



Te Kāwai Ārahi Pūrongo Mōwaho

EXPLANATORY GUIDE Au2

Overview of the Auditing and Assurance Standard Setting Process

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

This Explanatory Guide is an explanatory document and has no legal status.

This Explanatory Guide has updated to reflect amendments made to the Financial Reporting Act 2013, to include standards for related services within the mandate of the External Reporting Board.

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OVERVIEW OF THE AUDITING AND ASSURANCE STANDARD SETTING PROCESS

Issued by the External Reporting Board

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Introduction

1. The External Reporting Board (XRB) is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013, and is subject to the provisions of the Crown Entities Act 2004. The XRB is responsible for:
 - (a) developing a financial reporting strategy;
 - (b) developing and issuing accounting standards and authoritative notices¹;
 - (c) developing and issuing auditing and assurance standards (including professional and ethical standards and standards for related services);
 - (d) liaising with similar international or national organisations.
2. In this Explanatory Guide the organisation is referred to as the XRB and the governance group is referred to as the XRB Board.

Roles of the XRB and the NZAuASB

3. The XRB Board has established a sub-board, the New Zealand Auditing and Assurance Standards Board (NZAuASB). The NZAuASB is responsible for developing and issuing auditing and assurance standards. The NZAuASB operates under delegated authority from the XRB Board.
4. Although responsibility for setting auditing and assurance standards has been delegated to the NZAuASB, the XRB Board is responsible for ensuring that appropriate due process occurs in the promulgation of standards. Due process is an essential part of an effective standard setting process, and is also a statutory obligation. The XRB Board considers due process to be important to achieving the XRB's outcome goal of *the establishment of an accounting and assurance standards that engender confidence in*

¹ Under section 12 (c) of the Financial Reporting Act 2013, "authoritative notices" may be issued by the XRB Board for the purposes of the definition of generally accepted accounting practice.

New Zealand financial reporting, assist entities to compete internationally and enhance entities' accountability to stakeholders.

5. The XRB Board has established a minimum set of due process requirements to be followed by the NZAuASB in carrying out its responsibilities. Those requirements are outlined in this Explanatory Guide. This Explanatory Guide has been published so that the standard setting process is clear and transparent to constituents and to indicate where constituents may contribute to the process.

The NZAuASB Standard Setting Process

The standard setting environment

6. In broad terms the NZAuASB issues two types of standards:
 - (a) standards based on international standards developed and issued by two international standards-setting bodies, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC); and
 - (b) domestic standards.
7. The XRB Board supports the adoption of international standards where they are applicable. The majority of current auditing and assurance standards are based on the international equivalent. Accordingly, a significant part of the work of the NZAuASB is to continue to develop New Zealand standards based on international standards, including any amendments thereto.
8. In developing New Zealand standards that are based on international standards, the NZAuASB takes into account the due process followed by the IAASB and the IESBA – these are described in *IFAC's Standards-setting Public Interest Activity Committees' Due Process and Working Procedures – March 2010*.²
9. In addition, the XRB Board is strongly committed to harmonising New Zealand and Australian auditing and assurance standards. This harmonisation work also impacts on the process followed in developing and adopting auditing and assurance standards.
10. The NZAuASB uses one of two different processes to develop and issue standards. The specific process applied depends on the type of standard, its source and relevant circumstances. The two processes set out in this Explanatory Guide and the standards that they relate to are summarised in the following table:

Process	Type of standard
Process 1 – Process for standards based on international standards	<ul style="list-style-type: none"> • International Standards on Auditing (New Zealand) (ISAs (NZ)) • International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) • International Standards on Review Engagements (New Zealand) (ISREs (NZ)) • International Standards on Related Services (New Zealand) • Professional and Ethical Standards

