

Board Meeting Agenda

21 October 2020
9:00 am to 4.45 pm

Teams meeting

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
9.45 am	<i>Morning tea</i>				
B: PUBLIC SESSION					
10.00 am	3	<u>Post implementation review: Auditor Reporting</u>			
	3.1	Board meeting summary paper	Consider	Paper	
	3.2	Draft response	Approve	Paper	
10.30 am	4	<u>Agreed Upon Procedures</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Issues paper	Consider	Paper	
	4.3	Comments and Disposition paper	Consider	Paper	
	4.3.1	Submission – EY	Consider	Paper	
	4.3.2	Submission – KPMG	Consider	Paper	
	4.3.3	Submission – OAG	Consider	Paper	
	4.3.4	Submission – CPAA/CAANZ	Consider	Paper	
	4.4	Draft ISRS (NZ) 4400	Approve	Paper	
	4.5	Draft Signing Memorandum	Approve	Paper	
11:15 am	5	<u>Role and Mindset</u>			
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Compelling reason analysis	Note	Paper	
	5.3	Draft amending standard PES-1	Approve	Paper	
	5.4	Draft signing memorandum	Approve	Paper	
11:40 am	6	<u>Discussion Paper Fraud and Going Concern</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Draft consultation plan	Approve	Paper	
	6.3	IAASB discussion paper	Consider	Paper	
12.00 pm	7	<u>Meet with Lyn Provost</u>			
	7.1	IAASB September meeting report	Note	Paper	
	7.2	Audit refence group comments	Note	Paper	
12:45 pm	<i>Lunch</i>				
1:15 pm	8	<u>Quality management standards</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	Issues Paper	Consider	Paper	

Est. Time	Item	Topic	Objective		Page
	8.3	ISQM 1 (IAASB September meeting)	Note	Paper	
2:15 pm	9	<u>NSS topics</u>			
	9.1	Board meeting summary paper	Note	Paper	
2:35 pm	10	<u>Environmental Scanning</u>			
	10.1	International monitoring update	Note	Paper	
	10.2	Domestic monitoring update	Note	Paper	
C: NON-PUBLIC SESSION					

Next meeting: 3 December 2020 – Auckland, Venue TBA

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	21 October 2020
Subject:	Post implementation review: Auditor Reporting
Date:	2 October 2020
Prepared by:	Misha Pieters

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

Agenda Item Objectives

1. For the Board to:
 - CONSIDER and PROVIDE feedback on a draft response to the IAASB's post implementation review (PIR) of auditor reporting

Background

2. The IAASB has requested interested stakeholders to share their experience with and provide feedback relating to the Auditor Reporting standards that were issued in 2015. The survey also asks for input on experience with ISA 720 (Revised) *The Auditor's Responsibilities relating to Other Information*. The survey closes on **23 October 2020**.
3. The survey has various parts, targeted at various stakeholders. We have notified New Zealand stakeholders of the survey and encouraged them to respond to the appropriate section of the online survey, to provide various perspectives. We have also highlighted the survey to members of the XRAP. We do not have access to responses that are made directly to the IAASB.
4. We have prepared a draft response to Part E of the IAASB survey, targeted at National Standard Setters at agenda item 3.2.
5. To prepare the draft response, we have drawn on prior interviews with various stakeholders. Those interviews were held when collecting input into the [joint publications](#) with the FMA on the New Zealand experience with reporting Key Audit Matters:
 - a. November 2017 "Key audit matters: A stock take of the first year in New Zealand"
 - b. May 2020 "Enhanced auditor reporting: A review of the third year of the revised auditor's report"
6. In addition, we have drawn on more recent feedback heard related to auditor reporting and the COVID-19 environment.

Matters to Consider

7. Board members are requested to consider the draft responses and provide feedback in order to finalise the Board's response to the PIR at the October meeting.

Material Presented

Agenda item 3.1
Agenda item 3.2

Board Meeting Summary Paper
Draft response to IAASB's PIR

Section 1 Introduction to the IAASB Auditor Reporting Post-Implementation Review

Background to the New and Revised Auditor Reporting Standards

1. In January 2015, the IAASB issued the new and revised Auditor Reporting standards that aimed to enhance the communicative value and relevance of the auditor's report.

Key proposals included:

- (a) For audits of financial statements of listed entities or when required by law or regulation (voluntarily application allowed for entities other than listed entities):
- A new section in the auditor's report to communicate key audit matters (KAM). KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the current period financial statements.
 - Disclosure of the name of the engagement partner.
- (b) For all audits:
- Opinion section required to be presented first, followed by the Basis for Opinion section, unless law or regulation prescribe otherwise.
 - Enhanced auditor reporting on going concern including:
 - Description of the respective responsibilities of management and the auditor for going concern;
 - A separate section when a material uncertainty exists and is adequately disclosed, under the heading "Material Uncertainty Related to Going Concern"; and
 - A new requirement to challenge the adequacy of disclosures for "close calls" in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern.
 - Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (Including International Independence Standards).
 - Enhanced description of the auditor's responsibilities and key features of an audit. Certain components of the description of the auditor's responsibilities may be presented

The new and revised Auditor Reporting Standards issued in January 2015 comprised:

- [ISA 700 \(Revised\)](#), *Forming an Opinion and Reporting on Financial Statements*
- [ISA 701](#), *Communicating Key Audit Matters in the Independent Auditor's Report*
- [ISA 705 \(Revised\)](#), *Modifications to the Opinion in the Independent Auditor's Report*
- [ISA 706 \(Revised\)](#), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- [ISA 570 \(Revised\)](#), *Going Concern*
- [ISA 260 \(Revised\)](#), *Communication with Those Charged with Governance*
- [Conforming amendments to other ISAs](#).
- [ISA 720 \(Revised\)](#), *The Auditor's Responsibilities Relating to Other Information*, was issued in April 2015.

in an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority.

2. In addition, in April 2015, the IAASB issued a standard addressing the auditor's responsibilities related to other information (ISA 720 (Revised)), which included responsibilities to communicate certain matters regarding other information in the auditor's report.
 - Other information comprises financial and non-financial information in the annual report, other than the financial statements and the auditor's report thereon.
 - When other information is included in the annual report, the auditor's report includes an "Other Information" section which is required to include a statement that management is responsible for the other information, identify the other information, clarify that the auditor's opinion does not cover the other information, provide a description of the auditor's responsibilities, and to either state that the auditor has nothing to report or describe any uncorrected material misstatement of the other information.
3. The above new and revised standards became effective for audits of financial statements for periods ending on or after December 15, 2016 (some jurisdictions may have adopted the standards with a different effective date).
4. Given the significance of these new and revised standards and the importance of improving communication between auditors and users of auditor's reports, the IAASB formed the Auditor Reporting Implementation Working Group (ARIWG), to provide ongoing support on this topic. To date, the ARIWG has undertaken various activities to raise awareness about the auditor reporting standards and promote and support adoption and implementation of the standards. The next phase of the ARIWG's work is to undertake a post-implementation review.

Post-Implementation Review (PIR)

5. The PIR comprises the following information gathering and research activities:
 - (a) A formal stakeholder survey;
 - (b) Targeted outreach activities with particular stakeholder groups who engage with auditors or use auditor's reports; and
 - (c) A review of academic research.
6. Through its information gathering and research activities, the ARIWG aims to achieve the following:
 - (a) Determine whether the Standards are being consistently understood and implemented in a manner that achieves the IAASB's intended purpose in developing them.
 - (b) Identify how practical challenges and concerns are being addressed.
 - (c) Understand the extent of global demand for additional information in the auditor's report to improve transparency about the audit. This relates to, for example, whether there is demand for including the outcome of audit procedures with respect to key audit matters (KAM), additional communications about going concern, disclosures about materiality, and information about the scope of the audit.
 - (d) Understand the extent of global demand for wider application of those requirements that currently apply only to audits of financial statements of listed entities. This relates to, for example, whether

requirements dealing with the communication of KAM and disclosure of the name of the engagement partner, should apply to entities other than listed entities (or for all auditor reports).

7. As a result, this survey includes a series of questions to gather input on the above matters.
8. Furthermore, this survey seeks the views of respondents about the reporting aspects of the IAASB's Other Standards for which assurance reports are issued, i.e.:
 - (a) The International Standards on Review Engagements (ISREs); and
 - (b) The International Standards on Assurance Engagements (ISAEs).

In particular, the IAASB would like to gather input on whether reports issued in accordance with these standards should contain similar elements as an auditor's report on an audit of financial statements.

Completing the IAASB Stakeholder Survey

9. All responses to this survey, whether complete or partial, once submitted will be accepted and considered as input for the work of the ARIWG. The responses received will be summarized (in various ways, including, for example per stakeholder group) for purposes of progressing the PIR project, including providing feedback to the IAASB and in developing recommendations for possible further actions. Although the results of the survey may be made public through issues papers and related materials that may be tabled for the IAASB's consideration in plenary session, there will be no attribution of responses to any individual respondent.
10. Please note, the survey includes a supplemental question at the end regarding the effects of the COVID-19 pandemic in relation to individual aspects of auditor reporting. You are requested to please include any specific comments relating to the COVID-19 pandemic as part of your response to this separate question.
11. **The survey will be open until **October 23, 2020.** [add survey link]**
12. Please contact Armand Kotze (armandkotze@iaasb.org) for any questions.

Section 2 IAASB Stakeholder Survey

Format of Survey Questions

The survey includes conditional questions targeted for various stakeholder groups. Respondents to the survey will be prompted to provide their response only on the questions applicable to the stakeholder group they represent.

Part A – Demographic Information

Question 1

We would like to know from which stakeholder group you are, i.e., from which perspective are you providing feedback?

