assurance practitioner⁶¹ to be a member of a firm that applies Professional and Ethical Standard 3 (Amended) or requirements that are at least as demanding.⁶²

11. The service auditor shall comply with the provisions of Professional and Ethical Standard 1 (Revised) relating to assurance engagements or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A5)
53. The service auditor's assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A47)

...

- (i) A statement that the assurance practitioner complies with the independence and other ethical requirements of Professional and Ethical Standard 1—(Revised), or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of Professional and Ethical Standard 1 (Revised) relating to assurance engagements. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of Professional and Ethical Standard 1—(Revised) related to assurance engagements.

...

- A5. The service auditor is subject to relevant independence requirements, which ordinarily comprise the International Independence Standards (New Zealand), ~~in~~ of Professional and Ethical Standard 1—(Revised). In performing an engagement in accordance with this ISAE (NZ), Professional and Ethical Standard 1—(Revised) does not require the service auditor to be independent from each user entity.

- A44. Professional and Ethical Standard 1—(Revised) requires that a service auditor ~~must not make, prepare or certify, or permit or direct another person to make, prepare or certify, any statement which the service auditor knows, believes or ought to know to be false, incorrect or misleading, or open to misconception, by reason of the misstatement, omission or suppression of a material fact or otherwise~~ not be associated with information where the service auditor believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or

Commented [SW2]: Refer paragraphs 17-19 of the BMSP

⁶⁰ ISAE (NZ) 3000 (Revised), paragraphs 3(a), 20 and 34.

⁶¹ The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 3 (Amended) as the “engagement partner.”

⁶² ISAE (NZ) 3000 (Revised), paragraph 3(b) and 31(a). Professional and Ethical Standard 3 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended)”.

- (c) Omits or obscures required information where such omission or obscurity would be misleading.⁶³

If other information included in a document containing the service organisation's description of its system and the service auditor's assurance report contains future-oriented information such as recovery or contingency plans, or plans for modifications to the system that will address deviations identified in the service auditor's assurance report, or claims of a promotional nature that cannot be reasonably substantiated, the service auditor may request that information be removed or restated.

A53. Appropriate actions to respond to the circumstances identified in paragraph 56, unless prohibited by law or regulation, may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organisation.
- Determining whether to communicate with third parties (e.g., law, regulation or relevant ethical requirements may require the service auditor to report to an appropriate authority outside the entity or the external auditor of the service organisation,⁶⁴ or establish responsibilities under which such reporting may be appropriate in the circumstances).
- Modifying the service auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

⁶³ Professional and Ethical Standard 1 (~~Revised~~), paragraph R111.2410.2.

⁶⁴ See, for example, paragraphs NZR360.31.1-360.35 A1~~Sections NZ225.17.1-NZ225.17.5~~ of Professional and Ethical Standard 1 (~~Revised~~).

Appendix 2

(Ref. Para. A47)

Example Service Auditor’s Assurance Reports

The following examples of reports are for guidance only and are not intended to be exhaustive or applicable to all situations.

Example 1: Type 2 Service Auditor’s Assurance Report

Independent Service Auditor’s Assurance Report on the Description of Controls, their Design and Operating Effectiveness

To: XYZ Service Organisation

...

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended)⁶⁵ and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

B.24 ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statements

10. Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.⁶⁷ It also requires the lead assurance

⁶⁵ Professional and Ethical Standard 3 (Amended), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements”.

⁶⁶ Professional and Ethical Standard 1 (Revised), “Code of Ethics for Assurance Practitioners”. In Professional and Ethical Standard 1 ~~(Revised)~~, the term “engagement partner” should be read as referring to “lead assurance practitioner.”

⁶⁷ ISAE (NZ) 3000 (Revised), paragraph 3(a), 20 and 34.

practitioner⁶⁸ to be a member of a firm that applies Professional Ethical Standard 3 (Amended)⁶⁹, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional Ethical Standard 3 (Amended). (Ref: Para. A5–A6)

76. The assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A134)

...

(j) A statement that the assurance practitioner complies with the independence and other ethical requirements of ~~the~~ Professional and Ethical Standard 1 ~~(Revised)~~, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of Professional and Ethical Standard 1 ~~(Revised)~~ related to assurance engagements. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions Professional and Ethical Standard 1 ~~(Revised)~~ related to assurance engagements.

A5. Professional and Ethical Standard 1 ~~(Revised)~~ sets out *International Independence Standards (New Zealand)* established by the application of the conceptual framework to threats to independence in relation to these engagements. ~~adopts a threats and safeguards approach to independence.~~ Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- Self-interest, for example, undue dependence on total fees from the entity.
- Self-review, for example, performing another service for the entity that directly affects the GHG statement, such as involvement in the quantification of the entity’s emissions.
- Advocacy, for example, acting as an advocate on behalf of the entity with respect to the interpretation of the applicable criteria.
- Familiarity, for example, a member of the engagement team having a long association, or close or immediate family relationship, with an employee of the entity who is in a position to exert direct and significant influence over the preparation of the GHG statement.
- Intimidation, for example, being pressured to reduce inappropriately the extent of work performed in order to lower fees, or being threatened with withdrawal of the assurance practitioner’s registration by a registering authority that is associated with the entity’s industry group.

⁶⁸ The term the “lead assurance practitioner” is referred to in Professional and Ethical Standard 3 (Amended) as the “engagement partner”.

⁶⁹ ISAE (NZ) 3000 (Revised) 3(b) and 31(a). Professional Ethical Standard 3 (Amended) “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended).”

A6. ~~Safeguards created by the profession, law or regulation, or safeguards in the work environment, may eliminate or reduce such threats to an acceptable level~~ In cases when identified threats are not at an acceptable level, Professional and Ethical Standard 1 requires that the threats be addressed by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Appendix 2

(Ref: Para. A134)

Illustrations of Assurance Reports on GHG Statements

Illustration 1:

Circumstances include the following:

- **Reasonable assurance engagement.**
- **The entity's GHG statement contains no Scope 3 emissions.**
- **The entity's GHG statement contains no emissions deductions.**
- **The GHG statement contains no comparative information.**

The following illustrative report is for guidance only and is not intended to be exhaustive or applicable to all situations.

INDEPENDENT REASONABLE ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) STATEMENT

...

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended)⁷⁰ and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

⁷⁰ Professional Ethical Standard 3 (Amended) "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended)".

B.25 ISAE (NZ) 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

8. Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1-(Revised)⁷¹ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding⁷². It also requires the lead assurance practitioner⁷³ to be a member of a firm that applies Professional Ethical Standard 3 (Amended)⁷⁴, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 (Amended).

35. The assurance practitioner's report shall include, at a minimum, the following basic elements: (Ref: Para. A57)

...

(h) A statement that the assurance practitioner complies with the independence and other ethical requirements of ~~the~~ Professional and Ethical Standard 1-(Revised), or other professional requirements, or requirements imposed by law ~~or~~ and regulation, that are at least as demanding as the provisions of Professional Ethical Standard 1-(Revised) related to assurance engagements. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of Professional Ethical Standard 1-(Revised) related to assurance engagements.

...

A10. Professional and Ethical Standard 1-(Revised) requires the assurance practitioner to comply with the principle of professional competence and due care by attaining and maintaining appropriate professional knowledge and skill, including an awareness and understanding of relevant technical, professional and business developments, in order to provide competent professional service, based on standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation, and acting diligently and in accordance with such standards.⁷⁵ In the context of this requirement of Professional and Ethical Standard 1 (Revised), relevant capabilities and professional competence to perform the engagement ~~also~~ may include matters such as the following:

⁷¹ Professional and Ethical Standard 1 (Revised), "Code of Ethics for Assurance Practitioners". In PES 1 (Revised) Professional and Ethical Standard 1, the term "engagement partner" should be read as referring to "lead assurance practitioner."

⁷² ISAE (NZ) 3000 (Revised), paragraphs 3(a), 20 and 34.

⁷³ The term lead assurance practitioner is referred to in Professional and Ethical Standard 3 as the "engagement partner".

⁷⁴ ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31(a). Professional Ethical Standard 3 (Amended), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements"

⁷⁵ Professional and Ethical Standard 1 (Revised), paragraphs 82, 83, 91, 93, 95 and 97R113.1.

- Knowledge and experience of the industry in which the entity operates;
- An understanding of the relevant securities laws and regulations and related developments;
- An understanding of the listing requirements of the relevant securities exchange and of capital market transactions such as mergers, acquisitions and securities offerings;
- Familiarity with the process of preparing a prospectus and listing securities on the securities exchange; and
- Knowledge of the financial reporting frameworks used in the preparation of the sources from which the unadjusted financial information and, if applicable, the acquiree's financial information have been extracted.

A41. Professional and Ethical Standard 1-~~(Revised)~~ requires that an assurance practitioner not knowingly be associated with reports, returns, communications or other information that the assurance practitioner believes:⁷⁶

- (a) Contain a materially false or misleading statement;
- (b) Contain statements or information ~~furnished~~provided recklessly; or
- (c) Omit or obscure required information ~~required to be included~~ where such omission or obscurity would be misleading.

Appendix

(Ref: Para. A57)

Illustrative Assurance Practitioner's Report with an Unmodified Opinion

INDEPENDENT ASSURANCE PRACTITIONER'S ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A
PROSPECTUS

...

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of ~~the~~ Professional and Ethical Standard 1 (PES 1-~~(Revised)~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

⁷⁶ Professional and Ethical Standard 1-~~(Revised)~~, paragraph R111.224.

The firm applies Professional and Ethical Standard 3 (Amended)⁷⁷ and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

Appendix 2

(Ref: Para. A134)

Illustrations of Assurance Reports on GHG Statements

Illustration 1:

Circumstances include the following:

- **Reasonable assurance engagement.**
- **The entity’s GHG statement contains no Scope 3 emissions.**
- **The entity’s GHG statement contains no emissions deductions.**
- **The GHG statement contains no comparative information.**

The following illustrative report is for guidance only and is not intended to be exhaustive or applicable to all situations.

INDEPENDENT REASONABLE ASSURANCE REPORT ON ABC’S GREENHOUSE GAS (GHG) STATEMENT

...

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended)⁷⁸ and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

⁷⁷ Professional and Ethical Standard 3 (Amended), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements”.

⁷⁸ Professional Ethical Standard 3 (Amended) “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended)”.

B26: External Reporting Board Standard Au1 Application of Auditing and Assurance Standards

Appendix 1

Professional and Ethical Standards

This appendix is an integral part of the Standard.

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

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

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

B27: New Zealand Auditing Standard 1 The Audit of Service Performance Information

A18 The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:

- (a) Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1²⁹
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement teams' involvement in the work of the other practitioner.

⁷⁹ Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

Appendix 6

(Ref: Para. A66)

Illustrative Auditor's Report Including Service Performance Information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a general purpose financial report/performance report of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework⁸⁰. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The general purpose financial report/performance report is prepared by management of the entity in accordance with a general purpose framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

...

Basis for Opinion

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]*

⁸⁰ The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework.

section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

Appendix 7

(Ref: Para. A76)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.