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

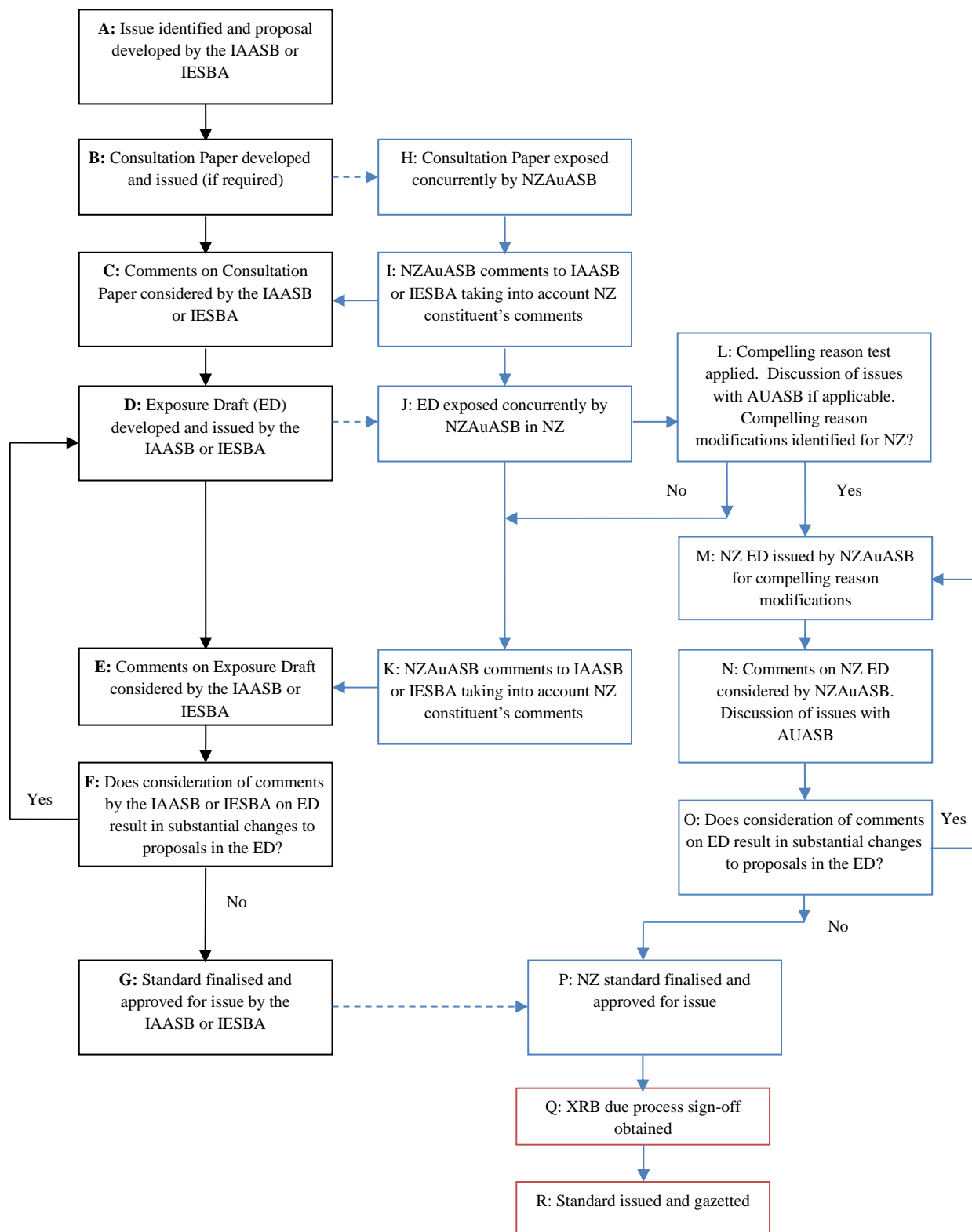
	(PESs)
Process 2 – Process for domestic standards	<ul style="list-style-type: none"> • New Zealand Standard on Auditing (NZ AS) • New Zealand Standard on Review Engagements (NZ SRE) • Standard on Assurance Engagements (SAEs)

11. The NZAuASB occasionally issues other documents, such as explanatory guides. These are usually issued without formal public consultation because they contain explanatory material, have no legal status and are not mandatory.
12. In addition to the due process followed by the NZAuASB in developing and issuing standards, transparency of the NZAuASB's standard setting role is enhanced by the technical sessions of the NZAuASB meetings being open to the public. Furthermore, NZAuASB agenda papers are available on the XRB's website prior to a meeting, and minutes of meetings are available once they have been approved.