- Investor or Investor Representative *[Completes part B]*
- Other Users of Financial Statements (e.g., analyst, creditor/supplier, lender, academics) *[Completes part B]*
- Audit Oversight Body *[Completes part C]*

- Regulator *[Completes part C]*
- Those Charged With Governance *[Completes part D]*
- Preparers and Professional Accountants in Business *[Completes part D]*
- National Standard Setter *[Completes part E]*
- Professional Accountancy Organization *[Completes part E]*
- Practitioners, Auditors and Audit firms *[Completes part F]*

Question 2

Please provide the following information about your organization (if applicable) and other contact information:

- Your organization's name (or leave blank if you are completing the survey in your personal capacity)
New Zealand Auditing and Assurance Standards Board
- Your name and job title/role
- Your email address

Question 3

Please select your country.

[Selection from provided menu of countries]

New Zealand

Question 4

In preparing your response to this survey, did you undertake outreach with other stakeholders to inform your responses to this survey?

No, however the responses have been informed by prior outreach including interviews with practitioners, directors, preparers, and investors. (Approximate number 25 interviewees)

Question 5

[Conditional on "Yes" for response to Question 4]

Please provide further information about your outreach activities, including:

- The manner in which the outreach was undertaken.
- The nature and number (or estimate thereof) of stakeholders with whom you engaged.

Interviews were conducted and participants were asked to comment generally on the reporting of Key audit matters and the revised auditors report.

Part E – National Standard Setters and Professional Accountancy Organizations

General regarding key changes to the new auditor’s report and implementation of the new and revised auditor reporting standards

Question 1

In your view, to what extent has the following information provided in the new auditor’s report been useful?

Whether information provided in the new auditor’s reports is useful	Very useful	Useful	Limited value	Not useful	No particular view
Key audit matters (i.e., matters that were of most significance in the audit of the financial statements of the current period)		x			
	<p>What we have heard from practitioners</p> <p>Some practitioners indicated that KAMs have helped the audit team to define the audit risk and focus work effort. The reporting of KAMs has added a level of cost to the audit.</p> <p>What we have heard from directors/preparers</p> <p>Directors we spoke to were generally positive about KAM reporting, considering this promotes transparency. Key benefits identified include early and healthy discussions on key matters and increased engagement with the audit committee.</p> <p>What we have heard from investors/users</p> <p>Some users considered that the reporting of KAMs increases transparency about the audit and gives additional comfort that the auditor understands and has addressed key issues. However, over time, KAMs are likely to become boilerplate and less useful. Other users continue to only read the auditor’s opinion and have not actively engaged with KAMs.</p> <p>Overall the NZAuASB agrees that reporting of KAMs is useful but do run the risk of boilerplate reporting over time (which will reduce its usefulness). In a COVID-19 reporting environment, KAMs may be less boilerplate.</p>				
Changes to the presentation of the auditor’s report (i.e., opinion section required to be presented first, followed by the basis for opinion section)	x				

Whether information provided in the new auditor's reports is useful	Very useful	Useful	Limited value	Not useful	No particular view
	Investors remain most interested in the overall audit opinion. Re-ordering the report, with a focus on the opinion first, recognizes the importance of the opinion to users.				
Including, when applicable, a separate section under the heading "Material Uncertainty Related to Going Concern"		x			
	Some investors we spoke to noted that auditor's reports cover going concern matters well.				
Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities, as well as identification of the relevant ethical requirements relating to the audit			x		
	Investors we spoke to did not find the boilerplate reporting and identification of independence standards overly useful. Independence matters remain of key interest to users, who are looking to the financial statement disclosures around audit fees and the nature of services provided.				
Descriptions of the respective responsibilities of the auditor and of management and those charged with governance			x		
	<p>What we heard from users</p> <p>Not many users read this section of the report. There remains a view from readers that it would be better to remove bland, overly technical and boilerplate wording from the report.</p> <p>Explicitly stating the responsibilities of the auditor and those charged with governance related to going concern has not necessarily made any difference in addressing any expectation gap or tension between what is required to be disclosed by the preparer and the auditor's responsibilities related to going concern.</p> <p>Including the responsibilities relating to going concern in the auditors' report has also prompted much debate in New</p>				

Whether information provided in the new auditor's reports is useful	Very useful	Useful	Limited value	Not useful	No particular view
	Zealand as to what are the responsibilities related to going concern in an interim review engagement.				
Section on "Other Information" that describes the auditor's responsibilities and work with respect to such information		x			
	<p>What we heard from practitioners</p> <p>Auditors have grappled with how best to describe what information has or has not been read for consistency at the date of the auditor's report, raising further questions about what the auditor's responsibilities are in relation to other information, i.e. what does read for consistency really look like.</p> <p>What we heard from directors</p> <p>One positive impact noted by directors has been that the annual reporting timetable, pre-Covid-19, was being brought forward in some instances.</p> <p>Broader comments</p> <p>As calls for reporting of broader non-financial information and extended external reporting evolves, the importance of defining the annual report and clearly articulating what matters are scoped as covered within the assurance opinion (and what level of assurance) and those that are not is likely to only increase.</p>				
Name of the engagement partner		x			
	Users responded positively to disclosure of the engagement partner's name.				

Question 2

In your jurisdiction, has there been any changes or modifications (e.g., new or different or incremental requirements) to the equivalent national standards of the new and revised auditor reporting standards of the IAASB?

[Please note, ISA 720 (Revised) that deals with "Other Information", is addressed in a separate section of this survey.]

Changes or modification to national standards related to the new and revised auditor reporting standards	Yes	No
<p>ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i> – in particular in relation to the new items of information in the auditor’s report as referred to in question 1, above</p>	<p>Yes</p>	
	<p>ISA (NZ) 700 (Revised) include the following additional New Zealand specific requirements that relate in particular to the matters addressed above:</p> <ul style="list-style-type: none"> • Additional disclosure related to independence matters • Auditors are required to report KAMs for a broader range of entities¹, (not limited to listed entities), • The name of the engagement partner shall be included in a broader range of auditor’s reports <p>NZ28.1 The auditor’s report shall include a statement as to the existence of any relationship (other than that of auditor) which the auditor has with, or any interest which the auditor has in, the entity.</p> <p>NZ30.1 For audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability the auditor shall communicate key audit matters in the auditor’s report in accordance with ISA (NZ) 701.</p> <p>NZ 46.1 The name of the engagement partner shall be included in the auditor’s report on financial statements of FMC reporting entities considered to have a higher level of public accountability</p>	
<p>ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i></p>	<p>Yes</p>	
	<p>ISA (NZ) 701</p> <p>Auditors are required to report KAMs for a broader range of entities, (not limited to listed entities),</p>	

¹ Specifically, FMC Reporting entities considered to have a higher level of public accountability which include registered banks, licensed insurers, licensed derivative issuers, licensed managed investment scheme (MIS) managers (for the financial statement of the MIS they manage, etc.

Changes or modification to national standards related to the new and revised auditor reporting standards	Yes	No
	<p>NZ5.1 This ISA (NZ) applies to audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This ISA (NZ) also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.</p>	
<p>ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i></p>	<p>Yes</p>	
	<p>ISA (NZ) 705</p> <p>Additional disclosure related to independence matters are also required in the description of the auditor's responsibilities when an auditor disclaims an opinion</p> <p>NZ 28(c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) and NZ28.1 of ISA (NZ) 700 (Revised).</p>	
<p>ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i></p>		<p>No</p>
	<p><i>[Please provide additional information to support your answer (you may also attach or provide a link(s) to relevant material in this regard)]</i></p>	
<p>ISA 570 (Revised), <i>Going Concern</i></p>	<p>Yes</p>	
	<p>ISA (NZ) 570 (Revised)</p> <p>NZ1.1 For the purposes of this ISA (NZ), a reference to "management" is taken to mean "management, and where appropriate, those charged with governance".</p> <p>NZ1.2 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In</p>	

Changes or modification to national standards related to the new and revised auditor reporting standards	Yes	No
		<p>applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.</p> <p>NZ13.1 In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall consider the relevant period, which may be the same as or may differ from that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management’s assessment of the entity’s ability to continue as a going concern covers less than the relevant period, the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor.</p> <p>NZ13.2 Relevant period means the period of at least 12 months from the date of the auditor’s current report.</p>
ISA 260 (Revised), <i>Communication with Those Charged with Governance</i>	Yes	
		<p>Communication requirements related to listed entities have been broadened to apply to a wider range on entities.</p> <p>ISA (NZ) 260 (Revised)</p> <p>NZ1.1 This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor’s responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA (NZ) applies irrespective of an entity’s governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for FMC reporting entities considered to have a higher level of public accountability. This ISA (NZ) does not establish requirements regarding the auditor’s communication with an entity’s management or owners unless they are also charged with a governance role.</p>

Changes or modification to national standards related to the new and revised auditor reporting standards	Yes	No
	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:.....	
Any other national requirements – please specify		No
	<i>[Please provide additional information to support your answer (you may also attach or provide a link(s) to relevant material in this regard)]</i>	

Question 3

What actions have been taken in your jurisdiction to support the adoption and implementation of the new and revised auditor reporting standards (including, for example, practice guidance, support materials or training)?

Description	Auditor reporting webpage Frequently asked questions Description of the auditor's responsibilities webpage
--------------------	--

Question 4

If you are aware of additional practice guidance or support materials developed to support the implementation of the new and revised auditor reporting standards, it will be helpful to the IAASB if you can attach or provide a link(s) to such materials.

Description and links (as applicable)	XRB Alert 1 What can you expect from auditor reports in response to COVID-19 XRB Alert 2 What is the impact on going concern disclosures in response to COVID-19 XRB Alert 4 Auditor communication in the COVID-19 environment
--	--

Question 5

If you are aware of any information gathering or research activities that have been undertaken in relation to the implementation and impact of the new auditor's report, it will be helpful to the IAASB if you can attach or provide a link(s) to the related reports or documents.