Illustration 1: An auditor’s report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR’S REPORT

...

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page xx, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by *[list performance measures and/or descriptions reported]* to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the *[entity]* in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the *[entity]*.

...

Illustration 2: An auditor’s report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR’S REPORT

...

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include *[list appropriate goods and services]* and measured and evaluated this performance with reference to *[describe performance measures and/or descriptions reported]* to report its service performance. We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on

Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

INDEPENDENT AUDITOR'S REPORT

...

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as *(give examples)*. The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, *[describe performance measure and explain where information comes from that we are unable to independently test.]*]

We conducted our audit of the [financial statements] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

INDEPENDENT AUDITOR'S REPORT

...

Basis for Qualified Opinion

[As outlined on page xx of the *[general purpose financial report/ performance report]*, [entity] has not applied the requirements of the *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* to its grant expenditure. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the *[statement of comprehensive revenue and expenses]*; assets, liabilities and equity in the statement of financial position, *[total comprehensive revenue and expense]* and opening and closing equity in the *[statement of changes in equity]* and grants expense reported in the *[service performance information/statement of service performance]*.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

B28: SAE 3100 Assurance Engagements on Compliance

9. Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, ~~that the assurance practitioner comply~~ compliance with the provisions of Professional and Ethical Standard 1 ~~(Revised)~~⁸¹ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding ~~related to assurance engagements~~⁸². It also requires the lead assurance

⁸¹ Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

⁸² See ISAE (NZ) 3000 (Revised), paragraphs 3(a) and 20.

practitioner⁸³ to be a member of a firm that applies Professional and Ethical Standard 3 (Amended)⁸⁴ or requirements in law or regulation, that are at least as demanding related to assurance engagements.

19. As required by ISAE (NZ) 3000 (Revised), the assurance practitioner shall comply with Professional and Ethical Standard 1-(Revised)⁸⁵, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A6)
46. If the assurance practitioner becomes aware of information concerning an instance of non-compliance or suspected non-compliance with respect to laws and regulations, the assurance practitioner shall comply with Professional and Ethical Standard 1-(Revised), or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref. Para. A65)
- A19. Where relevant, the terms of the engagement could also include a reference to, and description of, the auditor’s responsibility in accordance with:
- Professional and Ethical Standard 1-(Revised); and/or
 - applicable law or regulation, and
 - obligations to report identified or suspected matters of non-compliance with laws and regulations to an appropriate authority outside the entity is required or appropriate in the circumstances.
- A65. Professional and Ethical Standard 1-(Revised)⁸⁶, sets out the approach to be taken by an assurance practitioner who encounters or is made aware of matter(s) of non-compliance or suspected matter(s) of non-compliance with laws or regulations. In these circumstances, the assurance practitioner shall consider the appropriate response to the identified matter(s) of non-compliance with laws and regulations in accordance with Professional and Ethical Standard 1-(Revised).

B29: SAE 3150 Assurance Engagements on Controls

9. Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, that the assurance practitioner complies with the provisions of Professional and Ethical Standard 1 (Revised)⁸⁷ *International Code of Ethics for Assurance Engagements (including International Independence Standards) (New Zealand)* related to assurance engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding ~~related to assurance engagements~~⁸⁸. It also requires the lead assurance

⁸³ The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1-(Revised) and Professional and Ethical Standard 3 (Amended) as the “engagement partner”.

⁸⁴ See ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31(a).

⁸⁵ See ISAE (NZ) 3000 (Revised), paragraph 20.

⁸⁶ See Professional and Ethical Standard 1-(Revised), Section 225360, Responding to Non-Compliance with Laws and Regulations

⁸⁷ Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners

⁸⁸ ISAE (NZ) 3000 (Revised), paragraphs 3(a) and 20.

practitioner⁸⁹ to be a member of a firm that applies Professional and Ethical Standard 3 (Amended) or requirements in law or regulation, that are at least as demanding related to assurance engagements.⁹⁰

19. As required by ISAE (NZ) 3000 (Revised), the assurance practitioner shall comply with Professional and Ethical Standard 1 ~~(Revised)~~⁹¹ or other professional requirements, or requirements in law or regulation, that are at least as demanding related to assurance engagements. (Ref: Para. A10)

88. For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ISAE (NZ) 3000 (Revised),⁹² which are at a minimum: (Ref: Para. A134)

...

(l) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements of Professional and Ethical Standard 1 ~~(Revised)~~, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Professional and Ethical Standard 1 ~~(Revised)~~;

...

A124. Professional and Ethical Standard 1 ~~(Revised)~~ or other professional requirements, or requirements in law or regulation, that are at least as demanding require that an assurance practitioner not be associated with information where the assurance practitioner believes that the information:

- (a) contains a materially false or misleading statement;
- (b) contains statements or information furnished recklessly; or
- (c) omits or obscures information required to be included where such omission or obscurity would be misleading.⁹³

⁸⁹ The term "lead assurance practitioner" is referred to in Professional and Ethical Standard 1 ~~(Revised)~~ and Professional and Ethical Standard 3 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* (Amended) as the "engagement partner".

⁹⁰ ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31(a):

⁹¹ ~~Professional and Ethical Standard 1 (Revised), Code of Ethics for Assurance Practitioners. See ISAE (NZ) 3000 (Revised), paragraph 20~~

⁹² ISAE (NZ) 3000 (Revised), paragraph 69.

⁹³ Professional and Ethical Standard 1, paragraph R111.2

Appendix 5

(Ref: Para. A36)

Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on the Design and Description of Controls

Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on the Design, Description and Operating Effectiveness of Controls

Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on the Design and Implementation of Controls

The following examples of assurance practitioner's engagement letters are for guidance only and are not intended to be exhaustive or applicable to all situations.

Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on the Design and Description of Controls

To [the appropriate representative of management or those charged with governance of ABC or the engaging party]:

...

[Responsibilities of the assurance practitioner]

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements (SAE) 3150 *Assurance Engagements on Controls*. SAE 3150 requires that we comply with Professional and Ethical Standard 1—~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding and plan and perform procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that [ABC's Statement is not fairly presented in that] the controls within ABC's [the type or name of] system are not suitably designed to achieve the control objectives or the description of the system is not fairly presented, in all material respects. An assurance engagement involves performing procedures to obtain evidence about the design of controls and description of the system. The procedures selected depend on the assurance practitioner's professional judgement, including the assessment of the risks of material deficiencies in the design of the controls or misstatements in the description of the [type or name of] system. We will perform procedures primarily consisting of making enquiries of management and others within the entity, as appropriate, examination of design specification and documentation and evaluation of the evidence obtained about the design of controls and description of the system. We will also perform additional procedures if we become aware of matters that cause us to believe the controls may not be suitably designed or the description may not be fairly presented. The procedures selected depend on what we consider necessary applying our professional judgement, including the assessment of the risks of material deficiencies in the design or misstatements in the description of the [type or name of] system.

...

Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on the Design, Description and Operating Effectiveness of Controls

To [the appropriate representative of management or those charged with governance of ABC or the engaging party]:

...

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements (SAE) 3150 *Assurance Engagements on Controls*. SAE 3150 requires that we comply with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, [ABC's Statement that] the controls are suitably designed to achieve the control objectives, the description of the [type or name of] system is fairly presented and the controls operated effectively throughout the period [is fairly stated]. An assurance engagement involves performing procedures to obtain evidence about the design, description and operating effectiveness of controls. The procedures selected depend on the assurance practitioner's professional judgement, including the assessment of the risks of material deficiencies in the design, misstatements in the description or deviations in the operating effectiveness of controls within the [type or name of] system.

...

Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on the Design and Implementation of Controls

To [the appropriate addressee]:

...

[Responsibilities of the assurance practitioner]

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements (SAE) 3150 *Assurance Engagements on Controls*. SAE 3150 requires that we comply with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the controls within ABC's [the type or name of] system are suitably designed to achieve the control objectives and implemented as designed, in all material respects. We will perform procedures to obtain evidence about the design and implementation of controls. The procedures selected depend on the assurance practitioner's professional judgement, including the assessment of the risks of material deficiencies in the design and/or implementation of the controls.

Appendix 8

(Ref: Para. A139)

EXAMPLE ASSURANCE REPORTS ON CONTROLS

Example 1: Limited Assurance Report on Design and Description of the Entity's Controls as at a Specified Date

Example 2: Reasonable Assurance Report on the Design, Description and Operating Effectiveness of the Entity's Controls throughout the Period

Example 3: Reasonable Assurance Report on the Design and Implementation of the Entity's Controls as at a Specified Date

Example 4: Reasonable Assurance Report on the Design and Operating Effectiveness of the Entity's Controls throughout the Period

The following examples of reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They can be applied to both attestation and direct engagements. These examples are short-form reports but may be converted to long-form reports by inclusion of additional information as indicated.

Example 1: Limited Assurance Report on Design and Description of the Entity's Controls as at a Specified Date

Independent Assurance Practitioner's Report

...

Our Independence and Quality Control

We have complied with the Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

Example 2: Reasonable Assurance Report on the Design, Description, and Operating Effectiveness of the Entity’s Controls throughout the Period Independent Assurance Practitioner’s Report

...

Our Independence and Quality Control

We have complied with ~~the~~ Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

Example 3: Reasonable Assurance Report on the Design and Implementation of the Entity’s Controls as at a Specified Date Independent Assurance Practitioner’s Report

...

Our Independence and Quality Control

We have complied with ~~the~~ Professional and Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Professional and Ethical Auditing Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

Example 4: Reasonable Assurance Report on the Design and Operating Effectiveness of the Entity's Controls throughout the Period

Independent Assurance Practitioner's Report

...

Our Independence and Quality Control

We have complied with Professional and Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Professional and Ethical Auditing Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

...

C: Effective Date

These conforming amendments are effective on 15 July 2020.

Memorandum

Date: 3 June 2020

To: Michele Embling, Chair XRB Board

From: Robert Buchanan, Chair NZAuASB

Subject: Certificate Signing Memo: *Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1*.

Background

2. The IAASB's international standards refer to the IESBA Code in various ways ranging from simple references to the title to detailed references to specific paragraphs in the IESBA Code as it existed before April 2018. Accordingly, the IAASB undertook a project to update the IAASB's international standards to align the extant wording with the revised and restructured IESBA Code. XRB staff were involved in reviewing the proposed changes and provided suggestions as the drafts were developed by the IAASB.
3. The IAASB issued its exposure draft in November 2019 with comments due by 10 January 2020. The NZAuASB considered the exposure draft at its December 2019 meeting and approved its submission, subject to stakeholder feedback, on the proposals.
4. Concurrently, the NZAuASB also issued an exposure draft of proposed changes to NZ specific paragraphs and domestic standards to reflect necessary changes to its standards as a result of the issuance of revised Professional and Ethical Standard 1.¹
5. The exposure draft was issued with a limited 30-day exposure period as the matters dealt with are minor. EG Au2 *Overview of Auditing and Assurance Standard Setting*

¹ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

Process allows for a shorter comment period in certain circumstances provided the exposure period is not less than 30 days, as follows: “The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or minor matters and will never be less than 30 days.”