Process 1: Process for standards based on international standards

13. The process the NZAuASB follows for developing auditing and assurance standards based on international standards issued by the IAASB or IESBA is set out in Figure 1. Figure 1 should be read in conjunction with the commentary on Process 1. The steps in the commentary refer to the steps in Figure 1.

Figure 1: Process for standards based on international standards



International Due Process: Steps A-G

14. The XRB Board is committed to adopting international auditing and assurance standards. The New Zealand auditing and assurance standards are based on the international standards and are in most cases substantively identical to the international standards on which they are based. This approach is consistent with the XRB Board's strategy of adopting international standards where it is appropriate to do so. The XRB Board recognises that in doing so it is committing to using the set of International Standards on Auditing as a whole. This means

that the failure to adopt any particular standard would remove the ability of assurance practitioners in New Zealand to assert compliance with those standards.

15. The process the NZAuASB follows in developing auditing and assurance standards based on international standards issued by the IAASB or IESBA is aligned with IFAC's international due process for issuing international auditing and assurance standards. Steps A-G in Figure 1 represent IFAC's international process followed by the IAASB and the IESBA. While this international due process is a critical aspect of the overall standard setting process in New Zealand and is relied on by the NZAuASB, Process 1 focusses on the steps the NZAuASB takes when issuing auditing and assurance standards based on IAASB or IESBA standards.
16. The XRB Board and the NZAuASB consider that commenting on IAASB and IESBA documents as well as contributing to the development of those documents, where appropriate, is important to support the work of the IAASB and the IESBA and to ensure that the standard issued internationally (and subsequently adopted in New Zealand) is appropriate for New Zealand standards. International standards per se are not issued in New Zealand. Accordingly, the NZAuASB's involvement in the process of issuing international standards ceases when the exposure draft submission process is completed.

New Zealand Parallel Due Process: Steps H-K

17. When the IAASB or IESBA issues a document (such as an exposure draft or consultation paper), the NZAuASB notifies interested parties that the document has been issued and is available to comment on in New Zealand. Where appropriate, the IAASB, IESBA or the NZAuASB arranges forums to enable discussion and exchanges of opinion on the document.
18. Constituents' comments will generally be sought on:
 - (a) the proposals set out in the international exposure draft or discussion document;
 - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the proposals; and
 - (c) whether there are any compelling reasons for the proposals to be modified for application in New Zealand (refer to steps L-O).
19. The IAASB's international due process comment period varies depending on the complexity of the topic, but is ordinarily 120 days³. The IESBA's exposure period is ordinarily not shorter than 90 days. Proposed changes that result in only minor amendment to an issued international standard may be progressed more quickly.
20. Anyone can send comments to the IAASB or the IESBA on their documents. As the national standard setter, the NZAuASB sends comments to the IAASB or IESBA if it considers it appropriate to do so. Constituents can comment directly to the IAASB, IESBA or to the NZAuASB. If comments are made directly to the IAASB or IESBA, the NZAuASB appreciates receiving a copy so it can take these comments into account when developing its own comments to those Boards. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, all comments the NZAuASB receives remain subject to the Official Information Act 1982 and the Privacy Act 1993.

New Zealand Separate Due Process: Steps L-O

21. If an international standard is adopted without substantive change in New Zealand, the NZAuASB proceeds to issue the New Zealand standard once it has been issued

³ The concurrent comment period in New Zealand is usually marginally shorter to enable the NZAuASB to receive comments from New Zealand constituents before making its own submission to the IAASB or the IESBA.

internationally.