Description and links (as applicable)	Key audit matters – A stock-take of the first year in New Zealand (Nov 2017) Enhanced auditor reporting – A review of the third year of the revised auditor's report (May 2020)
--	--

Issues or implementation challenges with the new and revised auditor reporting standards (other than pertaining to KAM or “Other Information”, which are addressed in separate sections of this survey)

Question 6

Based on your experience and interactions with your constituents and stakeholders, are you aware of any issues or implementation challenges regarding the following elements of the new auditor’s reports?

[Please note, KAM and “Other Information” are addressed in separate sections of this survey]

Any issues or implementation challenges regarding certain elements of the new auditor’s reports	Yes	No	No particular view
Changes to the presentation of the auditor’s report (i.e., opinion section required to be presented first, followed by the basis for opinion section)		No	
	A matter arising is where the auditor’s report is placed relative to the financial statements. Some are of the view that the auditor’s report must precede the financial statements in the annual report.		
Including, when applicable, a separate section under the heading “Material Uncertainty Related to Going Concern”	Yes		
	<p>The interaction between the financial reporting requirements and the auditing standards has come under increasing scrutiny, especially in the COVID-19 reporting environment.</p> <p>In New Zealand, the New Zealand Accounting Standards Board has recently added additional going concern disclosure requirements, recognizing that specific going concern disclosure requirements would help preparers to provide relevant and transparent information to investors, both in the current circumstances and going forward.</p> <p>There was also an inconsistency in reporting a MURGC in an interim review report (using an EOM heading under the requirements of NZ SRE 2410) and at the year end audit. The NZAuASB has recently updated NZ SRE 2410 to remove this inconsistency.</p>		

Any issues or implementation challenges regarding certain elements of the new auditor's reports	Yes	No	No particular view
Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities, as well as identification of the relevant ethical requirements relating to the audit		No	
	Some users commented that while concerns exist around the provision of non-assurance services, a boilerplate affirmative statement about independence and identification of the independence requirements was unhelpful.		
Descriptions of the respective responsibilities of the auditor and of management and those charged with governance		No	
	<i>[You may use this box to provide additional information in relation to your answer (reasons, observations, etc.), as well as any suggestions]</i>		
Name of the engagement partner		No	
	<i>[You may use this box to provide additional information in relation to your answer (reasons, observations, etc.), as well as any suggestions]</i>		

Question 7

Based on your experience and interactions with your constituents and stakeholders, do you believe the differences between the following sections in the new auditor's report are clear and understandable: KAM, Material uncertainty related to going concern (MU related to GC), Emphasis of Matter (EOM) paragraphs and Other Matter (OM) paragraphs?

Perceptions about differences between KAM, MU related to GC, EOM paragraphs and OM paragraphs	Yes	No	No particular view
The differences between KAM, MU related to GC, EOM paragraphs and OM paragraphs are clear and understandable		No	
	Based on questions arising, the NZAuASB consider that there is a lack of clarity around the ongoing use of emphasis of matter paragraphs and how these interact with or differ from key audit matters.		

	<p>The challenge of highlighting increasing uncertainty in valuations when reporting key audit matters has also been raised. Questions have arisen as to whether the impact of COVID-19 can be a KAM, how KAMs should include COVID-19 related matters, how to elevate a KAM that has previously been reported as a KAM, but now has even more valuation uncertainty in the current financial statements because of COVID-19, and querying why an EOM cannot be used to assist or highlight a matter that the auditor considers is fundamental to a user's understanding (even when it is also classified as a KAM).</p> <p>Public entities in New Zealand are routinely including information in their financial statements about the impact of COVID-19 on the entity (even if the impact has not been significant). Auditors in the public sector are routinely including an emphasis of matter paragraph with a cross reference to such disclosures where no KAMs are reported. However, this practice has not been consistently adopted across all sectors.</p> <p>Another matter relates to Going concern as a KAM (i.e. where there is no material uncertainty however the auditor considers matters to do with consideration of going concern meet the definition of a KAM). The auditor is required to include a cross reference to related disclosures in the financial statements, if any. In the circumstances where going concern matters are identified as a KAM, there may not be disclosures to cross refer to.</p>
--	---

Question 8

Based on and further to your responses to the previous questions, if applicable, are you aware of any other issues or implementation challenges arising from the new and revised auditor reporting standards?

[Please note, KAM and "Other Information" are addressed in separate sections of this survey]

Any other issues or implementation challenges	Yes	No	No particular view
Other issues or implementation challenges arising from the new and revised auditor reporting standards		No	

--	--

Key audit matters (KAM)

Question 9

In your view, has the communication of KAM enhanced the quality of audits performed?

Views about the impact of the communication of KAM on the quality of audits performed	Yes	No	No particular view
The communication of KAM has enhanced the quality of audits performed			No particular view
	While we have heard many favorable comments to support that KAM reporting is useful, there has been no evidence to either confirm or deny the impact on the quality of the audits performed. This is exacerbated by no easy or consistent way to measure or determine audit quality.		

Question 10

Based on your experience, information gathering and interactions with your constituents and stakeholders, please indicate your perception about the degree to which the communication of KAM in the auditor's report **has provided benefits** to stakeholders as it relates to the following aspects:

Perceptions about benefits arising from the communication of KAM in the auditor's reports	Significant	High	Moderate	Low	No particular view
Enhanced communication among the auditor and management throughout the audit					x
	No particular comments received relating to the impact on communication between auditor and management				
Enhanced frequency and robustness of communication among the auditor and those charged with governance		x			
	Audit committee members have previously commented that a key benefit of the introduction of KAM reporting include early and healthy discussions on key matters and increased engagement with the audit committee.				

Perceptions about benefits arising from the communication of KAM in the auditor's reports	Significant	High	Moderate	Low	No particular view
Enhanced communication internally, among management and those charged with governance					x
	No particular comments received relating to the impact on internal discussions between management and those charged with governance.				
Closer and more focused involvement in the audit by the engagement partner					x
	<i>[You may use this box to provide additional information in relation to your answer – reasons, observations, etc.]</i>				
Enhanced understanding of the matters to which KAM relate, including the risks of material misstatement associated with the related items in the financial statements or the audit procedures performed in this regard			x		
	Some practitioners indicated that KAMs have helped the audit team to define the audit risk and focus work effort.				
Robustness of audit procedures (e.g., improved planning, more effective audit procedures to address the risks of material misstatement, improved documentation, etc.)			x		
	Some practitioners indicated that KAMs have helped the audit team to define the audit risk and focus work effort.				
Changes or enhancements to disclosures in the financial statements regarding the matters to which KAM relate			x		
	Preparers have previously commented on the good work to improve or enhance disclosures in accounts as a result of KAM reporting.				

Perceptions about benefits arising from the communication of KAM in the auditor's reports	Significant	High	Moderate	Low	No particular view
In relation to other aspects (please specify)					
	[You may use this box to provide additional information in relation to your answer – reasons, observations, etc.]				

Question 11

Based on your experience, information gathering (including relating to auditor reports issued in your jurisdiction) and interactions with your constituents and stakeholders about the **descriptions of KAM** in auditor reports, indicate the extent to which you agree that the communication about the matters is:

Description of KAM	Strongly agree	Agree	No particular view	Disagree	Strongly disagree
Concise (i.e., a relatively short description of the matter and how it was addressed by the auditor)			x		
	The length of the description of KAMs was not particularly identified by investors/users.				
Understandable (i.e., the description of the matter and how it was addressed is not overly technical)		x			
	Positive feedback from investors suggest that KAMs reported are enhancing transparency.				
Specific to the entity (i.e., boilerplate language was not used)			x		
	Mixed views have been expressed by users. After the first year of reporting, users flagged a risk of boilerplate reporting. In our follow up review in the third year of reporting, some investors did comment that the auditor's report generally is too boilerplate. It was especially noted that KAMs that do not reflect the outcome of the procedures run a higher risk of boilerplate wording (instances where KAMs were identical year to year were noted, other than numbers being changed). However, investors have also commented that it is reassuring				

Description of KAM	Strongly agree	Agree	No particular view	Disagree	Strongly disagree
	to see that where an entity changes auditor, the same KAMs are identified.				

Question 12

Based on your experience, information gathering and interactions with your constituents and stakeholders about KAM, indicate the degree to which you agree with the following statements that represent **certain perceptions** about the communication of KAM in the auditor’s report:

Certain perceptions about the communication of KAM in the auditor’s report	Strongly agree	Agree	No particular view	Disagree	Strongly disagree
Fewer KAM in the auditor’s report increase the confidence of stakeholders in the audit (and the financial statements)		x			
	In both the reports reviewing the implementation of KAMs, the XRB and FMA used the opportunity to highlight that there are no wrong or right number of KAMs. Initially we did hear comments from various stakeholders suggesting that there was a potential for reading too much into the number of KAMs. Users are doing industry comparisons and questions do arise if the number/type of KAMs for one entity in an industry are different from other similar entities.				
More KAM in the auditor’s report increase the confidence of stakeholders in the audit (and the financial statements)				x	
	If anything, the opposite view was heard initially.				
An individual KAM often relates to a specific item(s) presented or disclosed in the financial statements, which increases the confidence of stakeholders about that particular item(s) in the financial statements		x			
	Some users of auditor’s reports did comment that KAMs provide a list of the key accounting matters that the auditor has identified and also provides additional assurance that those key issues have highlighted and addressed.				

Certain perceptions about the communication of KAM in the auditor's report	Strongly agree	Agree	No particular view	Disagree	Strongly disagree
The communication of KAM provides greater transparency about the audit that was performed – as a whole (i.e., not only in relation to the matters that are the subject of KAM)		x			
	Generally feedback received indicated that reporting of KAMs has resulted in greater transparency				
KAM represent business risks or issues that need to be resolved by management		x			
	The NZAuASB did hear comments in the first year of adoption that indicated that there may be some users who may misinterpret that KAMs were matters to be resolved by the entity.				
In terms of the audit performed, KAM represent matters that have been resolved (i.e., they are not unresolved audit issues)		x			
	Some users did comment that the audit opinion would be modified if any matter was unresolved.				

