



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

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

and

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

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

and

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

Application Date

1. The policies detailed in this paper apply from ~~4 July 2014~~.

Introduction

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

Purpose of this paper

3. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with Australian standards to be used as the framework for the standard setting process of the NZAuASB.
4. It is expected that this paper will be revised from time to time to take account of changes to the XRB's financial reporting framework.

Objectives

~~3.5.~~ 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 for assurance practitioners, and standards for related services¹, in New Zealand unless there are strong reasons not to (which the Board describes as “compelling reasons”); and
- to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.

Policies

¹ Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

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6. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand under either of those objectives. The XRB Board considers such modifications acceptable provided that they consider the public interest², and do not conflict with or result in lesser requirements than the international standards.

Consideration of the public interest

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

8. The Monitoring Group³ issued its report *Strengthening the International Audit and Ethics Standards Setting System* in July 2020 to address the need for more independent audit standard setting, with a key focus on the public interest. The “Public Interest” has not been defined but a Public Interest Framework (PIF) has been developed under which international audit related standard setting activities will be undertaken.

9. The PIF sets out the following qualitative characteristics to be used to assess the international standards responsiveness to the public interest, including but not limited to:

- a. Consistency with priorities established in the strategic planning process
- b. Coherence with the overall body of standards, to avoid conflict
- c. Appropriate scope to address key issues, and to specify to whom the standard applies
- d. Scalability, including proportionality
- e. Timeliness, without sacrificing quality
- f. Relevance in recognising and responding to emerging issues, changes in business environment, developments in accounting practices or technology
- g. Completeness, reflecting results of broad consultation and balancing stakeholder priorities
- h. Comprehensiveness, by limiting exceptions to the principles
- i. Clarity and conciseness
- j. Implementability and ability to be consistently applied
- k. Enforceable, through clearly stated responsibilities

10. The public interest responsiveness is assessed by applying the qualitative characteristics in the following steps:

- a. Identify the perspectives and needs of groups with legitimate interests

² IFAC defines the public interest as “The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy”. Refer IFAC Policy Position 5 A Definition of the Public Interest, June 2012

³ The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank Group

- b. Define the desired goal that would allow the standard to best serve user needs.
- c. Identify criteria to assess responsiveness to the goal.
- d. According to the criteria, reasonably weigh input from different groups.
- e. Assess the expected contribution of the standard to meeting its goal and consider whether it is responsive to the public interest.

11. The characteristics in the PIF provide a useful frame of reference for the NZAuASB to assess whether modifications to the international standards for application in New Zealand appropriately considers the public interest (in the context of New Zealand).

Do not conflict with or result in lesser requirements than the international standards.

12. The IAASB Policy Position, *Modifications to International Standards of the IAASB-A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it necessary to Make Limited Modifications* (July 2006) sets out the policy that NSSs must comply with in order to assert compliance with the international standards when making amendments.

13. To enable the NZAuASB to assert compliance with the international standards when making amendments, for the purpose of conformity under the IAASB's policy position, and to meet the strategic objectives of the XRB Board:

- a. Additions to an international standard are limited to the following:
 - i. National legal and regulatory requirements.
 - ii. Other requirements or guidance that are not lesser or in conflict with the current requirements or guidance in the IS. Additions falling within paragraph ii are to be communicated to the IAASB for future consideration.
- b. Deletions from, or other amendments to, an international standard are limited to the following:
 - i. The elimination of options (alternatives) provided for in the international standard.
 - ii. Requirements or guidance, the application of which law or regulation does not permit, or which require amendment to be consistent with law or regulation.
 - iii. Requirements or guidance, where the international standard recognises that different practices may apply in different jurisdictions and the NSS is in such a jurisdiction. In the case of paragraph ii - iii, however, the objective of any deleted requirement must still be met.

14. The principles of convergence set out in this paper adhere to the principles set out in the IAASB's Policy Position which will enable the NZAuASB to assert compliance with the international standards when making amendments.

~~4. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with Australian standards to be used as the framework for the standard setting process of the NZAuASB.~~

~~5. It is expected that this paper will be revised from time to time to take account of changes to the XRB's financial reporting framework.~~

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~~6. The principles of convergence set out in this paper adhere to the principles set out in the IAASB Policy Position, *Modifications to International Standards of the IAASB - A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications* (July 2006).~~

7.15. The principles of convergence to the IAASB and IESBA standards are set out in a flowchart in Appendix 1, and the principles of harmonisation with the Australian standards are set out in a flowchart in Appendix 2.