6. No submissions were received on the domestic exposure draft.

Privacy

7. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require disclosure of personal information. The amendments do not require such disclosure.

Due Process

8. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB’s view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

9. The key strategic objectives set by the XRB Board for the NZAuASB include:
 - To adopt international auditing and assurance standards, including the professional and ethical standards, in New Zealand unless there are strong reasons not to (which the Board describes as “compelling reasons”); and
 - To work with the Australian Auditing and Assurance Standards Board (AUASB) towards the establishment of harmonised standards based on international standards.
10. 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.

Other matters

11. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

12. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1

Robert Buchanan

Chair

NZAuASB

DRAFT

Amendments to Guidance Documents as a Result of the Revised Professional Ethical Standard 1

The following amendments to guidance issued by the NZAuASB as a result of the revised Professional and Ethical Standard 1 have been identified.

IAPN (NZ) 1000 Special Considerations in Auditing Financial Instruments

78. A key consideration in audits involving financial instruments, particularly complex financial instruments, is the competence of the auditor. ISA (NZ) 2201 requires the engagement partner to be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements and to enable an auditor's report that is appropriate in the circumstances to be issued. Further, relevant ethical requirements² require the auditor to determine whether acceptance of the engagement would create any threats to compliance with the fundamental principles, including the professional competence and due care. Paragraph 79 below provides examples of the types of matters that may be relevant to the auditor's considerations in the context of financial instruments.

EG Au1 Overview of Auditing and Assurance Standards

- 20 There are two Professional and Ethical Standards:
- Professional and Ethical Standard 1 (Revised): *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
 - Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*
- 21 Professional and Ethical Standard 1 (~~Revised~~) is based on the Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA) as it applies to assurance engagements. Professional and Ethical Standard 3 (Amended) is based on International Standard on Quality Control (ISQC) 1 issued by the International Auditing and Assurance Standards Board (IAASB).

¹ ISA (NZ) 220, paragraph 14

² Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* paragraphs 320.1-320.10 A1-~~88~~.

EG Au1A Framework for Assurance Engagements

5. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognised as being in the public interest and an integral part of high-quality assurance engagements. Such engagements are performed in accordance with XRB Assurance Standards, which are premised on the basis that:
 - (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the provisions of Professional and Ethical Standard 1 (Revised)³ related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least demanding; and
 - (b) The assurance practitioner performing the engagement is a member of a firm that is subject to Professional and Ethical Standard 3 (Amended),⁴ or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control, that are at least as demanding as Professional and Ethical Standard 3 (Amended).

Professional and Ethical Standard 1 (Revised)

6. ~~Part A of Professional and Ethical Standard 1 (Revised) establishes the following fundamental principles of ethics, with which the assurance practitioner is required to comply:~~
 - (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner.

7. ~~Part A also provides a conceptual framework for assurance practitioners to apply to identify threats to compliance with the fundamental principles, evaluate the significance of the threats identified, and apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.~~Professional and Ethical Standard 1 provides a conceptual framework that assurance practitioners are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles.
8. ~~Part B of Professional and Ethical Standard 1 sets out requirements and application material on various topics (Revised) describes how the conceptual framework in Part A applies in~~

³ PES 1 (Revised), "Code of Ethics for Assurance Practitioners".

⁴ PES 3 (Amended), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements."

~~certain situations to assurance practitioners, including independence.~~ Professional and Ethical Standard 1 ~~(Revised)~~ defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

30. If a competent assurance practitioner chooses to represent compliance with an XRB Assurance Standard, it is important to recognise that those Standards include requirements that reflect the premise in paragraph 5 regarding Professional and Ethical Standard 1 ~~(Revised)~~ and Professional and Ethical Standard 3 (Amended), or other professional requirements, or requirements in law or regulation that are at least as demanding.

EG Au8 Audit Implications of the Use of Service Organisations for Investment Management Services

77. ~~Relevant ethical requirements, defined in~~ Professional and Ethical Standard 1⁵ ~~(Revised), establishes~~ include the fundamental principles of ~~professional ethics, relating to the engagement to be undertaken,~~ which are:

- (a) integrity;
- (b) objectivity;
- (c) professional competence and due care;
- (d) confidentiality; and
- (e) professional behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner.

EG Au9 Guidance on the audit or review of the performance report of Tier 3 not-for-profit public benefit entities

<p>Ethical requirements</p> <p>The assurance practitioner shall comply with Professional and Ethical Standard 1 (Revised) or other professional requirements, or</p>	<p>28. The ethical requirements are the same for the audit or review of the financial information, the entity information and the SSP. There are no additional requirements to apply in respect of the entity information and the SSP.</p>
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⁵ Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

requirements imposed by law or regulation, that are at least as demanding. (Ref. Para. 20)	
--	--

Does the NZAuASB agree to make the changes identified to update the NZAuASB's non-authoritative documents?

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 10.1
Meeting date: 3 June 2020
Subject: NZASB request for feedback
Date: 22 May 2020
Prepared By: Sylvia van Dyk

Action Required **For Information Purposes Only**

Agenda Item Objectives

1. For the Board to consider and provide FEEDBACK to the NZASB on two accounting pronouncements, about any possible assurance issues/ implications
 - IPSASB EDs Revenue and Transfer Expenses
 - IASB DP Business Combinations – Disclosures, Goodwill and Impairment

Matters to Consider

2. NZASB staff has prepared memos setting out the background and questions for the Board to consider. These are available at agenda items 10.2 and 10.3.
3. Feedback from the Board will help inform the NZASB's comment letters to the IPSASB and IASB.

Recommendation

4. For the Board to consider the memos and to provide any feedback you may have on the questions asked.

Material Presented

Agenda item 10.1	Board Meeting Summary Paper
Agenda item 10.2	Memo on IPSASB EDs Revenue and Transfer Expenses
Agenda item 10.3	Memo on IASB DP Business Combinations – Disclosures, Goodwill and Impairment



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 22 May 2020

To: NZAuASB Members

From: Joanne Scott and Vanessa Sealy-Fisher

Subject: **IPSASB EDs Revenue and Transfer Expenses**

Action required¹

1. The Board is asked to:
 - (a) NOTE the International Public Sector Accounting Standards Board's (IPSASB's) key proposals on revenue and transfer expenses; and
 - (b) PROVIDE FEEDBACK on the possible implementation issues discussed in this memo.
2. Members are not required to have read the exposure drafts (EDs) before the meeting. The EDs, IPSASB At-A-Glance documents and IPSASB webinars are available [here](#). A combined file of all three EDs is also available from staff (Joanne.Scott@xrb.govt.nz).
3. The Board's views will assist the NZASB in responding to the IPSASB's EDs.

Background

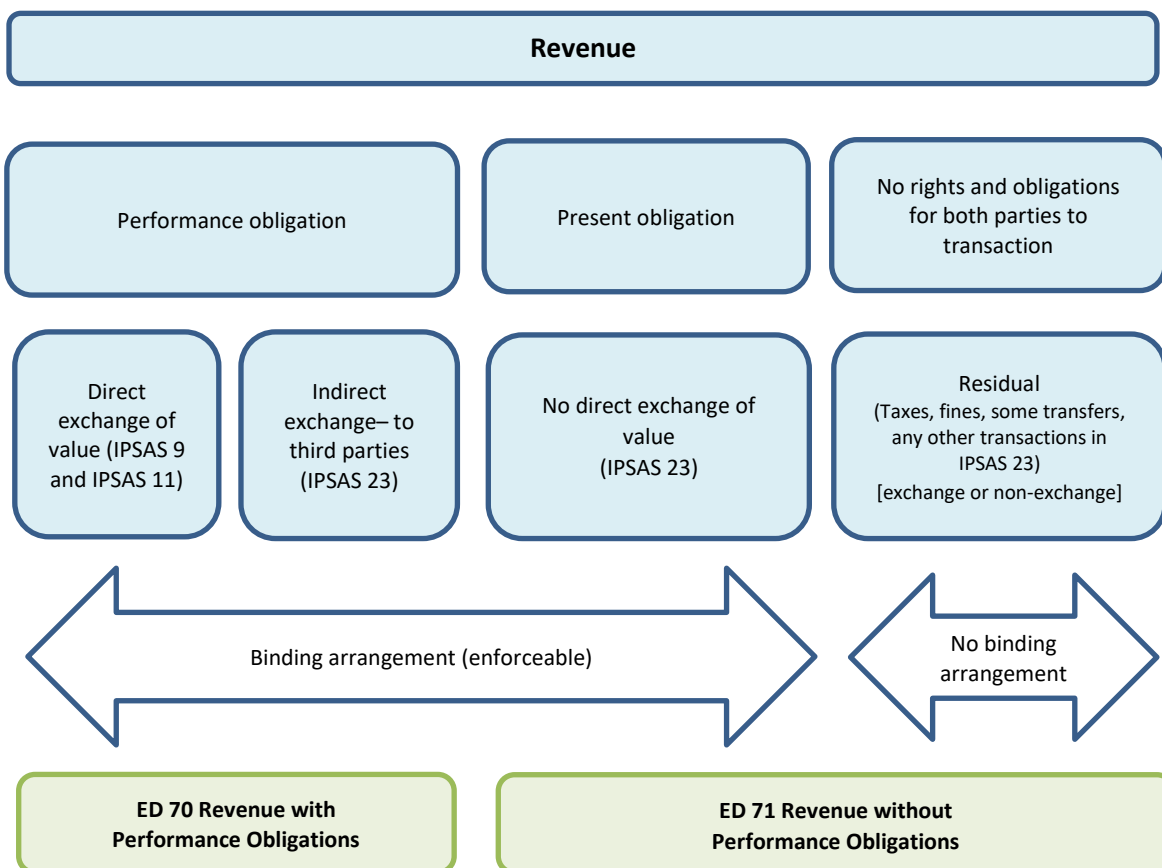
4. In February 2020 the IPSASB issued three EDs:
 - (a) ED 70 *Revenue with Performance Obligations*;
 - (b) ED 71 *Revenue without Performance Obligations*; and
 - (c) ED 72 *Transfer Expenses*.
5. The comment dates are 23 September 2020 (NZASB) and 1 November 2020 (IPSASB).