Question 13

The standard does not prohibit an auditor from communicating additional information about a KAM, and provides guidance to auditors on additional information that the auditor may consider communicating. The IAASB is aware that some trends have evolved globally on additional information that is variously communicated by auditors.

The IAASB is particularly interested in those instances where, in addition to the required information about why a matter is a KAM and how the matter was addressed in the audit, the auditor also communicated information about the outcome of the audit procedures or key observations with respect to the matter (i.e., what the auditor found or observed).

Based on auditor reports you have read, have you noticed that auditors provide additional information in terms of describing the outcome of the audit procedures or key observations with respect to KAM?

Description of the outcome of audit procedures or key observations with respect to KAM	Yes	No	Uncertain
I have noticed that auditors provide additional information in terms of describing the outcome of the	Yes		

audit procedures or key observations with respect to KAM			
--	--	--	--

Question 14

In our view, are descriptions of the outcome of the audit procedures or key observations with respect to KAM useful?

Description of the outcome of audit procedures or key observations with respect to KAM	Very useful	Useful	Limited value	Not useful	No particular view
Descriptions of the outcome of the audit procedures or key observations with respect to KAM		Yes			
	Users have commented that reporting of outcomes of procedures is especially useful.				

Question 15

The IAASB’s standards currently only require that KAM are communicated in the auditor reports of listed entities. Jurisdictional requirements may require that auditors communicate KAM for certain other entities. Auditors may also decide to voluntarily communicate KAM in auditor reports of other entities.

In your view, should the communication of KAM be mandatory for entities other than listed entities?

Communicating KAM in auditor reports of entities other than listed entities	Yes	No	No particular view
For public interest entities (recognizing that “public interest entity” may be a jurisdictional determination)	Yes		
For all entities (i.e., in all instances where an audit of financial statements is performed)			No particular view
For certain specific types of entities		No	
	Regulated entities considered to have higher levels of public accountability including registered banks, licensed insurers and retirement schemes.		

Question 16

Based on and further to your responses to the previous questions, please provide any additional views about other issues or implementation challenges relating to KAM or how you believe the communication of KAM can be improved.

Please provide input

Users continue to want more insights from the auditor. Users commented that they would really value transparency about the discussions between auditor and client, i.e. the level of challenge and robustness of the debate is where the value of the audit is best communicated. More disclosure would need to be reported by the preparer before it would be appropriate for the auditor's report to cover such matters.

Other information section of the auditor's report

Question 17

Other information comprises financial and non-financial information in the annual report, other than the financial statements and the auditor's report thereon. For example, depending on law, regulation or custom in a jurisdiction, other information may include: the directors' report, audit committee report, corporate governance statement, and management commentary.

When other information is included in the annual report, the auditor's report includes an "Other Information" section which is required to include a statement that management is responsible for the other information, identify the other information, clarify that the auditor's opinion does not cover the other information, provide a description of the auditor's responsibilities, and to either state that the auditor has nothing to report or describe any uncorrected material misstatement of the other information.

Based on your observations, has the "Other Information" section provided users of financial statements with greater clarity or transparency about the other information included in the annual report?

Greater clarity or transparency about the other information	Yes	No	No particular view
In my/our view, the "Other Information" section in the auditor's report has provided users with greater clarity or transparency about the other information included in the annual report			x
	There is a large amount of variation as to how the other information is identified and described in the "Other Information" section of the audit report.		

Question 18

In your jurisdiction, has there been any changes or modifications (e.g., new or different or incremental requirements) to the equivalent national standard of ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, or any additional practice guidance or support materials related to other information?

National standards, practice guidance or support materials related to other information	Yes	No
Changes or modifications (e.g., new or different or incremental requirements) to the equivalent national standard of ISA 720 (Revised)	Yes	

	<p>A separate section with a heading “Other Information” is required for an audit of financial statements of an FMC reporting entity considered to have a higher level of public accountability, not just for listed entities. (Refer to ISA (NZ) 720 (Revised) paragraph NZ21.1)</p> <p>In New Zealand, written representations are to be obtained from those charged with governance, not from management. (NZ13.1)</p>	
Additional practice guidance or support materials related to other information as it applies in your jurisdiction	Yes	
	The XRB website includes FAQs related to Other Information.	

Question 19

Based on your experience with external or corporate reporting within your jurisdiction, what types of information is generally considered to be other information?

<p>Please provide input</p>	<p>The description of other information varies but includes descriptions such as:</p> <p>“includes the Annual Shareholder Review and the information included in the information included with the consolidated financial statements and audit reporting in the Annual Financial Results.”</p> <p>“includes the reports of the Chief Executive and the Chair, disclosures relating to strategy, corporate governance, businesses and statutory information.”</p> <p>“includes operating, market and regulatory overviews, management commentary and disclosures relating to corporate governance and statutory information”</p> <p>“the annual report, which includes information other than the consolidate financial statements and auditor’s report”</p>
------------------------------------	---

Question 20

Based on your experience and interactions with your constituents and stakeholders, is it clear that the auditor’s opinion on the financial statements does not extend to the other information included in the annual report (i.e., that no form of assurance conclusion is being expressed on the other information)?

No assurance on the other information	Yes	No	No particular view
---------------------------------------	-----	----	--------------------

It is clear that the auditor's opinion on the financial statements does not extend to the other information included in the annual report	x		
	[You may use this box to provide additional information in relation to your answer (reasons, observations, etc.), as well as any suggestions]		

Question 21

Has it come to your attention or are you aware that there are issues being experienced relating to which other information the auditor has read and considered, or should have read and considered, or relating to the description of the auditor's responsibilities regarding the other information?

Issues or implementation challenges regarding the "Other Information" section	Yes	No	No particular view
Identifying which other information the auditor read and considered?	yes		
	There is inconsistency in the way in which auditor's reports identify other information.		
Instances where certain information should have been part of the other information that was read and considered by the auditor, but wasn't?			
	[You may use this box to provide additional information in relation to your answer (reasons, observations, etc.), as well as any suggestions]		
The required description of the auditor's responsibilities regarding the other information?			
	[You may use this box to provide additional information in relation to your answer (reasons, observations, etc.), as well as any suggestions]		
Any other issues or implementation challenges regarding other information (please specify)?			
	[Please provide information relating to any other issues or implementation challenges, as well as any suggestions]		

Additional information communicated in the auditor's report (i.e., in addition to what is required in terms of the new and revised Auditor Reporting Standards)

Question 22

In your jurisdiction, if not otherwise required, has there been demand for additional information to be included in the auditor's report to enhance users' understanding of the audit that was performed:

Additional information that could be included in the auditor's report	High demand	Some demand	No demand	No particular view
Information about materiality as applied by the auditor in conducting the audit		Yes		
	Some users commented that it is useful to have materiality disclosed.			
Information about the scope of the audit (i.e., the auditor's approach to the audit)		Yes		
	<i>[You may use this box to provide additional information in relation to your answer – reasons, observations, etc.]</i>			
Information about the auditor's procedures relating to management's going concern assessment				x
	Users did not specifically identify a need for this, however this feedback was received prior to the COVID-19 reporting season. Information about the auditor's procedures relating to going concern may inadvertently unbalance the report towards going concern matters. (This feedback was heard relative to discussions related to the interim review report).			
Information about other aspects (please specify)				
	Users identified that the value of audit would be best communicated in highlighting the level of challenge and the robustness of the conversations between auditor and those charged with governance.			

Other types of engagements

Question 23

In addition to audits of financial statements, professional accountants perform other types of engagements for which assurance reports are issued. These include review engagements (e.g., a review of interim financial information) and other assurance engagements (e.g., assurance on greenhouse gas statements).

In your view, should the assurance reports for other types of engagements contain elements similar to those in the auditor's reports on an audit of financial statements, such as the structure of the report i.e., opinion/conclusion first, and the communication of key matters that would, in the context of those engagements, be similar to KAM?

Assurance reports for other types of engagements	Yes	No	No particular view
Review engagements, including reviews of interim financial information	Yes		
	<p>The NZAuASB have issued NZ SRE 2410 (Revised) which incorporates many of the elements of the revised auditor report (i.e. reordering with the conclusion first, naming the engagement partner, independence statements and consistently using a heading “material uncertainty related to going concern”). These changes promote consistency in practice, and different use of terminology.</p> <p>The NZAuASB does not agree that the reporting of Key Audit matters should be included in the review report because it is not considered appropriate given the limited nature of the procedures performed in a review engagement.</p> <p>The NZAuASB also does not consider that a separate section on “Other Information” should be required for interim review engagements. There is often less “other information” reported at the interim stage.</p>		
Other assurance engagements (e.g., assurance reports on greenhouse gas statements or so-called ISAE 3000 (Revised) assurance engagements)			x
	<p>In terms of assurance reports on extended external reporting, user demand for assurance is still emerging. The NZAuASB has previously commented to the IAASB that a more flexible report, that may include more long form reporting, may be more useful. There is less inconsistency (i.e. no MURGC inconsistency in other reporting that requires urgent action).</p> <p>It is unclear how KAMs would apply to other assurance engagements, if a more long form report were to be used, as referenced in ISAE</p>		

	<p>3000 (Revised) or what criteria would be used to identify key assurance matters.</p> <p>Consistently moving the opinion/conclusion as the first paragraph would most likely be well received by users, who have indicated that this remains the key piece of information they are looking for. However, the NZAuASB has previously commented on the limitations related to a binary opinion in the EER space.</p>
--	--

Any other input or feedback (including in relation to the effects of the COVID-19 pandemic)

Question 24

The COVID-19 pandemic has had wide ranging impacts for society and business. The unpredictable circumstances in this environment have created pressures and challenges for entities when preparing their financial statements, as well as for auditors in obtaining sufficient appropriate audit evidence and considering the impact on the auditor’s report.

Have you noted or experienced any specific effects or challenges in relation to the following elements of the auditor’s report (when applicable to a specific audit engagement)?