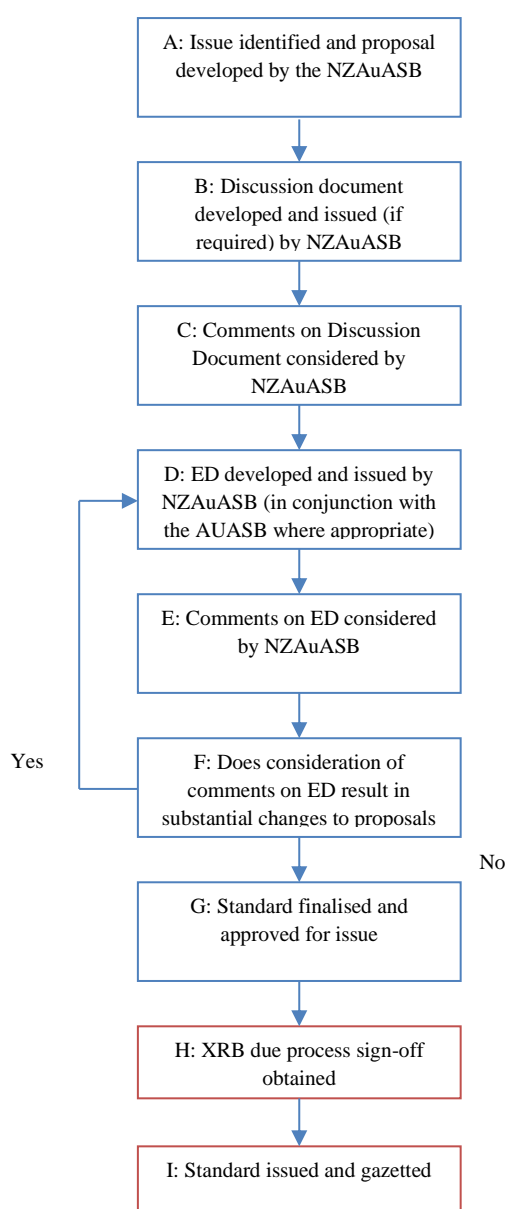
22. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand where there are compelling reasons to do so. The XRB Board considers such modifications acceptable provided that they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.
23. If the NZAuASB considers that modifications to an international auditing or assurance standard is required in developing it as a New Zealand standard (that is where compelling reasons modifications are identified for New Zealand), there will be a separate due process for that New Zealand modification. Ideally, the separate due process will be around the same time as the international due process, with the proposed New Zealand modifications clearly highlighted. New Zealand standards based on international standards that contain modifications from international standards will clearly identify the modification.
24. The XRB Board is also committed to harmonising New Zealand and Australian auditing and assurance standards. Australia has also adopted standards based on international standards. The AUASB has a parallel policy of convergence with international standards issued by the IAASB. The NZAuASB works with the Australian Auditing and Assurance Standards Board (AUASB) towards harmonised standards based on international standards. Therefore, in most cases harmonisation will follow as the result of the respective policies of converging with international standards.

Finalisation: Steps P-R

25. Once the international standard has been issued, or the New Zealand modifications are finalised for approval, the NZAuASB finalises the New Zealand standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the standard.

Process 2: Process for Domestic Standards

26. The process the NZAuASB follows for developing domestic standards is set out in Figure 2. Figure 2 should be read in conjunction with the commentary on Process 2. The steps in the commentary refer to the steps in Figure 2.

Figure 2: Process for Domestic Standards**Steps A-F**

27. Domestic standards may be developed to address matters specific to New Zealand, or which are important to New Zealand, but which are not addressed by international auditing and assurance standards.
28. The development of a New Zealand standard is harmonised with any equivalent Australian standard, where applicable. Differences may arise where different regulatory requirements apply or different practices are considered appropriate.
29. In developing domestic standards, constituents' views are sought on the need for, and content of, any requirements. For some projects, the NZAuASB may issue a discussion document identifying matters that the NZAuASB is considering and options for those matters.
30. For all proposed standards, the NZAuASB prepares an exposure draft and accompanying explanatory material that highlights the reason for its development.
31. Interested parties are notified of the issue of all discussion documents and exposure drafts.

Where appropriate, forums are arranged or other arrangements made to enable further discussion and exchanges of opinion.