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Overarching principles of convergence with international standards

8.16. The international standards should be adopted, and should be modified only if there are compelling reasons to do so.

9.17. In the case of an international standard that is being reviewed for the purpose of adoption in New Zealand, the compelling reasons test for modifications ~~in the public interest~~ is triggered where the international standard does not reflect, or is not consistent with:

- a. the New Zealand regulatory arrangements; or
- b. existing and emerging principles and practices that are considered appropriate in the public interest⁴ in New Zealand (including in the use of significant terminology).

10.18. Where the international standard does not reflect, or is not consistent with the New Zealand regulatory arrangements, the following criteria have to be met before the standard is modified:

- (1) the standard can be modified ~~so as~~ to result in a standard the application of which results in effective and efficient compliance with the legal framework in New Zealand; and
- (2) the modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

11.19. Where the international standard does not reflect, or is not consistent with, existing and emerging principles and practices that are considered appropriate in the public interest in New Zealand, the following criteria have to be met before the standard is modified:

⁴ The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

- (1) the standard can be modified ~~so as~~ to result in a standard that:
- a. the application of which results in compliance with existing and emerging principles and practices considered appropriate in the public interest⁵ in New Zealand by the NZAuASB;
 - b. is clear and promotes consistent application by all practitioners in New Zealand;
 - c. promotes significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment; and
- (2) the relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and the cost of differing from international standards and the Australian standards, and benefit primarily relating to audit/assurance quality); and
- (3) the modification to the standard does not result in a standard that:
- a. conflicts with, or results in lesser requirements than the international standard;
 - b. is overly complex and confusing; or
 - c. inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in New Zealand than necessary.

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20. Any deletions from the international standards should be clearly noted, and any additions clearly marked as New Zealand paragraphs.

21. Minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology), where the intent remains the same, need not be reflected in the New Zealand standard as a modification to the international standard.

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Overarching principles of harmonisation with Australian Standards

12-22. When considering harmonisation with an Australian standard, the compelling reasons test for modification of the international standard ~~in the public interest~~ is triggered where the Australian standard covers a matter not covered in the international standard, and that gap reflects current and emerging principles and practices that are considered appropriate in the public interest is also relevant in ~~the~~ New Zealand ~~standard~~.

13-23. Once the compelling reason test has been triggered, the following criteria have to be met before the standard is modified:

- (1) the standard can be modified ~~so as~~ to result in a standard that:

⁵ The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

- a. the application of which results in compliance with the legal framework or current and emerging principles or practices considered appropriate in the public interest⁶ in New Zealand by the NZAuASB;
 - b. is clear and promotes consistent application by all practitioners in New Zealand;
 - c. promotes significant improvements in audit/assurance quality (as described by the IAASB's *Framework for Audit Quality*) in the New Zealand environment; and
- (2) the relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and cost of differing from the international standard and the benefit primarily relating to audit/assurance quality); and
- (3) the modification to the standard does not result in a standard that:
- a. conflicts with, or results in lesser requirements, than the international standard;
 - b. is overly complex and confusing; or
 - c. inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in New Zealand than necessary.

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General

14.24. When considering developing a standard for which there is no equivalent international standard, compelling reasons for developing the domestic standard are:

- a. the standard addresses public interest⁷ matters within the New Zealand environment;
- b. the standard will promote significant improvements in audit/assurance quality in the New Zealand environment; and
- c. the benefit of applying the standard will outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit/assurance quality).

Commented [SvD7]: What is the Board's view about keeping the reference to significant here? Is significant necessary, if the benefits exceed the costs?

25. Where there is an existing equivalent Australian standard, ~~The~~ the development of a New Zealand standard should be harmonised with the equivalent Australian standard by using the ~~adopting the existing~~ Australian standard as a starting point, and liaising with the AUASB on compelling reason differences, where applicable

⁶ The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

⁷ With reference to the qualitative characteristics in the Public Interest Framework

45-26. Compelling reasons for differences between New Zealand and Australian ~~domestic~~ standards are where:

- a. different regulatory requirements apply; and/or
- b. different principles and practices are considered appropriate to meet the public interest in each jurisdiction (including the use of significant terminology).