Comments relating to the effects of the COVID-19 pandemic	Yes	No	Uncertain
Modifications to the auditor’s opinion, i.e., a qualified opinion, adverse opinion or disclaimer of opinion (and the related basis for opinion)	Yes		
	<p><i>More examples of modifications to the auditor’s opinion, e.g. Qualified opinions due to an inability to count stock or unable to obtain sufficient appropriate evidence to support assumptions and estimates used to determine the recoverable amount of goodwill and intangible assets. Disclaimer of opinion due to an inability to obtain sufficient, appropriate audit evidence as to whether the going concern assumption is appropriate and the carrying value of assets</i></p>		
Inclusion of a separate section in the auditor’s report under the heading “Material Uncertainty Related to Going Concern”	Yes		
	<p>An increase in the number of MURGC paragraphs</p>		

Comments relating to the effects of the COVID-19 pandemic	Yes	No	Uncertain
Communication of key audit matters (KAM) in the auditor's report	yes		
	<p>Generally the length of the KAMs have increased, with auditors noting the nature and extent of audit evidence they had to gather, but not necessarily due to additional or new KAMs being identified. Various methods have been used to flag the additional level of uncertainty resulting from COVID. The New Zealand regulator provided guidance to the firms that COVID matters should not be a KAM on its own.</p>		
Inclusion of an Emphasis of Matter Paragraph (i.e. used by the auditor to draw attention to a matter presented or disclosed in the financial statements)	Yes		
	<p>Wide ranging views and approaches in practice. More practitioners (or preparers) want to use an EOM to highlight valuation uncertainty.</p> <p>For example, valuers now include a material uncertainty clause in property valuation reports used to support property values. These caveats are referenced in the financial statement disclosure, to highlight the caveats, and there are differing views as to the need to include an EOM to draw attention to those caveats in the auditor's report by way of EOM. Another view is that those valuations always include uncertainty, and so highlighting uncertainty may detract from the opinion.</p> <p>Another example is the inclusion of an EOM highlighting increased levels of inherent uncertainty in accounting estimates and judgements applied by management, with references to specific note disclosures describing these uncertainties.</p> <p>In the public sector, there is wide use of EOMs for all public entities where KAMs are not reported.</p>		
Inclusion of an Other Matter Paragraph (i.e. used by the auditor to refer to a matter that is relevant to users'		No	

Comments relating to the effects of the COVID-19 pandemic	Yes	No	Uncertain
understanding of the audit, the auditor's responsibilities or the auditor's report)			
	<i>[You may use this box to provide additional information in relation to your answer – reasons, observations, suggestions, etc.]</i>		
The “Other Information” section of the auditor's report (i.e. relating to information in the annual report, other than the financial statements and the auditor's report thereon)		No	
	<i>[You may use this box to provide additional information in relation to your answer – reasons, observations, suggestions, etc.]</i>		
Any other challenges or matters to be highlighted		No	
	<i>[You may use this box to provide additional information in relation to your answer – reasons, observations, suggestions, etc.]</i>		

Question 25

Please provide any further views, observations or suggestions you may have in relation to the auditor's report (and why).

Additional input	
-------------------------	--

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1

Meeting date: 21 October 2020

Subject: Agreed-Upon Procedures Engagements

Date: 6 October 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 the responses and disposition of responses received on NZAuASB ED 2020-2, *Proposed ISRS (NZ) 4400 Agreed-Upon Procedures Engagements*;
 - Consider and agree compelling reason changes, if any;
 - Approve ISRS (NZ) 4400; and
 - Approve the draft signing memorandum.

Background

2. The NZAuASB issued ED 2020-2 in June 2020 for a 90-day comment period. The ED was based on the international standard and the NZAuASB did not identify any compelling reasons for modification of the international standard.
3. The NZAuASB received submissions from:
 - KPMG
 - EY
 - Office of the Auditor General
 - CPA Australia & CAANZ (joint submission)
4. A webinar was held on 1 September taking participants through the proposed standard. Informal feedback on the questions asked in the ITC was received during the webinar via polls.
5. The analysis of responses at agenda item 4.3 indicates a high level of support for the proposals, as drafted.

Harmonisation with AUASB

6. At its September 2020 meeting, the Board provided initial views on proposed compelling reason changes to ASRS 4400 by the AUASB. At its meeting in September, the AUASB approved the proposed compelling reason changes. These included:
 - Mandating a restriction on use for all AUP reports;
 - Amending the illustrative engagement to include situations where the practitioner is required to be independent.
 - Requiring the practitioner to include, in the agreed-upon procedures report, a statement indicating that the practitioner is always objective when performing an agreed-upon procedures engagement.
 - Adding, as an appendix, a table of differences between assurance engagements and agreed-upon procedures engagements.
7. See the issues paper at agenda item 4.2 for further discussion of the AUASB amendments, and staff recommendations for changes to the final standard.

Conforming Amendment to Professional and Ethical Standard 1¹

8. The Board previously considered whether to refer to the individual performing the assurance engagement as the practitioner or assurance practitioner. An agreed-upon procedures engagement is not an assurance engagement, accordingly, the Board determined use of the term “practitioner” to be appropriate in the standard.
9. The draft final standard requires the practitioner to comply with relevant ethical requirements. The application material explains that Professional and Ethical Standard 1 comprises the relevant ethical requirements. However, Professional and Ethical Standard 1, as currently drafted applies to “assurance practitioners”.
10. For purposes of Professional and Ethical Standard 1, “assurance practitioner” is defined as, “a person or organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements.” To align with XRB Au1², as amended by the legislative mandate update approved by the XRB Board in July 2020, the definition of “assurance practitioner” in Professional and Ethical Standard 1 requires amendment to add the words “or related services”.
11. We propose to bring an amendment to Professional and Ethical Standard 1 in December 2020.

Action Requested

12. The Board is asked to:
 - Consider the responses and disposition of responses received on NZAuASB ED.2020-2, *Proposed ISRS (NZ) 4400 Agreed-Upon Procedures Engagements*;
 - Consider and agree compelling reason changes, if any;
 - Approve ISRS (NZ) 4400; and

¹ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

² XRB Au1, *Application of Auditing and Assurance Standards*

- Approve the draft signing memorandum.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Issues Paper
Agenda item 4.3	Analysis of responses paper
Agenda item 4.3.1	Submission – EY
Agenda item 4.3.2	Submission – KMPG
Agenda item 4.3.3	Submission – OAG
Agenda item 4.3.4	Submission – CPAA/CAANZ
Agenda item 4.4	Draft ISRS (NZ) 4400
Agenda item 4.5	Draft Signing Memorandum

Issues paper

1. In line with the NZAuASB's harmonization policy with the AUASB, the Board is asked to consider the compelling reason changes made by the AUASB in finalizing its revised ASRS 4400. These included:
 - Mandating a restriction on use for all AUP reports;
 - Amending the illustrative engagement to include situations where the practitioner is required to be independent.
 - Requiring the practitioner to include, in the agreed-upon procedures report, a statement indicating that the practitioner is always objective when performing an agreed-upon procedures engagement.
 - Adding, as an appendix, a table of differences between assurance engagements and agreed-upon procedures engagements.

A. Restriction of Use

2. The AUASB amended ISRS 4400 to require a restriction of use for all agreed-upon procedures engagement reports. Restricting the use of the agreed-upon procedures report to the engaging party and intended users is required by extant ASRS 4400.
3. ISRS 4400 permits the practitioner to restrict the agreed-upon procedures report, but does not mandate it. This position was taken after respondents to the IAASB's discussion paper confirmed that agreed-upon procedures reports are often required to be provided to users such as regulators who are not parties to the terms of the engagement, or posted online as required by law or regulation.¹
4. A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons the AUASB has decided to restrict the use of the agreed upon procedures report to intended users as identified in the agreed-upon procedures report include:
 - Since the AUP engagement is only required to be agreed with the engaging party, a restriction of use requirement is seen to be a public interest safeguard. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the AUASB considers that from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner's judgement, may result in inconsistencies in practice. Variation in practice diminishes the effectiveness of reporting.
 - Such a restriction limits the likelihood that the AUP report will be used for the wrong purpose. There are multiple requirements and application material paragraphs in ED 01/20 that demonstrates that an AUP engagement is for a very specific purpose with an intended audience and accordingly it is reasonable that such a report shouldn't be expected to be used by others.
 - While the international standard facilitates a restriction on use paragraph being determined by practitioners, there is no requirement to restrict use. The AUASB is aware that some users may perceive that an AUP engagement provides some sort of assurance. There is no assurance provided in an AUP engagement. A restriction of use

¹ [Proposed ISRS 4400 \(Revised\), Agreed-Upon Procedures Engagements, Explanatory Memorandum, paragraph 40](#)

prevents uninformed users from relying on a report being inappropriately used as a form of assurance.

5. All respondents to the NZAuASB ED 2020-2 indicate support for the position taken in the exposure draft, i.e., restriction is permitted but not required. Both practitioner respondents indicated that they are likely to continue to restrict the use of agreed-upon procedures engagement reports issued by their firms. In addition, 62% of webinar participants support not restricting the use of the report.
6. Initial views expressed by the NZAuASB at its September meeting were mixed on whether to mandate a restriction on use.

Staff Recommendation

7. While we recognise that some users may place reliance on the agreed-upon procedures report out of context, we do not believe it would be in the public interest to mandate restricting use in New Zealand. We believe the risk of inappropriate reliance is adequately addressed by identifying the purpose of the report and including a statement that the agreed-upon procedures report may not be suitable for another purpose.²
8. We believe that practitioners in New Zealand will continue to use the option to restrict the agreed-upon procedures report. Further, we believe the proposed position future proofs the standard, should future regulation prohibit the restriction of use for an agreed-upon procedures engagement.
9. Accordingly, our recommendation to the Board is not to mandate a restriction on use for all agreed-upon procedures engagements.