32. 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.
33. Constituents' comments will generally be sought on the proposed requirements and the need for any further additional requirements. Constituents' comments are taken into account when finalising the domestic standard. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, comments the NZAuASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

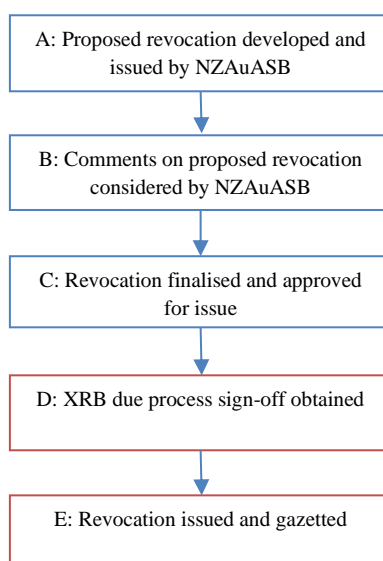
Steps G-I

34. Following the comment period, and the consideration of the comments by the NZAuASB, the NZAuASB finalises the standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the standard.

Process for revocations of standards

35. The process the NZAuASB follows for revoking standards is set out in Figure 3.

Figure 3: Process for revocations of standards and authoritative notices



Steps A-B

36. The Financial Reporting Act 2013 requires that the due process applying to the issue of standards also applies to their revocation⁴. Before the NZAuASB revokes a standard, it must ensure that people or organisations likely to be affected have been adequately consulted.
37. The NZAuASB develops and issues the proposed revocation, including the reason for the

⁴ It should be noted that a standard may be superseded when it is replaced with another standard. A separate consultation process is not undertaken for the superseded standard as its proposed supersedence is included in the consultation process for the proposed replacement standard.

revocation. Interested parties are notified of the issue of the proposed revocation. The comment period for the proposed revocation is typically 90 days.

38. Constituents' comments are generally sought on the proposed revocation, and those comments are taken into account when finalising the revocation. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, all comments the NZAuASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

Steps C-E

39. Following the comment period, and the NZAuASB considering the comments, the NZAuASB finalises the revocation and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" document setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the revocation.

XRB approvals and legislative process

40. Before approving a standard, amendment or revocation for issue the NZAuASB needs to satisfy itself that reasonable steps have been taken to consult with people or organisations likely to be affected by their content.
41. The NZAuASB is required⁵ to obtain a certificate signed by a member of the XRB Board (usually the Chair of the XRB), authorising the issue of the standard, amendment or revocation.
42. Before signing a certificate, the member of the XRB Board checks that the standard, amendment or revocation is consistent with the XRB's financial reporting strategy, that due process has been followed, and that matters raised by constituents have been adequately considered. In the case of a standard that is based on an international standard, this includes ensuring that the applicable international due process has been followed. This reflects the XRB Board's interest in ensuring due process is followed.
43. Following the signing of the certificate the NZAuASB formally issues the standard, amendment or revocation by public notification in the Gazette⁶, and sends a communiqué to interested parties.
44. In accordance with the provisions of the Financial Reporting Act 2013, all standards, amendments and revocations issued are subject to the Legislation Act 2012. This means that these standards are treated as disallowable instruments and must be presented to Parliament within 16 sitting days of the standard being gazetted⁷. Sections 42 and 43 of the Legislation Act 2012 set out the manner in which a disallowable instrument (or provisions of a disallowable instrument) may be disallowed.
45. A standard, amendment or revocation takes effect on the 28th day after the date of its public notification in the Gazette. However, any of those documents may be treated as taking effect on its notification in the Gazette if the NZAuASB considers it necessary or desirable to do so⁸.
46. The requirements of existing standards that are affected by a new standard, amendment

⁵ As required by section 26 of the Financial Reporting Act 2013.

⁶ As required by section 24 of the Financial Reporting Act 2013.

⁷ See section 25 of the Financial Reporting Act 2013.

⁸ See section 27(2) of the Financial Reporting Act 2013.

or revocation remain in force until the mandatory application date of the new standard. Subject to the requirements of the standard, a new or revised or amended standard may be applied in advance of its mandatory application date.