Overview

6. The current PBE Standards dealing with revenue are based on an exchange/non-exchange distinction. In contrast, ED 70 and ED 71 are based on a performance obligation/no performance obligation distinction. Diagrams 1 and 2 are two similar diagrams that attempt to show the relationship between current revenue standards and the EDs. Use whichever diagram works best for you.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Diagram 1: Proposed revenue recognition models²

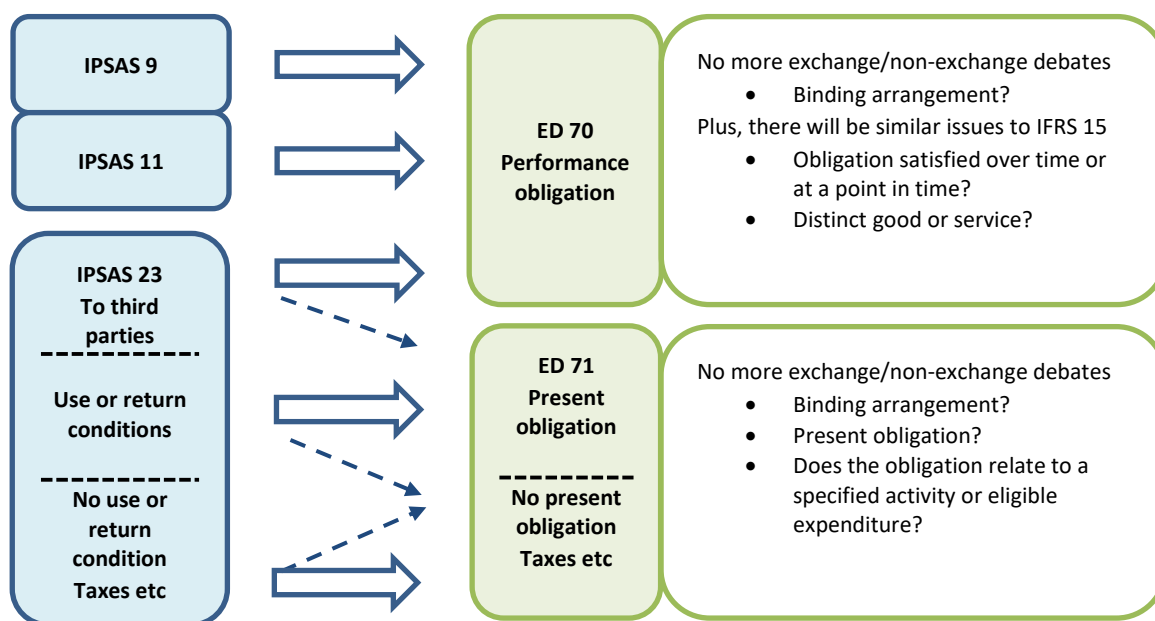


Notes on Diagram 1

1. Direct exchange of value – refers to revenue transactions involving the resource recipient receiving resources (typically cash) from the resource provider in exchange for the transfer of goods and service to the resource provider (ie a simple buyer-seller relationship).
2. Indirect exchange of value – refers to revenue transactions involving the resource recipient receiving resources from the resource provider in exchange for the transfer of goods or services to a third party.
3. No direct exchange of value – refers to revenue transactions involving the resource recipient receiving resources from the resource provider in exchange for agreeing to perform specified activities or incur eligible expenditure, but there is no transfer of goods or services to the resource provider or third party.

² Diagram 1 is based on a diagram prepared by staff of the South African Accounting Standards Board.

Diagram 2: IPSAS versus EDs³



ED 70 Revenue with Performance Obligations

7. ED 70 is based on IFRS 15 *Revenue from Contracts with Customers*. The proposed new standard would supersede IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*.
8. The IPSASB has modified some of the requirements in IFRS 15. The scope of ED 70 is broader than IFRS 15 in that it covers binding arrangements that might not be contracts. ED 70 also explicitly addresses the recognition of revenue from agreements to deliver goods and services to a third party.
9. In order to fall within the scope of ED 70 there must be a binding arrangement that confers both enforceable rights and obligations on both parties to the arrangement. All of the following must be present.
 - (a) The purchaser promises to pay the entity.
 - (b) In return for payment, the purchaser has a right to receive the goods or services specified in the arrangement or to have goods or services delivered to a third party.
 - (c) The entity promises to deliver specified goods or services to the purchaser or to a third-party beneficiary.
 - (d) In return for delivering the specified goods or services, the entity has a right to receive payment.

³ Block arrows indicate how most transactions on the left are addressed in the EDs. However, new terminology and requirements have to be applied. For example, many current agreements with use or return conditions would be treated as giving rise to present obligations by ED 71. However, as indicated by dotted lines, some might not give rise to present obligations.

10. Consistent with IFRS 15 an entity would recognise revenue when, or as, it satisfies the performance obligations. Depending on the agreement, this may be at a point in time or over time. If the entity delivers goods and services before it is paid or due to be paid, it would recognise a receivable or a binding arrangement asset. If the entity is paid before it delivers goods and services, it would recognise a binding arrangement liability. If an entity receives consideration before an agreement has been approved, it would recognise a liability.
11. The NZASB is supportive of the IPSASB developing a standard based on IFRS 15 and is broadly in agreement with the proposals.⁴ Because the scope of ED 70 encompasses arrangements to deliver goods and services to third party beneficiaries, there would no longer be debates about whether such transactions are exchange or non-exchange transactions.
12. It might still be necessary to split some transactions into components. For example, only part of a transaction might meet the requirements to be accounted for in accordance with ED 70 with the remainder being accounted for in accordance with ED 71.

ED 70: Possible implementation issues

13. Because ED 70 is closely based on IFRS 15, entities would likely encounter similar issues to those encountered by for-profit entities applying IFRS 15. The body of knowledge developed in support of IFRS 15 would assist with these issues.
14. In addition to the issues encountered in applying IFRS 15, we think entities applying ED 70 might encounter two additional issues: scope and enforceability of binding arrangements.
15. Deciding which revenue standard to apply could still lead to debates. Rather than debating whether a transaction is exchange or non-exchange, the question will be “Is there a binding arrangement with a performance obligation?”
16. By definition, a binding arrangement is an enforceable arrangement, so assessments about enforceability could be a key driver in determining which standard to apply. The concept of enforceability in ED 70 (as discussed in paragraphs AG13–AG24) is broader than the use or return conditions in IPSAS 23. We have summarised the discussion of potential enforceability mechanisms in ED 70 as follows:
 - (a) legal enforceability – valid enforcement mechanism;
 - (b) executive authority or orders – possibly enforceable;
 - (c) cabinet or ministerial directions – possibly enforceable;
 - (d) withholding of future funding – generally not a valid enforcement mechanism;
 - (e) when assessing enforceability in three party arrangements, focus on the rights of the purchaser, not the beneficiary; and
 - (f) past history of enforcement – assume agreements will be enforced unless there is past history of non-enforcement (see paragraph AG24 below).

⁴ The NZASB has asked staff to look more closely at the interaction between ED 70 and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* to check that is clear when an entity would recognise a provision.

ED 70 paragraph AG24

AG24. In determining whether an arrangement is enforceable, it is necessary to consider any past history of enforcement. If past experience with a purchaser indicates that the purchaser never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and therefore the arrangement is not enforceable. However, if the entity has no experience with the purchaser, or has not previously breached any terms that would prompt the purchaser to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the purchaser would enforce the terms, and therefore the arrangement is considered enforceable.

17. An entity wanting to recognise revenue over time (rather than at a point in time) would have to have processes in place for monitoring the satisfaction of obligations (see ED 70 paragraphs 39 to 44). It would have to have reliable information and an appropriate method of measuring progress. This could involve judgement.
18. Although we have identified scope as a potential implementation issue, we think that this issue is an unavoidable consequence of having two revenue standards.
19. Although we have identified enforceability of a binding arrangement as a potential implementation issue, this is not entirely a new issue.

Questions for the Board on ED 70

- Q1 Do you support the IPSASB’s proposal to develop an IPSAS based on IFRS 15?
- Q2 Do you have any concerns or comments about this proposal?

ED 71 Revenue without Performance Obligations

20. ED 71 is described as an update of IPSAS 23 and the proposed new standard would supersede IPSAS 23. ED 71 aims to address some of the issues encountered in applying IPSAS 23, including the difficulty of applying the exchange/non-exchange distinction. The proposals in ED 71 will be critical for PBEs as many PBEs are party to agreements that cover more than one year. Table 1 summarises the revenue recognition requirements in ED 71.⁵
21. The NZASB is still considering its response to the proposals in ED 71, including whether it agrees on conceptual grounds with the IPSASB’s proposals for the deferral of revenue. This memo focuses on implementation.

Table 1 Summary of ED 71 recognition requirements

Type of transaction	ED 71 recognition requirements
There is a binding arrangement. There is also a present obligation to: <ul style="list-style-type: none"> • perform a specified activity; or • incur eligible expenditure. 	Recognise an asset when the inflow of resources meets the definition of an asset and the asset recognition criteria (paragraph 33). Recognise a liability when there is a present obligation that meets the definition of a liability and the recognition criteria (paragraphs 45 and 46).

⁵ This summary does not address advance receipts (see ED 71 paragraphs 50 and 96) or services in kind (see ED 71 paragraphs 33 and 110).

Type of transaction	ED 71 recognition requirements
	Recognise revenue in relation to present obligations when, or as, the entity satisfies the present obligation (paragraphs 53 and 54).
There is a binding arrangement, but the obligations in that arrangement do not give rise to present obligations that meet the definition of a liability.	Recognise an asset when the inflow of resources meets the definition of an asset and the asset recognition criteria (paragraph 33). Recognise revenue when the entity recognises the asset – that is, upfront recognition when the entity obtains control of the resources (paragraph 53).
No binding arrangement (for example, a general donation).	See row above.
Taxes	Based on requirements in IPSAS 23. Recognise asset when the taxable event occurs (paragraphs 33 and 89). Recognise revenue when the taxable event occurs (paragraph 89).

22. The steps related to deferral of revenue differ from IPSAS 23. An entity applying IPSAS 23 considers whether a stipulation is a restriction or a condition (ie with a use or return requirement). An entity applying ED 71 considers whether the binding arrangement gives rise to a present obligation that meets the definition of a liability. ED 71 says that obligations to perform a *specified activity* or incur *eligible expenditure* could give rise to present obligations that meet the definition of a liability. An entity can defer revenue in relation to such present obligations (for specified activities or eligible expenditure).
23. Relevant definitions and extracts from ED 71 which explain the IPSASB’s thinking about deferral of revenue in relation to obligations to carry out specified activities or incur eligible expenditure are shown below. We have also listed the definition of a ‘transfer recipient’, which is the entity receiving the revenue.

Liability definition

Liabilities are *present obligations* of the entity arising from *past events*, the settlement of which is expected to result in *an outflow* from the entity of resources embodying economic benefits or service potential. (Defined term, IPSAS 1)

A liability is a present obligation of the entity for an outflow of resources that results from a past event. (IPSASB Conceptual Framework)

Extracts from ED 71

A specified activity is an action in a binding arrangement that must be completed by a transfer recipient.

Eligible expenditure is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement.

A transfer recipient is an entity that receives a good, service or other asset from another entity without directly providing any good, service, or other asset to that entity.

Present Obligations

14. A present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources.

15. Goods, services, or other assets may be transferred by a transfer provider with the expectation and/or understanding that they will be used in a particular way and, therefore, that the transfer recipient will act or perform in a particular way. Where binding arrangements with external parties impose terms on the use of transferred assets by the transfer recipient, a present obligation exists.
16. A present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations on both parties. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.
17. The transfer recipient considers whether an obligation to perform a specified activity or incur an eligible expenditure is a present obligation.

Specified Activity

18. A specified activity is a particular action, stated in a binding arrangement, that the transfer provider can compel the transfer recipient to perform, such as construct a hospital or conduct a form of research. Where a specified activity is imposed by the transfer provider as part of the terms of the transfer, a present obligation is created for the transfer recipient.
19. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer in the delivery of the specified activity or return resources to the transfer provider or incur another form of redress.