10. Does the Board agree?

B. Amendment to illustrative engagement letter

11. The AUASB has amended the illustrative engagement letter to include alternative illustrative wording to include situations where the auditor has agreed with the engaging party to be independent. It is the AUASB view that such illustrative wording provides for consistency in practice.
12. Professional and Ethical Standard 1 does not require the practitioner to be independent when performing an agreed-upon procedures engagement. The proposed standard requires the practitioner to comply with relevant ethical requirements.³ The proposed standard 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.⁴ The practitioner may also agree with the engaging party, in the terms of engagement, to comply with independence requirements.
13. Paragraph 24(e) of the proposed standard requires the practitioner to include, in the engagement letter, a statement as to whether the practitioner is required to comply with independence and, if so, the relevant independence requirements.

² See paragraph 30(d) of agenda item 4.4

³ Refer agenda item 4.4, paragraph 17

⁴ Refer agenda item 4.4, paragraph A15

14. In our view, the requirement is clear. We do not consider an amendment to the standard is necessary. Rather, we prefer to see additional guidance addressed through implementation material, either prepared by the IAASB or by staff in the absence of IAASB guidance.

C. Statement of Objectivity

15. The proposed standard requires the practitioner to comply with relevant ethical requirements.

16. The AUASB considers that for consistency, user understandability, and transparency to the user of the practitioner's ethical responsibilities a specific statement of objectivity should be included in the agreed-upon procedures report.

17. Accordingly, the ASRS 4400 requires that the agreed-upon procedures report include a statement that the practitioner complies with the ethical requirements of the APESB Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding, including the fundamental principle of objectivity.

18. The principle of objectivity has been fully debated by the IAASB, which as a board determined not to call out objectivity in the agreed-upon procedures engagement report. We consider highlighting objectivity in the report sets it at a higher level than the other fundamental principles, all of which are required to be complied with by the practitioner. Further, the standard sets out how the fundamental principle of objectivity applies in an agreed-upon procedures engagement.

19. We consider describing the practitioner's objectivity to be more appropriately dealt with in guidance material that highlights the differences between assurance engagements and an agreed-upon procedures engagement.

D. Table of differences between an assurance engagement and an agreed-upon procedures engagement

20. ASRS 4400 sets out, in Appendix 3, a table of differentiating factors between an agreed-upon procedures engagement and an assurance engagement. We agree that such a table is a useful reference to users of the agreed-upon procedures report, however, we question its placement in the standard.

21. The NZAuASB has published "A guide for prescribers of assurance engagements" which provides a high-level overview of the differences between reasonable and limited assurance engagements. We consider that a similar type of publication could be developed to describe the differences between an assurance engagement and an agreed-upon procedures engagement.

Staff Recommendation

22. The NZAuASB proposed in the exposure draft, to adopt the international standard without change unless there is a compelling reason to do so. We do not consider there is a compelling reason to amend the international standard to reflect the changes made by the AUASB. While there is merit in some of the Australian changes, we consider these can be made outside the standard, via guidance or implementation material.

23. Does the Board agree?

Analysis of Responses

List of Respondents

Abbreviation	Respondent	Reference
EY	Ernst & Young	4.3.1
KPMG	KPMG	4.3.2
OAG	Office of the Auditor-General	4.3.3
CPAA/CAANZ	CPA Australia and Chartered Accountants Australia & New Zealand (joint submission)	4.3.4

General Comments

Respondent	Comment	Staff notes
KPMG	KPMG is supportive of the NZAuASB's proposal to adopt the international standard and agree there are no compelling reasons that would require modification of the international standard for adoption here in New Zealand.	Support noted
OAG	We have no particular comments to make, and we agree with the requirements set out in the Exposure Draft.	Support noted
CPAA/CAANZ	<p>Both professional organisations supported the IAASB's recent update of international standard on related services ISRS 4400 (Revised) <i>Agreed-Upon Procedures Engagements</i> in April 2020. We also support the NZAuASB's policy to seek convergence where possible with the IAASB's standards, and welcome the NZAuASB's revised mandate, which allows it to be the standard setter for related services engagements, including agreed upon procedures engagements, which apply to members of both CA ANZ and CPA Australia.</p> <p>Therefore, we support the NZAuASB proposals to align its new standard with ISRS 4400(Revised), as set out in the ED. This continues the approach adopted by the New Zealand Regulatory Board of NZICA (NZRB) when it reissued its current standard (APS-1(revised) <i>Agreed Upon Procedures</i></p>	<p>Support noted</p> <p>Satisfied proposals permit practitioners to observe more restrictive extant practice, agree no compelling reasons to amend international standard.</p> <p>Consider development of additional guidance to assist practitioners to implement these choices, particularly around independence and restriction of the report.</p> <p>Staff recommends waiting to see what implementation material comes out of IAASB.</p>

	<p><i>Engagements to report factual findings (APS-1(revised))</i> in 2018. At the time it was aligned to both the extant international and Australian standards.</p> <p>In stating our support, we recognise that realigning New Zealand requirements for agreed upon procedures engagements to the new ISRS 4400 (Revised) involves some important changes to the mandatory requirements that currently apply under APS-1(Revised). This is particularly the case in the areas of independence and restrictions on the use of reports where the proposed requirements have been relaxed.</p> <p>We supported these relaxations at an international level provided that options to adopt more restrictive practices were retained for individual jurisdictions to adopt as necessary. We are satisfied that the proposed new requirements, set out in ED 2020-2, permit New Zealand practitioners and their clients to continue to observe the more restrictive practices they are familiar with in these areas, should the circumstances of their individual engagements make that appropriate. Therefore, we agree that there are no compelling reasons to amend the international standard for these matters.</p> <p>Nevertheless, we recommend that the NZAuASB considers the development of additional guidance to support the release of ISRS (NZ) 4400, supplementing the material the IAASB has indicated they are currently preparing to support ISRS 4400 (Revised). We expect many New Zealand practitioners will continue to implement the existing, more onerous but well accepted, requirements from extant APS-1 (Revised) on matters such as independence and restrictions on the use of reports. Therefore, clear guidance supporting these choices, drawn from what is currently included in APS-1 (Revised), will ensure that New Zealand practice in these areas remains appropriately consistent.</p>	
--	--	--

Question 1

Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, please explain why not.

Respondent	Comment	Staff notes
EY	<p>We agree that the practitioner is not required to be independent when performing the AUP engagement. This is due to the lack of judgement required in the performance of AUP engagements and the fact that opinions are not formed.</p> <p>When the practitioner is required or agrees to be independent, we are supportive of the requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis thereof. In our view, independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement.</p> <p>When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination and are supportive of the new requirement for the practitioner to include in the AUP report a statement that there are no independence requirements with which the practitioner is required to comply. The requirements in extant APS 1 (revised) are onerous for many AUP engagements requiring a complex investigation into whether we are independent or not, despite no requirement to be independent.</p>	Support noted.
KPMG	We agree with this.	
OAG	Yes, we agree that the practitioner is not required to be independent. However, if the practitioner is the auditor of the entity over which the AUP procedures are to be applied, the practitioner cannot compromise their independence as the auditor.	
CPAA/CAANZ	We agree that an independence requirement does not necessarily provide value to users of an AUP engagement and should only be applied if it is	Support noted.

<p>required by them. In our view, requiring practitioners to be, and be seen to be, independent in all circumstances imposes unnecessary and costly preconditions that could preclude the provision of AUP engagements to clients where demonstrable independence benefits are less clear.</p> <p>Notwithstanding this, we acknowledge that independence requirements are currently included in the extant APS-1(Revised), with paragraph 16 mandating independence equivalent to that applied to “other assurance engagements.” These requirements are supported by New Zealand stakeholders as a means of adding value and credibility to these engagements. It is therefore likely that users and engaging parties may choose to continue to include independence requirements in their engagements, especially where these engagements are performed by the entity’s auditors.</p> <p>The ED allows for this choice to be implemented and the proposed disclosures surrounding independence, where it is required, are simple and clear. Therefore, we agree with the NZAuASB’s view that this change does not provide the NZAuASB with a compelling reason to amend the international requirements.</p> <p>We expect that the educational material the IAASB is currently preparing to support ISRS 4400 (Revised) will clearly explain why independence is not a necessary precondition for an AUP engagement. This should help better inform users, engaging parties and practitioners about the requirements they need to include in their engagement documentation.</p> <p>However, given that current practice in New Zealand does implement independence requirements, we recommend that the NZAuASB supplement the IAASB material with example independence wording suitable for use in the New Zealand environment. This would ensure that the standard continues to provide a clear framework for practitioners if users and engaging parties still wish independence requirements to be applied for an AUP engagement. It would also assist practitioners with the consistent application of independence when required. This supplementary material could be drawn from the extant APS-1 (Revised) and updated for the current</p>	<p>Staff recommends monitoring IAASB developments with respect to implementation guidance. If necessary in NZ, additional guidance could be by way of FAQs. (see grey shaded text)</p>
--	--

	<p>PES 1 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i>. We recommend that this material provides examples of both the engagement letter and AUP report for the circumstances when either independence equivalent to “other assurance engagements”, or modified independence is required by the client, for an AUP engagement.</p>	
--	---	--

Poll results

64% of webinar attendees agreed that the practitioner is not required to be independent when performing an AUP engagement; 27% disagreed; 9% were unsure.

Question 2

Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, please explain why not.