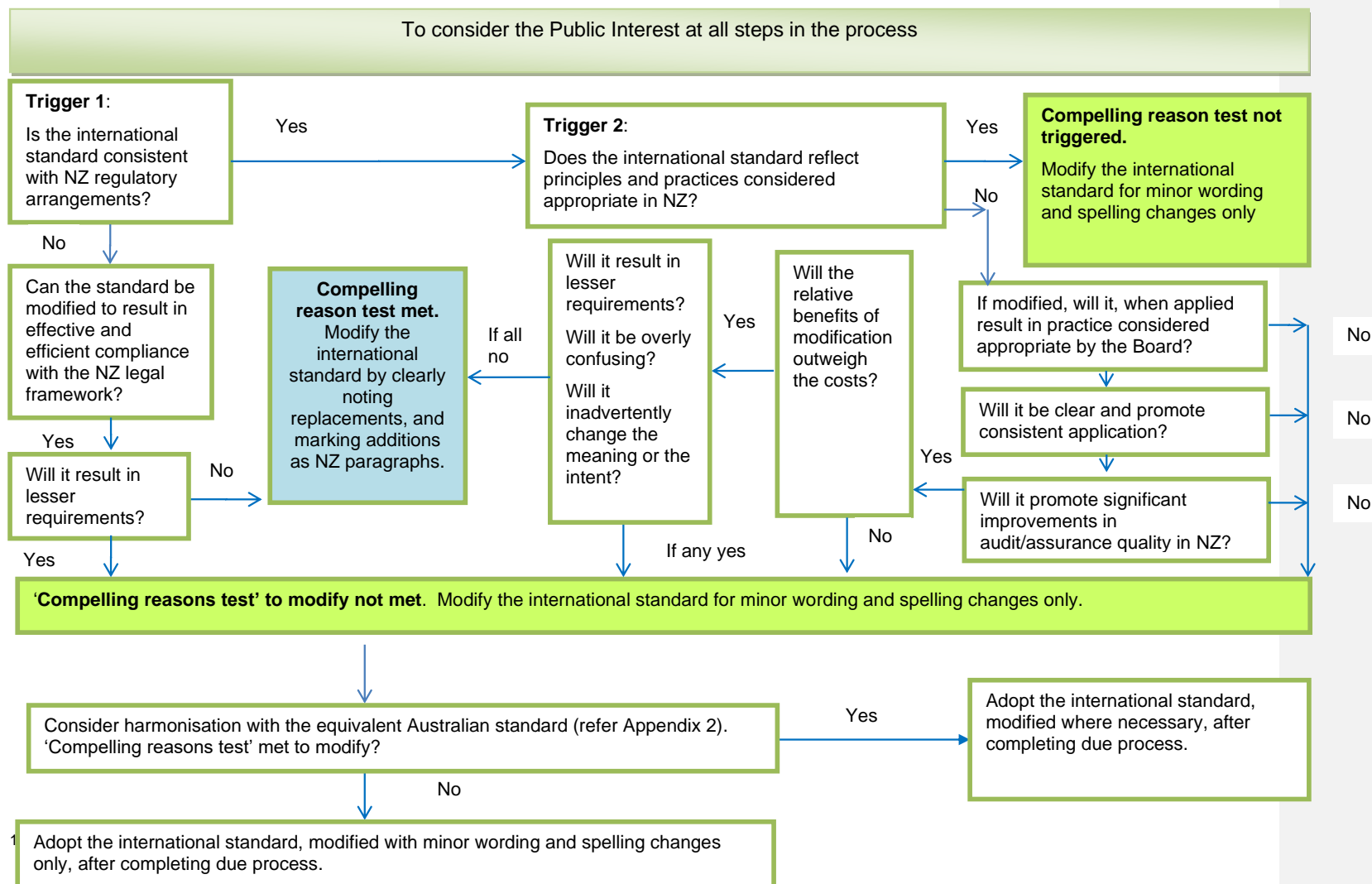
~~16. Any deletions from the international standards should be clearly noted, and any additions clearly marked as New Zealand paragraphs.~~

~~17. Minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology), where the intent remains the same, need not be reflected in the New Zealand standard as a modification to the international standard.~~

Commented [SvD8]: These compelling reason differences apply to all standards, not only domestic standards.

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Appendix 1: Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards [To update once the amendments to the compelling reason test have been confirmed]



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