Eligible Expenditure

20. A binding arrangement may require a transfer to be used by a transfer recipient for a particular purpose and incur eligible expenditure for that purpose, but does not have an identifiable specified activity.
21. Where a requirement to incur eligible expenditure exists in a binding arrangement, the transfer recipient accepts a present obligation to use the transfer as directed. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer on eligible expenditure or return resources to the transfer provider or incur another form of penalty.

...

Eligible Expenditure

- AG25. This [draft] Standard defines eligible expenditure as an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. A transfer, that arises from a binding arrangement may be provided with the requirement that the transfer recipient use the resources in furthering the transfer recipient's objectives, but the requirement does not meet the requirements to be classified as a performance obligation as defined in [draft] IPSAS [X] (ED 70) or as a specified activity. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. Revenue would be recognized as these eligible expenditures are incurred.
- AG26. The transfer provider needs to be able to confirm that all expenditure incurred was eligible and therefore the transfer recipient needs to keep appropriate documentation to show that the expenditure was incurred by the transfer recipient and for the purpose intended.

Specified Activity

- AG27. This [draft] Standard defines a specified activity as an action specified in a binding arrangement that must be completed by a transfer recipient. A specified activity differs from

a performance obligation because there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary. For example, a transfer provider provides funding to a government science agency (transfer recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the transfer provider requires the government science agency to report back at each stage. Each of these stages constitutes a specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action.

24. Table 2 explains how some simple transactions would be accounted for under ED 71. We have assumed that all binding arrangements (BAs) are enforceable.

Table 2: Revenue transactions

Transaction		ED 71 Revenue recognition
Grant for a hospital to buy equipment (PPE).	BA	Present obligation for <i>specified activity</i> . Recognise revenue when the entity buys the equipment.
Grant for a hospital to buy consumable items (amount and value specified).	BA	Present obligation for <i>eligible expenditure</i> . Recognise revenue when the entity buys the consumable items.
Grant to build a hospital. This occurs over two years.	BA	Present obligation for <i>specified activity</i> . Recognise revenue over 2 years as the entity builds the hospital.
Research – detailed project plan. Research entity retains control of any intellectual property.	BA	Present obligation for <i>specified activity</i> . Recognise revenue when, or as, the entity does the research in accordance with the agreement.
Research – detailed project plan. Research entity retains control of any intellectual property. Arrangement is not enforceable.	–	No present obligation. Recognise revenue when the entity controls the resources (ie upfront recognition).
Research – deliver data set and intellectual property to funder.	BA	Not in scope of ED 71 because there is a <i>performance obligation</i> , being a promise to transfer goods and services. Go to ED 70.
Pay salary of a medical specialist.	BA	Present obligation for <i>eligible expenditure</i> . Recognise revenue as the entity pays the specialist.
Multi-year grant for on-going operational expenditure. Total amount for both year 1 and year 2 received at the beginning of year 1.	BA	We think the IPSASB would argue that there is no present obligation. Recognise revenue when the entity controls the resources (ie upfront recognition). Note: ED 71 examples do not illustrate this point. We find it hard to explain why an agreement to spend designated funds on operational expenditure should be treated differently to the medical specialist example (in the row above).

ED 71: Possible implementation issues

25. Both IPSAS 23 and ED 71 lead to some deferral of revenue, but the requirements differ and the implementation issues would differ. We have identified a few issues for discussion. We would like to focus on point (b) below.
- (a) Scope: Many of the current debates focus on whether a transaction is an exchange or a non-exchange transaction. Under the EDs, the debates will be about whether or not the transaction creates performance obligations (ED 70) or not (ED 71).
 - (b) Revenue recognition and deferral: Revenue deferral under IPSAS 23 hinges on enforceable use or return conditions. Under ED 71 there may still be debates about when deferral is permitted. ED 71 says that obligations to carry out specified activities or incur eligible expenditure may give rise to present obligations that meet the definition of a liability. There could be debates about when something is treated as eligible expenditure *as opposed to normal operating costs*. There could also be debates about whether an obligation is to carry out a specified activity or to incur eligible expenditure (although the accounting is the same).
 - (c) Enforceability: As noted in (b) revenue deferral under IPSAS 23 hinges on enforceable use or return conditions. In order to defer revenue under ED 71 there has to be an enforceable binding arrangement. The concept of enforceability in ED 71 (as discussed in ED 71 paragraphs AG16–AG23) is broader than that in IPSAS 23. This might be helpful in allowing for a wider range of enforcement mechanisms, but it could also open up new debates about whether an agreement is enforceable.
 - (d) Monitoring: In order to defer revenue in accordance with ED 71, entities would have to be able to monitor their satisfaction of the obligations in the agreements. That is, they would have to be able to demonstrate that they had carried out the specified activities or incurred the eligible expenditure.

Questions for the Board on ED 71

Q3 Do you think the IPSASB's proposals in ED 71 are sufficiently clear to support consistent application?

Q4 Do you agree with the IPSASB's proposals regarding deferral of revenue in ED 71?

That is, do you agree that (i) obligations to perform specified activities and incur eligible expenditure could give rise to present obligations that meet the definition of a liability; and where they do, (ii) revenue should be recognised as the obligations are satisfied?

If not, in what circumstances would you support deferral of revenue in ED 71?

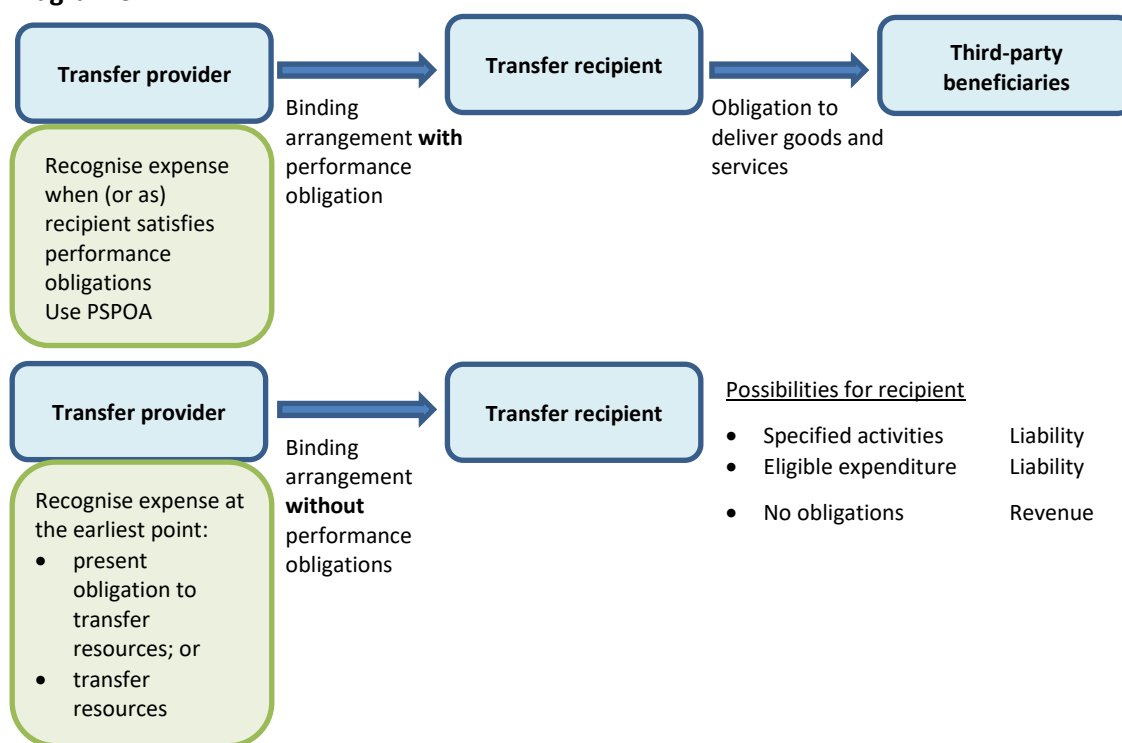
ED 72 Transfer Expenses

26. ED 72 sets out proposals for a new standard on transfer expenses, such as grants made to other parties (see definition below). ED 72 does not cover expenses associated with goods and services provided directly to a purchaser – such expenses are not transfer expenses. The requirements in ED 72 differ, depending upon whether the binding arrangement establishes performance obligations or not (see Diagram 3).

A **transfer expense** is an expense arising from a transaction, other than taxes², in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset³ in return (paragraphs AG6–AG7 provide additional guidance).

- 2 Taxes include other compulsory contributions and levies, as defined in [draft] IPSAS [X] (ED 71).
- 3 The definition of a transfer expense includes references to “other asset” (for example, a non-current asset) for completeness. Elsewhere in this [draft] Standard, references to goods and services or to goods or services are to be read as incorporating references to assets.

Diagram 3 ED 72



27. If a transfer expense transaction gives rise to performance obligations and meets certain criteria, the transfer provider recognises an expense when (or as) the transfer recipient satisfies the performance obligations. By definition, performance obligations are set out in enforceable, binding arrangements. In order to use the public sector performance obligation approach (PSPOA) in recognising expenses, the transfer provider must be able to monitor the satisfaction of the performance obligation by the transfer recipient. Essentially this section in ED 72 mirrors the requirements in ED 70. In the same way that ED 70 can lead to the recognition of assets and liabilities before the recognition of revenue, ED 72 can lead to the recognition of assets and liabilities before the recognition of expenses. The assets and liabilities recognised under ED 72 are payables, transfer provider binding arrangement assets⁶ and transfer provider binding arrangement liabilities.

⁶ The asset represents the transfer provider’s right to have a transfer recipient transfer goods and services to third-party beneficiaries. This is a temporary asset that will be derecognized as the transfer recipient fulfils its performance obligations. The rationale for this is set out in ED 72 paragraphs BC21 to BC34.

28. If a transfer expense transaction does not give rise to performance obligations, the transfer provider recognises an expense when it has a present obligation to transfer resources or when it transfers the resources – whichever comes first.
29. The IPSASB was keen to align the requirements for transfer revenue and transfer expenses and has done so in relation to transactions with performance obligations. However, if there is no performance obligation, the requirements differ. If a transfer provider pays before the recipient performs, it recognises an expense.⁷ This could result in a transfer provider recognising an expense and a transfer recipient recognising a liability (for deferred revenue).
30. ED 72 acknowledges that entities can enter into multi-year funding agreements but does not have much guidance on this (see paragraph 97 below).

Transfer Expenses without Performance Obligations Made as a Series of Transfers

97. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the transfer provider enters into a binding arrangement to provide annual funding over a three-year period. A transfer provider applies the requirements of paragraphs 91–94 to each transfer of resources to determine whether an expense is to be recognized.

ED 72: Possible implementation issues

31. In order to account for transfer expenses *with performance obligations* in accordance with the PSPOA in ED 72, a transfer provider must have a binding arrangement with performance obligations and be able to measure the transfer recipient’s satisfaction of those performance obligations (that is, the recipient’s delivery of goods and services to third party beneficiaries). If a transfer provider does not have sufficient information about the transfer recipient’s satisfaction of performance obligations, it cannot apply the PSPOA in ED 72 and would recognise an expense.