Respondent	Comment	Staff notes
EY	<p>We note that the AUASB has stated in their board meeting in June 2020 that they intend to pursue amending the new ASRS 4400 to include the requirements of their extant ASRS 4400 to restrict the use of the report to only the engaging parties and intended users. We understand their rationale is that they wish the restriction of use to continue to be market practice in Australia.</p> <p>We note that EY New Zealand routinely restricts the use of our reports to the engaging party and, for AUP engagements, the intended user. We further generally restrict reliance to engaging parties only. We envisage we would continue to do so under a new ISRS NZ 4400.</p> <p>We do not see a compelling reason for New Zealand to amend ISRS NZ 4400 to require restriction of the report and are comfortable with the decision to restrict the report to be left to the practitioner.</p>	<p>Support practitioner determining when to restrict in NZ, noting it is current practice within the firm.</p>
KPMG	<p>We agree that whether to include a restriction on use or distribution paragraph should be a decision for the practitioner on a case by case basis. Given that the ED does not preclude the use of a restriction paragraph we</p>	<p>Support practitioner determining when to restrict in NZ, noting it is current practice within the firm.</p>

	<p>are likely to continue to include such a paragraph in the majority of our AUP reports.</p>	
<p>OAG</p>	<p>Yes, we agree that the AUP report should not require a restriction on its use or distribution. We note that the standard permits a restriction on use or distribution paragraph to be included, if appropriate.</p>	<p>Support noted.</p>
<p>CPAA/CAANZ</p>	<p>In our separate submissions to the IAASB’s ED on ISRS 4400 (Revised), CA ANZ and CPA Australia supported the approach that the international standard should permit, but not require, practitioners to impose report restrictions as a pragmatic approach to accommodate the disparate needs of different jurisdictions while issuing an internationally workable standard. We also identified that without a report restriction, the AUP report should provide a clear statement of purpose in order to ensure that the report was only relied upon by those for whom it was prepared.</p> <p>Since the proposals in the ED allow for the practitioner to determine which restrictions are appropriate to the particular circumstances of the engagement and require the AUP report to identify a clear statement of the purpose of the engagement, we support the proposals.</p> <p>However, we also acknowledge that the established practice in New Zealand under paragraph 41 of extant APS-1 (revised) is that reports are restricted to those parties who have either agreed to the procedures or who are specifically included as users in the engagement letter. The requirement responds to legal concerns around professional indemnity which the new standard will not change. Therefore, we expect that many practitioners will continue to restrict their reports as they do now. Since this option is permitted under the proposed standard, we agree that no compelling reasons exist to amend the international standard for adoption in New Zealand.</p> <p>We acknowledge that the ED already provides some guidance on imposing report restrictions and understand that the IAASB may provide more in its forthcoming implementation guidance for ISRS 4400 (Revised). Therefore,</p>	<p>Support noted. Current practice of restricting reports is permitted under proposed standard, therefore no compelling reason identified to require restriction.</p> <p>Consider whether implementation guidance is necessary in NZ.</p>

	we encourage the NZAuASB to consider this guidance and, if necessary, supplement it with example wording from the extant APS-1 (Revised). Such guidance would promote consistency.	
--	--	--

Poll results

62% of webinar attendees agreed that the report should not be required to include a restriction on use paragraph; 38% disagreed.

Question 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.

Respondent	Comment	Staff notes
EY	We agree with the way in which the exercise of professional judgement is dealt with in the exposure draft. In our view the application guidance appropriately explains how professional judgement should be applied in the context of the AUP engagement. We do not see a compelling reason for New Zealand to amend this aspect of the standard.	Support noted.
KPMG	Yes, we do. Specifically, we agree that it is beneficial to have examples for accepting, conducting and reporting on the engagement, but also support the fact that the ED includes clarification that the need for the practitioner to exercise professional judgement is limited.	Support noted.
OAG	Yes, we agree with the way in which the exposure draft deals with the exercise of professional judgement	Support noted.
CPAA/CAANZ	We do not consider that the current wording of the ED is as clear as the extant APS-1 (Revised) regarding the key limits that apply to the use of professional judgement in an AUP engagement. Nevertheless, we support convergence with the IAASB standard and accept the NZAuASB's view that the requirements in the ED adequately address the extent to which professional judgement plays a limited role in these engagements.	Limited support noted. Encourage IAASB to develop implementation guidance addressing further use of professional judgement in an AUP engagement.

	<p>However, since the differences in the way professional judgement applies in AUP and assurance engagements is a key area of confusion for many stakeholders, we recommend that the NZAuASB encourage the IAASB to develop clear guidance material on this matter and supplement it as necessary. This will be vital to ensuring consistent implementation of the new standard.</p> <p>This guidance could include clarification of the documentation needed to identify where and why the practitioner exercised professional judgment. This would provide a practical means of drawing attention to the specific elements of the engagement and the need to ensure that professional judgement is only exercised as appropriate for each of these elements.</p>	
--	--	--

Poll results

90% of webinar attendees support the way in which the exercise of professional judgement is dealt with; 10% were unsure.

Question 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.

Respondent	Comment	Staff notes
EY	We agree that the use of the term “relevant quality control standards” is clear.	Support noted.
KPMG	Yes, we agree that the footnote explaining “For related services engagements, including agreed-upon procedures engagements, relevant quality control standards means PS-1 <i>Quality Control</i> issued by the New Zealand Institute of Chartered Accountants” makes it clear what the term relevant quality control standards mean. This should be updated based on any revisions to PES 3.	Support noted.
OAG	Yes, the term “relevant quality control standards” is clear	Support noted.

CPAA/CAANZ	<p>We consider that the use of the term “relevant quality control standards” is sufficiently clear to guide practitioners to the relevant requirements until such time as the NZAuASB is able to revise Professional and Ethical Standard (PES) 3 (Amended), <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance</i> to incorporate the extension of its mandate and the forthcoming international reforms.</p> <p>CA ANZ and CPA Australia are willing to assist in this matter, by including in their member communications reminders that this term refers to PS-1 <i>Quality Control</i> issued by the New Zealand Institute of Chartered Accountants and APES 320 <i>Quality Control for Firms</i> respectively, until PES 3 is amended to include standards on related services.</p>	Support noted.
------------	--	----------------

Poll results

55% of webinar attendees agreed that the term “relevant quality control standards” is clear; 18% disagreed; 27% were unsure.

Question 5

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

Respondent	Comment	Staff notes
EY	We agree with the proposed effective date however we believe it would be appropriate to allow early adoption. In our view this avoids difficulties with the agreement of engagement terms close to the effective date. Early adoption should be allowed simply by defining which standard you are using in the engagement agreement.	Support noted. Add statement that early adoption permitted.
KPMG	Yes, we agree.	Support noted.
OAG	Yes, the proposed effective date of the exposure draft, for agreed-upon assurance engagements entered into on or after 1 January 2022, seems reasonable.	Support noted.

CPAA/CAANZ	We agree with the proposed effective date, which is consistent with that contained in ISRS 4400 (Revised).	Support noted.
------------	--	----------------

	<p>We appreciate that the use of the broader term could mean that the understanding of the necessary skill sets, and evidence-based issues, may be less clear to those without an assurance background who take on AUP engagements. Therefore, we recommend that the NZAuASB review the forthcoming IAASB guidance to ensure practitioners are reminded of their ethical obligations to meet the fundamental ethical principle of professional competence and due care.</p>	
--	---	--

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

14 September 2020

Dear April,

Exposure Draft NZAuASB 2020-2 on Proposed International Standard on Related Services Engagements (New Zealand) (ISRS (NZ) 4400, Agreed-Upon Procedures Engagements

Ernst & Young New Zealand welcomes the opportunity to offer its views on the exposure draft 2020-2, Proposed International Standard on Related Services Engagements (New Zealand) (ISRS (NZ) 4400, Agreed-Upon Procedures Engagements, issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

Our views on the NZAuASB's specific questions in relation to ED 2020-2

- 1. Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, please explain why not.**

We agree that the practitioner is not required to be independent when performing the AUP engagement. This is due to the lack of judgement required in the performance of AUP engagements and the fact that opinions are not formed.

When the practitioner is required or agrees to be independent, we are supportive of the requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis thereof. In our view, independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement.

When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination and are supportive of the new requirement for the practitioner to include in the AUP report a statement that there are no independence requirements with which the practitioner is required to comply. The requirements in extant APS 1 (revised) are onerous for many AUP engagements requiring a complex investigation into whether we are independent or not, despite no requirement to be independent.

- 2. Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, please explain why not.**

We note that the AUASB has stated in their board meeting in June 2020 that they intend to pursue amending the new ASRS 4400 to include the requirements of their extant ASRS 4400 to restrict the use of the report to only the engaging parties and intended users. We understand their rationale is that they wish the restriction of use to continue to be market practice in Australia.

We note that EY New Zealand routinely restricts the use of our reports to the engaging party and, for AUP engagements, the intended user. We further generally restrict reliance to engaging parties only. We envisage we would continue to do so under a new ISRS NZ 4400.

We do not see a compelling reason for New Zealand to amend ISRS NZ 4400 to require restriction of the report and are comfortable with the decision to restrict the report to be left to the practitioner.

- 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.**

We agree with the way in which the exercise of professional judgement is dealt with in the exposure draft. In our view the application guidance appropriately explains how professional judgement should be applied in the context of the AUP engagement. We do not see a compelling reason for New Zealand to amend this aspect of the standard.

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.

We agree that the use of the term “relevant quality control standards” is clear.

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

We agree with the proposed effective date however we believe it would be appropriate to allow early adoption. In our view this avoids difficulties with the agreement of engagement terms close to the effective date. Early adoption should be allowed simply by defining which standard you are using in the engagement agreement.

6. Any other comments?

We have no additional comments.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in New Zealand. We would be pleased to discuss our comments with members of the New Zealand Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact Simon Brotherton (simon.brotherton@nz.ey.com or on 0272 943 421).

Yours sincerely

Simon Brotherton
Partner
New Zealand Assurance Professional Practice Director



KPMG Centre
18 Viaduct Harbour Ave
PO Box 1584
Auckland 1140
New Zealand
T: +64 9 367 5800

The New Zealand Auditing and Assurance Standards
Board
PO Box 11250
Manners St Central
Wellington 6142

7 September 2020

To Whom it may concern

Invitation to comment – NZAuASB ED 2020-2, Proposed International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, Agreed-upon Procedures Engagements

KPMG welcomes the opportunity to provide comments on the above mentioned exposure draft.