Questions for the NZAuASB on ED 72

- Q5 Will the IPSASB’s proposals in ED 72 appropriately fill the gap for transfer expenses in current accounting standards?
- Q6 Do you have any concerns or comments about these proposals?

Next steps

32. We welcome your views on the issues that we have put forward for discussion in this memo, as well as your views on any proposals in the EDs.
33. In addition to receiving feedback at this meeting, we would be happy to receive any further comments up until 23 September. We are also willing to discuss the EDs at a time that suits you. Please contact Joanne (Joanne.Scott@xrb.govt.nz) or Vanessa (Vanessa.Sealy-fisher@xrb.govt.nz) if you would like to discuss the proposals in more detail.
34. We will share the NZAuASB’s feedback with the NZASB.

⁷ The ED 72 [At-A-Glance](#) document (page 10) compares the requirements for transfer revenue and transfer expenses without performance obligations.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 22 May 2020

To: NZAuASB Members

From: Gali Slyuzberg

Subject: **IASB DP *Business Combinations – Disclosures, Goodwill and Impairment***

Recommendations¹

1. We are seeking the Board's FEEDBACK, from an assurance perspective, on the IASB Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* (the DP).
2. Feedback from the Board will help inform the NZASB's comment letter to the IASB on this DP.
3. The DP can be accessed [here](#), and the IASB's summary of the DP can be accessed [here](#). Board members are not expected to have read the DP ahead of this meeting but are welcome to do so. References to the relevant sections of the DP are provided throughout this paper.

Background

4. The IASB issued the DP in March 2020. In issuing the DP, the IASB's objective is to explore whether entities can, at a reasonable cost, provide investors with more useful information about their acquisitions. Better information should help investors assess the performance of entities that have made acquisitions and hold an entity's management to account for acquisition decisions.
5. The DP sets out the IASB's preliminary views. They are that the IASB:
 - (a) should improve the information provided to investors about an acquisition and its subsequent performance, by developing proposals to enhance the disclosure objectives and requirements in IFRS 3 *Business Combinations*;
 - (b) cannot design a different impairment test that is significantly more effective than the current impairment test in IAS 36 *Impairment of Assets* at recognising impairment losses on goodwill on a timely basis and at a reasonable cost;
 - (c) should not reintroduce amortisation of goodwill;
 - (d) should propose to require the amount of total equity excluding goodwill to be shown on the balance sheet, to help investors better understand a company's financial position;

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

- (e) should reduce the cost and complexity of the impairment test by providing relief from the requirement to perform an annual impairment test for goodwill if there is no indication that impairment has occurred;
 - (f) should simplify the estimation of value in use (VIU) to reduce cost and complexity and to provide more useful and understandable information. The IASB proposes to do this by:
 - (i) removing the restriction on including cash flows from a future uncommitted restructuring or from improving or enhancing an asset's performance; and
 - (ii) permitting the use of post-tax cash flows and post-tax discount rates; and
 - (g) should not change the current requirements for recognising identifiable intangible assets separately from goodwill in an acquisition.
6. Comments on the DP are due to the IASB by 31 December 2020.² The NZASB has decided to comment on the DP and is seeking feedback from New Zealand constituents. Comments are due to the NZASB by 7 October 2020.
7. We note that some of the proposals discussed in the DP could have assurance-related implications. We are therefore seeking the NZAuASB's feedback on the IASB's preliminary views.

NZASB's general approach to the comment letter

8. At the joint NZASB and NZAuASB meeting in February 2020, the Boards received a presentation on [AASB Research Report 9 Perspectives on IAS 36: A Case for Standard Setting Activity](#) (AASB Research Report).³ In the discussion following that presentation, there was some support for a holistic review of IAS 36 *Impairment of Assets*, as suggested in the AASB Research Report.
9. By contrast, the DP focuses on specific aspects of the impairment test in IAS 36 *Impairment of Assets*, as well as disclosures about business combinations. This is because the DP is aiming to address issues identified through the IASB's PIR of IFRS 3, a standard that focuses on business combinations rather than impairment. A holistic review of IAS 36 is outside the scope of the DP; the IASB is encouraging stakeholders who want a holistic review to make their views known via the IASB's next agenda consultation.
10. The NZASB plans to comment on the specific issues and questions raised in the DP, but also to express support for a holistic review of IAS 36. The NZASB also plans to include this view in its response to the IASB's next agenda consultation.

² Initially, comments were due to the IASB by 15 September 2020. However, due to the COVID-19 pandemic, the IASB extended the comment period to 31 December 2020.

³ This report was published in March 2019. It was authored on behalf of the AASB by Moana Overton (Principal, National Accounting Technical – Deloitte Australia) and Emily Fox (Manager, National Accounting Technical – Deloitte Australia).

Structure of this memo

11. The remainder of this memo focuses on the key topics in the DP on which we are seeking Board members’ feedback. Questions for the Board are included in the relevant sections of the memo. For convenience, all of the questions are also included at the end of the memo.
12. The remaining sections in this memo are:
 - (a) Improving disclosures about acquisitions (Section 2 of the DP);
 - (b) Goodwill impairment and amortisation (Section 3 of the DP);
 - (c) Simplifying the impairment test (Section 4 of the DP);
 - (d) Summary of questions for the Board; and
 - (e) Next steps.

Improving disclosures about acquisitions (DP Section 2)

13. Investors have told the IASB that companies typically do not provide enough information about the subsequent performance of acquisitions (i.e. how well an acquisition performs after the acquisition date). As a result, investors find it difficult to assess whether management’s objectives for the acquisition are being met – for example, whether the synergies that management expected from the acquisition are being realised.
14. Currently, IFRS Standards do not specifically require disclosure of information about the subsequent performance of an acquisition. The recognition of an impairment loss on goodwill can sometimes signal that an acquisition was unsuccessful; however, the impairment test is not designed to inform investors whether, and to what extent, an acquisition is meeting management’s objectives.
15. The IASB proposes to introduce new disclosure requirements to help investors understand management’s objectives for an acquisition, and how well the acquisition performs against these objectives. Table 1 sets out the IASB’s preliminary views.

Table 1 Proposed disclosure requirements on the subsequent performance of acquisitions

Proposed disclosures at acquisition date	Proposed disclosures after acquisition date
<ul style="list-style-type: none"> • Disclose information about the strategic rationale for the acquisition • Disclose the chief operating decision maker’s (CODM’s)⁴ objectives for the acquisition • Disclose the metrics that the CODM will use to monitor whether the objectives of the acquisition are being met 	<ul style="list-style-type: none"> • Disclose the extent to which the objectives for the acquisition are being met, using the metrics used by the CODM. • This information should be disclosed for as long as the CODM monitors the acquisition. • If the CODM stops monitoring the acquisition within two years, or if the metrics change, this should be disclosed and explained.

⁴ As explained in IFRS 8 *Operating Segments*, the term ‘chief operating decision maker’ (CODM) identifies a function: to allocate resources to and assess the performance of the operating segments of an entity. Often the entity’s CODM is its chief executive officer or chief operating officer; but, for example, it may be a group of executive directors or others.

16. The above proposed disclosures would be based on information and metrics used by management, i.e. the CODM. Therefore, entities would not need to create information solely for external purposes. If an acquisition is not monitored by the CODM, this fact should be disclosed and explained.
17. The IASB considered the verifiability of the proposed new disclosures, and concluded that the following aspects of these disclosures should be verifiable:
 - (a) whether the information disclosed is the information that the CODM receives to monitor the acquisition;
 - (b) whether there is an adequate explanation of how the information was prepared; and
 - (c) whether the information faithfully represents what it purports to represent.
18. In addition to these proposed new disclosures, the IASB is also proposing improvements to existing disclosures on business combinations. For example, the IASB is proposing to require more specific disclosures about the synergies expected from a business combination (including a description of the synergies, when the synergies are expected to be realised, the estimated amount of the synergies and the estimated cost to achieve them).
19. Further information on this topic is provided on pages 30–52 (paragraph 2.1–2.91) of the DP.

Question for the Board
Q1. Do you have any comments on the proposed new disclosures discussed above, including any concerns on the ability to provide assurance over these disclosures?

Goodwill impairment and amortisation (DP Section 3)

Background: Current requirements for goodwill impairment (per IAS 36)

20. Goodwill must be tested for impairment at least annually. However, as goodwill does not generate cash flows independently, it must be allocated to a cash-generating unit (CGU) or group of CGUs for the purpose of impairment testing.⁵ The impairment test compares the CGU's carrying amount to its recoverable amount. The recoverable amount is the higher of the following.
 - (a) The amount of cash flows expected to be generated by the CGU through the continued use of the assets within it (value in use).
 - (b) The amount for which the company could sell the CGU (fair value).
21. If the CGU's recoverable amount is higher than its carrying amount, the goodwill allocated to that CGU is impaired.

⁵ A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets. For the purpose of impairment testing, goodwill is allocated to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination.

22. Thus, the purpose of the impairment test with respect to goodwill is to ensure that the carrying value of a CGU (or group of CGUs) containing goodwill is does not exceed its recoverable amount.

Can the impairment test be made more effective?

23. Stakeholders have told the IASB that goodwill impairment losses are recognised too late. The IASB has investigated whether it is feasible to make the impairment test significantly more effective at recognising impairment losses on goodwill on a timely basis, at a reasonable cost. After extensive work, the IASB's preliminary view is that this is not feasible.
24. The IASB believes that the concern that impairment losses are recognised too late arises from the following key reasons:
- (a) goodwill being 'shielded' from impairment by 'headroom' within a CGU;⁶ and
 - (b) management over-optimism in making assumptions and estimates for the purpose of the impairment test.
25. The IASB attempted to develop an alternative impairment model (called the 'headroom approach') that would reduce shielding.⁷ However, the IASB concluded that this alternative model would not eliminate shielding completely, may result in impairment losses that are difficult to understand, and may increase the cost of the impairment test.
26. Ultimately, the IASB concluded the following regarding shielding.
- (a) If the current impairment test is performed well, it is expected to meet its intended purpose: to ensure that the combined assets within a CGU – including goodwill – are carried at no more than their recoverable amount.
 - (b) Shielding cannot be eliminated, so the impairment test will not always provide a timely signal that an acquisition is not meeting management's expectations – but this does not mean that the impairment test is failing to achieve its purpose.
 - (c) The IASB's proposals to improve disclosures on acquisitions (see the previous section) should provide investors with timely information about the subsequent performance of acquisitions.
27. Regarding the concern that management's over-optimism is causing impairment of goodwill to be recognised too late, the IASB noted the following.
- (a) IAS 36 already contains requirements to reduce the risk of management using over-optimistic cash flow forecasts. For example, IAS 36 requires companies to use reasonable and supportable assumptions that represent management's best estimate

⁶ Headroom is made up of items not recognised on the balance sheet: internally generated goodwill, unrecognised assets, and unrecognised differences between the carrying amount of recognised assets and liabilities and their recoverable amounts. Such 'headroom' items generate cash flows that are included in a CGU's recoverable amount for the purpose of the goodwill impairment test. Therefore, headroom items can 'shield' goodwill from impairment.

⁷ The 'headroom approach' indicates impairment has occurred when the recoverable amount of the CGU is lower than the combined total of the recognised net assets of the CGU plus the previous balance of unrecognised headroom of the CGU. Some or all of this impairment is then allocated to acquired goodwill.

of the range of economic conditions that will exist over the remaining useful life of the asset, with greater weight given to external evidence.

- (b) By its nature, the impairment test would always be subject to management judgement. The risk of management over-optimism cannot be completely eliminated.
28. The IASB concluded that the risk of management over-optimism and its potential impact on the timeliness of goodwill impairment is best addressed by auditors and regulators, rather than by making changes to accounting standards.
29. Further information on this sub-topic is provided on pages 53–64 of the DP (paragraphs 3.2–3.54).

Question for the Board

Q2. Management over-optimism in performing the goodwill impairment test can negatively impact the timely recognition of impairment. Do you agree that management over-optimism is better addressed by auditors and regulators, rather than by changing accounting standards?

Should amortisation of goodwill be reintroduced?

30. As noted in the previous section, the IASB has concluded that the current goodwill impairment test cannot be made significantly more effective at a reasonable cost. Having reached this conclusion, the IASB considered whether amortisation of goodwill should be reintroduced.
31. Amortisation of goodwill has not been allowed since 2004. At the time, the IASB had concluded that it is generally not possible to predict the useful life of goodwill and the pattern in which it diminishes. Therefore, the amount of amortisation in any given period is at best an arbitrary estimate of the consumption of goodwill during that period, which is unlikely to provide useful information. However, the IASB has reconsidered this matter because some stakeholders wanted amortisation of goodwill to be reintroduced.
32. Table 2 compares the advantages of retaining the impairment-only model for goodwill versus the advantages of reintroducing the goodwill amortisation model (which would still require impairment testing).

Table 2 Amortisation of goodwill vs impairment-only model

Arguments for re-introducing amortisation of goodwill	Arguments for retaining the impairment-only model for goodwill
Goodwill amounts on the balance sheet are often overstated. Amortisation provides a simple mechanism that targets acquired goodwill directly, which the impairment test cannot do.	The impairment-only model provides useful confirmatory information to investors. Although amortisation is simple, it leads to arbitrary outcomes that would be ignored by many investors and many companies would exclude it from performance measures they provide to investors.

Arguments for re-introducing amortisation of goodwill	Arguments for retaining the impairment-only model for goodwill
The impairment test is not working as well as the IASB intended and does not always write goodwill down when it has lost value.	If applied well, the impairment test works as the IASB intended – ensuring that, as a group, goodwill and other assets of a business are not overstated.
Goodwill is a wasting asset, which reduces as the benefits are consumed. Amortisation is the only way to show the consumption of goodwill.	The benefits of goodwill are maintained for an indefinite period, so goodwill is not a wasting asset, and should not be amortised.
Amortising goodwill would ultimately make the impairment test easier and less costly to apply, because amortisation would reduce the carrying amount of goodwill, making an impairment less likely.	Amortising goodwill would not significantly reduce the cost of impairment testing, especially in the first few years after an acquisition.

33. The IASB is aware that both the current impairment-only model and the amortisation model have advantages and disadvantages – all of which the IASB has previously considered. Ultimately, the IASB found no compelling evidence that a change from the impairment-only model to the amortisation model is needed.
34. Therefore, the IASB’s preliminary view is that it should not reintroduce amortisation of goodwill.
35. Nevertheless, the IASB is open to considering any *new arguments* to reintroduce amortisation of goodwill.
36. Further information about this topic can be found on pages 64–75 (paragraphs 3.55–3.106) of the DP.

Questions for the Board
<p>Q3(a). Do you agree that the IASB should retain the impairment-only model for goodwill? Or, would you prefer the re-introduction of goodwill amortisation?</p> <p>Q3(b). Table 2 sets out arguments for and against re-introducing goodwill amortisation. In recent years, have you come across evidence that would strengthen any of these arguments? Are you aware of any other arguments?</p>

Simplifying the impairment test (DP Section 4)

Relief from the annual impairment test

37. Some stakeholders think that the impairment test is costly and complex, and that due to the limitations of the impairment test, its benefits may not always justify the cost.
38. The IASB’s preliminary view is that it should remove the requirement to perform an annual impairment test for CGUs containing goodwill, if there is no indication that the CGUs may be

impaired. The IASB believe that moving to an “indicator-only” approach for goodwill impairment would not significantly decrease the robustness of the impairment test.

39. Further information is provided on pages 79–86 (paragraphs 4.5–4.34) of the DP.

Questions for the Board	
Q4.	Do you agree with the proposal that goodwill should be tested for impairment only when there are indicators of impairment, rather than every year? Do you have any concerns about this proposal from an assurance perspective?

Simplifying value in use estimates

40. As explained above, the goodwill impairment test requires determining the value in use (VIU) of a CGU (or group of CGUs) containing goodwill. VIU is the present value of the estimated future cash flows to be generated by the CGU from continuing to use the assets within it.
41. Table 3 outlines concerns expressed by some stakeholders about the current VIU requirements in IAS 36.

Table 3 Concerns expressed by IASB stakeholders on estimating VIU

Current requirements in IAS 36	Concerns expressed by stakeholders
VIU must be determined on a pre-tax basis, i.e. using pre-tax cash flows and discount rates.	Pre-tax discount rates are not observable. Therefore, in practice, VIU is usually calculated on a post-tax basis.
When calculated VIU, forecast cash flows from future uncommitted restructurings and asset enhancements must be excluded.	This requirement makes the impairment test costly and complex, because it can be challenging to identify which future cash flows should be excluded from VIU (for example, it can be challenging to distinguish maintenance capital expenditure from expansionary capital expenditure in budgets or forecasts).

42. To reduce the cost and complexity of the impairment test and align it with management estimates and industry practice, the IASB’s preliminary view is that it should simplify the VIU calculation by:
- (a) removing the restriction on including cash flows from future uncommitted restructurings and asset enhancements (the cash flow forecasts would still need to be reasonable and supportable); and
 - (b) allowing the use of post-tax discount rates and post-tax cash flows.
43. Regarding the restriction on cash flows from future uncommitted restructurings and asset enhancements: The IASB recognised that removing this restriction could possibly exacerbate the risk of management over-optimism when performing the impairment test. Therefore, the IASB considered whether to also introduce additional amendments to IAS 36, to ensure that there is discipline in estimating cash flows from future restructures and enhancements.

However, the IASB concluded that the existing requirements in IAS 36 should provide sufficient discipline. The table below summarises the IASB’s considerations in this regard.

Table 4 Whether the proposed simplifications of VIU require additional discipline in IAS 36

Possible amendments considered	Reason amendments not proposed
Setting a probability threshold to determine when cash flows from uncommitted future restructures and future enhancements should be included – for example a ‘more likely than not’ threshold	IAS 36 already requires cash flow forecasts used in the VIU calculation to be based on reasonable and supportable assumptions.
Requiring additional qualitative disclosures about the measurement uncertainty associated with estimates of the amount and timing of these particular cash flows.	IAS 36 already requires companies to disclose information about the assumptions on which management based its estimates of the recoverable amount.

44. Further information on this topic is provided on pages 86–91 (paragraphs 4.35–4.56) of the DP.

Questions for the Board
<p>Q5. Do you have any comments on the IASB’s proposed simplifications of the VIU calculation (i.e. allowing the use of post-tax inputs, and removing the restriction on including cash flows from future uncommitted restructuring and asset enhancements)?</p> <p><i>General question:</i></p> <p>Q6. Do you have any other comments on the IASB’s preliminary views expressed in the DP?</p>

Summary of questions for the Board

45. All of the questions in this memo are listed below.

Questions for the Board
<p><i>Improving disclosures on acquisitions</i></p> <p>Q1. Do you have any comments on the proposed new disclosures on acquisitions, including any concerns on the ability to provide assurance over these disclosures?</p> <p><i>Goodwill impairment and amortisation: Can the impairment test be made more effective?</i></p> <p>Q2. Management over-optimism in performing the goodwill impairment test can negatively impact the timely recognition of impairment. Do you agree that management over-optimism is better addressed by auditors and regulators, rather than by changing accounting standards?</p> <p><i>Goodwill impairment and amortisation: Should amortisation of goodwill be re-introduced?</i></p> <p>Q3(a). Do you agree that the IASB should retain the impairment-only model for goodwill? Or, would you prefer the re-introduction of goodwill amortisation?</p>

Questions for the Board

Q3(b). Table 2 sets out arguments for and against re-introducing goodwill amortisation. In recent years, have you come across evidence that would strengthen any of these arguments? Are you aware of any other arguments?

Simplifying the impairment test: Relief from the annual impairment test

Q4. Do you agree with the proposal that goodwill should be tested for impairment only when there are indicators of impairment, rather than every year? Do you have any concerns about this proposal from an assurance perspective?

Simplifying the impairment test: Simplifying value in use estimates

Q5. Do you have any comments on the IASB's proposed simplifications of the VIU calculation (i.e. allowing the use of post-tax inputs, and removing the restriction on including cash flows from future uncommitted restructuring and asset enhancements)?

General question

Q6. Do you have any other comments on the IASB's preliminary views expressed in the DP?

Next steps

- 46. We will update the NZASB on the feedback received from Board members at this meeting.
- 47. Board members are also welcome to contact Gali Slyuzberg (gali.slyuzberg@xrb.govt.nz) if they wish to provide feedback after the meeting.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 22 May 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, April and May 2020.

International Federation of Accountants (IFAC)

1. IFAC continues to update its COVID-19 resources for professional accountants. Have a look at available resources [here](#).

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1)
2. To account for COVID-19's impact on the IAASB work, its staff capacity to deliver, and the capacity of the IAASB's stakeholders to participate in consultations and to implement new standards, the IAASB has reconsidered the timelines for its projects in 2020. [The Revised Detailed Work Plan Table for 2020-2021](#) sets out a description of the changes that have been made and the revised timelines for 2020 and 2021 (as applicable).
3. On May 15, IAASB released guidance on auditor considerations when undertaking procedures relating to subsequent events, in light of the changing environment due to the COVID-19 Pandemic. Click [here](#) to learn more.
4. On April 29, IAASB issued their official guidance on auditor considerations relating to going concern in light of changing environment due to the COVID-19 pandemic. Click [HERE](#) to read more.
5. The IAASB released the exposure draft of proposed [International Standard on Auditing \(ISA\) 600 \(Revised\), Special Considerations—Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#) on 27 April 2020.
6. The Technology Working Group (TWG) of the IAASB released non-authoritative support material related to the auditor's documentation when using automated tools and techniques (ATT), such as data analytics, robotics automation processes or artificial intelligence applications on 23 April 2020.

The publication intends to assist auditors in understanding how the use of ATT during an audit engagement may affect the auditor's documentation in accordance with International Standard on Auditing (ISA) 230, *Audit Documentation*, and the documentation requirements of other relevant ISAs.

The publication does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override International Standard on Quality Control (ISQC) 1 or the ISAs, the texts of which alone are authoritative. Reading the publication is not a substitute for reading ISQC 1 or the ISAs.

Click [here](#) to learn more.

7. The IAASB published its [Strategy for 2020–2023 \(the Strategy\) and Work Plan for 2020–2021 \(the Work Plan\)](#) on 15 April 2020.

International Ethics Standards Board for Accountants (IESBA)

1. On 8 May 2020, the Staff of the IESBA released a Question and Answer (Q&A) publication, [COVID-19: Ethics and Independence Considerations](#), to highlight aspects of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) that can be relevant in navigating ethics and independence challenges and risks as a result of the COVID-19 pandemic.

The two-part document covers firstly topics relevant to all professional accountants, and secondly, topics pertinent to auditors and other professional accountants in public practice. Dr. Stavros Thomadakis, Chairman of the IESBA, offers his thoughts in the publication's foreword.

The document can be found on [the IESBA's COVID-19 resource page](#), which serves as the Board's landing page for topics related to COVID-19, including links to useful resources.

Accountancy Europe (AE) (former FEE)

1. AE resources for COVID 19 can be viewed [here](#). AE publication: [Coronavirus' impact on auditing for 2019 year-ends and beyond](#) is of particular relevance.

Public Interest Oversight Board of IFAC (IPIOB)

2. IPIOB published [its annual report](#) in May 2020. .

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. IFIAR has published its comment letter on the IESBA Exposure Draft on Fee-related Provisions. Click [here](#) to view the comment letter.
2. IFIAR has published its comment letter on the IESBA Exposure Draft on Non-Assurance Services. Click [here](#) to view the comment letter.
3. Please see [here](#), the IFIAR's dedicated page for sharing public information relating to the ongoing COVID-19 pandemic.

International Organization of Supreme Audit Institutions (INTOSAI)

1. INTOSAI launched a new website for COVID-19: <https://intosaicovid19.org/>

International Organization of Securities Commissions (IOSCO)

1. IOSCO has issued [IOSCO Statement on Application of Accounting Standards during the COVID-19 Outbreak](#). The publication specifically addressed the need for accounting for government and other organisations support plans and its impact on credit risk.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. The AUASB Technical Group (ATG) provided an update to the AUASB on the COVID-19 Frequently Asked Questions (FAQs) that have been issued to date and the areas where further FAQs and guidance will be issued over the coming weeks. The AUASB provided positive feedback on the quality and responsiveness of the guidance already issued, including the joint publication with the AASB and supported those areas identified by the ATG where more guidance was required. The AUASB discussed the significant challenges being faced by auditors in the current environment as a result of the significant uncertainties regarding restrictions in travel and business activity (including accessing client premises and information). The importance of auditors exercising professional scepticism when assessing if there is sufficient appropriate audit evidence was also considered. These challenges will potentially result in more Material Uncertainties in Relation to Going Concern, Emphasis of Matters and Modified Audit Opinions. The AUASB agreed that it was important that the ATG continues to provide additional guidance to auditors in these areas to assist them in navigating these challenging times.
2. The AUASB considered the ASRE 2410 sub-committee's recommendation in relation to how to describe the auditor's responsibility in relation to going concern in the interim review report. The AUASB agreed with the recommendation not to include the auditor's responsibility in relation to going concern in the review report due to the complexity of going concern in a limited assurance environment as this may have unintended consequences, especially in the current COVID-19 impacted reporting environment. Consequently, the AUASB also agreed with the ATG recommendation to exclude management's responsibility for going concern in the review report. ASRE 2410 will now be presented to the AUASB at its upcoming June meeting for approval.
3. The ATG provided an update to the AUASB on the steps undertaken to finalise the revision to GS 009 since the March 2020 AAUSB meeting. The Board debated the merits of the structure and purpose of GS 009, noting that this guidance statement (GS) is different to other GS's as it includes references to a number of other Australian Auditing Standards and applicable legislation. The AUASB agreed to provide any further comments to the ATG so these can be addressed so the AUASB can issue GS 009 prior to June 2020.
4. The AUASB was presented with an updated version of the proposed guide being developed by the AUASB to assist prescribers of assurance to draft clear and effective requirements. AUASB Members provided comments on the content and examples of the guide and considered that the publication sufficiently covered the areas needed. The ATG will update the proposed guide based on feedback from AUASB members and then distribute it for review by other key stakeholders so it can be issued as soon as practical.

United Kingdom

FRC

1. The Financial Reporting Council (FRC) updated its guidance for companies on corporate reporting on 20 May 2020 to explain how they should report exceptional items and alternative performance measures (APMs) in their reports and accounts, in the context of the Covid-19 crisis.

Investors expect to see balanced, transparent and clearly explained disclosures of material items

arising from the crisis.

A link to the guidance can be viewed [here](#).

2. FRC has issued the following guidance for auditors as of 22 May 2020:
 - [Modified Audit Opinions during Covid-19 crisis](#) - Modifications of Independent Auditor's Opinions and Reports
 - [COVID -19 Update](#)
 - [Guidance for companies & auditors](#) (Joint)
 - [Guidance for auditors arising from the coronavirus pandemic](#) Guidance for auditors which may be facing practical difficulties in carrying out audits as a result of the COVID-19 pandemic.
 - [Guidance on Audit issues](#) Audit issues arising from the consequences of the covid-19 (coronavirus) pandemic
 - [Advice to Companies & Auditors](#) The Financial Reporting Council (FRC) has today published guidance for companies on disclosure of risks and other reporting consequences arising from the emergence and spread of Coronavirus (COVID-19). The regulator is also discussing with audit firms whether the virus affects their ability to review component audits in China and the consequences to delivering timely audit opinions.

Institute of Chartered Accountants in England and Wales

1. [ICAEW's COVID-19 hub](#) includes a collection of guidance prepared and issued by ICAEW to help auditors dealing with COVID-19 implications for audit.

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. ACCA launched its [COVID-19 Impact report](#) on 20 May 2020. Based on the practical experiences shared by members of ACCA's Global Forum on Audit and Assurance, the report shines a light on a number of areas that auditors are required to focus on during these challenging times.

Primarily aimed at those audit firms that are carrying out their work for organisations with March 2020 and June 2020 year ends, the report will also be instructive for those with December 2019 year ends and those that have taken advantage of the additional time granted by regulatory authorities around the world to file audited financial statements.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. Advancements in technology are affecting the nature, timing, preparation, and use of financial information. Some audit firms are making significant investments in personnel and other resources to expand their use of technology-based audit tools, including software used to perform data analytics (technology-based tools), to plan and perform audits. In light of the increasing use of technology by auditors and preparers, the Board's strategic plan highlights that we must anticipate and respond to these innovations and their corresponding opportunities and risks. The PCAOB's Office of the Chief Auditor established a research project on data and technology to assess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions. As part of assessing whether regulatory action is necessary in response to the evolving audit landscape, we have gathered information from PCAOB oversight activities, reviewed changes to firms' methodologies, and studied relevant academic research. We have engaged

with key stakeholders on their experiences with data and technology and have monitored the activities of other standard setters and regulators. Our work has also been informed by the PCAOB Data and Technology Task Force (Task Force), whose members provide additional insights into the use of technology by auditors and preparers. [This Spotlight](#) shares certain observations from our research and outreach activities.

American Institute of Certified Public Accountants (AICPA)

1. AICPA developed an [Audit Committee Checklist for COVID -19](#).

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

1. Auditors are uniquely qualified to enhance confidence in a wide range of company-prepared information outside financial statements, according to the Center for Audit Quality (CAQ). In a white paper entitled [The Role of Auditors in Company-Prepared Information: Present and Future](#), the CAQ provides a foundational understanding of the current role of auditors in various types of publicly disclosed information, as well as how that role is evolving.
2. Between new regulations, advanced software, and client demands, the audit is being reshaped as never before. This [webinar](#) will look at the trends that are changing this core product of the accounting profession, including what's happening now and what's up for the future.

Canada

Canadian Auditing and Assurance Standards Board (AASB)

1. The AASB discussed a portion of its draft response letter to the International Auditing and Assurance Standards Board's (IAASB) Public Consultation Paper, "[Proposed Non-Authoritative Guidance Extended External Reporting \(EER\) Assurance](#)." The Board will review other sections of the draft response in June and July 2020 before submitting a final letter to the IAASB in mid-July 2020.
2. The AASB unanimously approved an exposure draft of Canadian Auditing Standard (CAS) 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). The exposure draft is based on the IAASB's exposure draft of proposed revisions to International Standard on Auditing (ISA) 600. The exposure draft is expected to be issued in early May 2020, with a comment deadline of September 4, 2020.
3. The AASB approved its 2020-2021 Annual Plan in March 2020. The Annual Plan was developed before the uncertainties created by the COVID-19 pandemic. Considering the effects of COVID-19, the Board re-evaluated its activities in the first quarter of the Annual Plan, including stakeholder outreach and approach to meetings. The Board will reconsider its activities for the balance of the fiscal year as new information becomes available. It decided to reschedule its meetings for the first quarter as online meetings. The AASB intends to consult with stakeholders over the coming months on three active international projects: extended external reporting, quality management, and group audits. It will do so while adopting an approach sensitive to stakeholders' challenges and their ability to participate in the standard-setting process.

CPA Canada

1. CPA Canada has set up a [COVID-19 financial reporting and auditing resource hub](#) linking the latest information and guidance from regulators, auditing firms and professional bodies.

Project	Overview of the project and its current status
<p data-bbox="204 257 434 286">Quality Control</p> <p data-bbox="204 320 434 383">No Update for the period</p>	<p data-bbox="459 257 1388 566">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 data-bbox="459 600 1388 801">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 data-bbox="459 835 1388 902">The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul data-bbox="459 936 1388 1070" 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 data-bbox="459 1104 1388 1171">At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p data-bbox="459 1205 646 1234">QC-Firm Level</p> <p data-bbox="459 1267 1388 1610">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 data-bbox="459 1644 1388 1816">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 data-bbox="459 1850 1388 1944" 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 issues identified and discussed at the IAASB meetings are part of the Invitation</p>

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 the</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> <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</p>

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.

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

	<p>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 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 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</p>

	<p>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</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 11.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 22 May 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 April and May 2020.

Financial Markets Authority (FMA)

1. The Financial Markets Authority (FMA) and External Reporting Board (XRB) have released their [second joint review of key audit matters](#), after audit reporting standards were lifted three years ago.

The New Zealand Institute of Chartered Accountants

1. Here is the updated CAANZ [FAQs on COVID-19 issues for auditing](#).

CPA Australia

1. The CPA Australia published this article in relation to COVID-19: [Going concern: Business as unusual](#).

The Institute of Directors (IoD)

2. COVID-19 is having an impact on all parts of our society. Some of the most vulnerable organisations are the ones that in turn help those most in need. While business has a strong voice to advocate for assistance what about charities, NFPs and community organisations? What are the unique challenges they are facing and how might they respond to the new world we will be facing? [This article](#) addresses these challenges.