KPMG is supportive of the NZAuASB's proposal to adopt the international standard and agree there are no compelling reasons that would require modification of the international standard for adoption here in New Zealand.

Our comments to the questions you seek comment on are included below.

Question 1

Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, please explain why not.

We agree with this.

Question 2

Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, please explain why not.

We agree that whether to include a restriction on use or distribution paragraph should be a decision for the practitioner on a case by case basis. Given that the ED does not preclude the use of a restriction paragraph we are likely to continue to include such a paragraph in the majority of our AUP reports.

Question 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.

Yes, we do. Specifically, we agree that it is beneficial to have examples for accepting, conducting and reporting on the engagement, but also support the fact that the ED includes clarification that the need for the practitioner to exercise professional judgement is limited.



Question 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.

Yes, we agree that the footnote explaining "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" makes it clear what the term relevant quality control standards mean. This should be updated based on any revisions to PES 3.

Question 5

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

Yes, we agree.

Other than noted above, we do not have any additional comments.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Darby Healey'.

Darby Healey
Partner



10 September 2020

File Ref: AU/APS/2-0002

April Mackenzie
Chief Executive
External Reporting Board
PO Box 11-250
Manners Street Central
WELLINGTON 6142

Dear April

EXPOSURE DRAFT NZAuASB 2020-2 - PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES ENGAGEMENTS (NEW ZEALAND) – AGREED-UPON PROCEDURES ENGAGEMENTS

Thank you for providing the opportunity to comment on *Exposure Draft NZAuASB 2020-2 - Proposed International Standard on Related Services Engagements (New Zealand) – Agreed-Upon Procedures Engagements* (the Exposure Draft).

We have no particular comments to make, and we agree with the requirements set out in the Exposure Draft. Our responses to the questions raised by the NZAuASB are as follows:

1. *Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, please explain why not.*

Yes, we agree that the practitioner is not required to be independent. However, if the practitioner is the auditor of the entity over which the AUP procedures are to be applied, the practitioner cannot compromise their independence as the auditor.

2. *Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, please explain why not.*

Yes, we agree that the AUP report should not require a restriction on its use or distribution. We note that the standard permits a restriction on use or distribution paragraph to be included, if appropriate.

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.*

Yes, we agree with the way in which the exposure draft deals with the exercise of professional judgement.

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.*

Yes, the term “relevant quality control standards” is clear.

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

Yes, the proposed effective date of the exposure draft, for agreed-upon assurance engagements entered into on or after 1 January 2022, seems reasonable.

6. *Do you have any other comments?*

We have no other comments.

If you have any questions about our submission please contact Roy Glass at roy.glass@oag.parliament.nz or me at todd.beardsworth@oag.parliament.nz.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'T. Beardsworth', with a long horizontal stroke extending to the right.

Todd Beardsworth
Assistant Auditor-General
Audit Quality Group



**NZ AUDITING
AND ASSURANCE
STANDARDS BOARD**

INTERNATIONAL STANDARD ON RELATED SERVICES (NEW ZEALAND) 4400

This Standard was issued on XX October 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 9 July 2020.

This Standard is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. 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 due to a change in the mandate of the External Reporting Board to include issuance of standards for agreed-upon procedures engagements.

COPYRIGHT

© External Reporting Board (“XRB”) 2020

This XRB standard contains copyright material and reproduces, with permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (IAASB), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-0-947505-79-0

DRAFT

**INTERNATIONAL STANDARD ON
RELATED SERVICES (NEW ZEALAND) 4400
AGREED-UPON PROCEDURES ENGAGEMENTS**

(Effective for agreed-upon procedures engagements
for which the terms of engagement are agreed on or after January 1, 2022. [Early adoption is permitted](#))

CONTENTS

	Paragraph
Introduction	
Scope of this ISRS	1–3
The Agreed-Upon Procedures Engagement	4–6
Authority of this ISRS	7–10
Effective Date	11- NZ 11.1
Objectives	12
Definitions	13
Requirements	
Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ISRS ..	14–16
Relevant Ethical Requirements	17
Professional Judgment	18
Engagement Level Quality Control	19–20
Engagement Acceptance and Continuance	21–23
Agreeing the Terms of the Engagement	24–26
Performing the Agreed-Upon Procedures	27–28
Using the Work of a Practitioner’s Expert	29
The Agreed-Upon Procedures Report	30–33
Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement	34
Documentation	35
Application and Other Explanatory Material	
Scope of this ISRS	A1–A8
Effective Date	A9
Definitions	A10–A13
Relevant Ethical Requirements	A14–A20

Professional Judgment	A21–A23
Engagement Level Quality Control	A24–A27
Engagement Acceptance and Continuance	A28–A38
Agreeing the Terms of the Engagement	A39–A44
Performing the Agreed-Upon Procedures	A45
Using the Work of a Practitioner’s Expert	A46–A50
The Agreed-Upon Procedures Report	A51–A58
Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement	A59
Documentation	A60

Appendix 1: Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

Appendix 2: Illustrations of Agreed-Upon Procedures Reports

International Standard on Related Services (New Zealand) (ISRS (NZ) 4400 (Revised), *Agreed-Upon Procedures Engagements*, should be read in conjunction with XRB Au1 Application of Auditing and Assurance standards, the context of the ~~*Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.*~~

DRAFT

History of Amendments

Table of pronouncements – ISRS (NZ) 440 Agreed-Upon Procedures Engagements

This table lists the pronouncements establishing and amending ISRS (NZ) 440.

<u>Pronouncements</u>	<u>Date approved</u>	<u>Effective date</u>
<u>International Standard on Related Services (New Zealand) 440</u>	<u>October 2020</u>	<u>This ISRS (NZ) is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Early adoption is permitted.</u>

DRAFT

International Standard on Related Services (New Zealand) 4400, *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*¹

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)

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:
 - (a) The practitioner's compliance with professional standards, including relevant ethical requirements; and

¹ 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.

- (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)

[NZ11.1 Early adoption is permitted.](#)

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 partner² – 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)³. 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 [SW1]: Footnote added to align definition with XRB Au1. (refer agenda item 4.3, question 6)

Requirements

² "Engagement partner", "partner", and "firm" should be read as referring to their public sector equivalents where relevant.

³ [The practitioner may be in public practice, industry, commerce or the public sector.](#)

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~~Professional and Ethical Standard 1, 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.⁴
- 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

⁴ ISQC 1, paragraph 11

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:

- 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*⁵

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.⁶

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.

⁵ Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of PES 1.

⁶ See, for example, paragraphs R360.36 to 360.36A3 of PES 1.

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 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.⁷

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).⁸

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.

⁷ See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of PES 1.

⁸ See, for example, paragraph 360.39 A1 of PES 1.

- 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.

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:

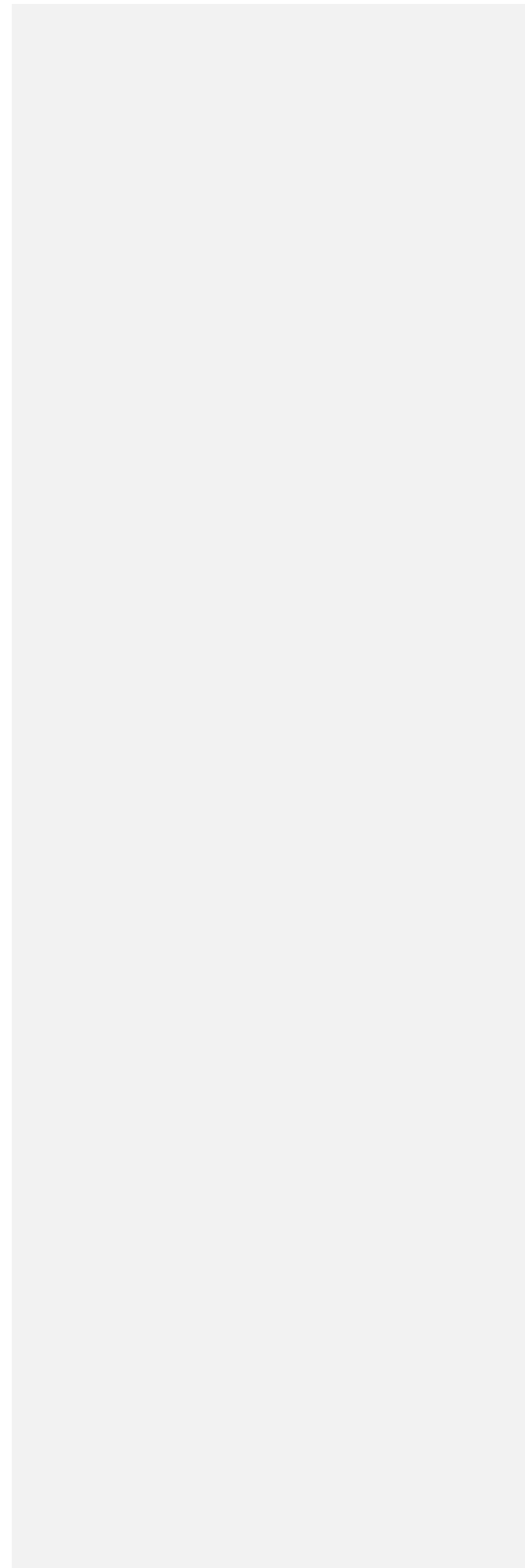
- Provided in a separate document from the agreed-upon procedures report; or
- Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon 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.

DRAFT



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.⁹ 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.

⁹ 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]

DRAFT

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].¹⁰

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.

¹⁰ For example, if Professional and Ethical Standard 1 is the relevant ethical requirements and Part 4A of Professional and Ethical Standard 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 Professional and Ethical Standard 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]

Memorandum

Date: 21 October 2020

To: Michele Embling, Chair XRB Board

From: Robert Buchanan, Chair NZAuASB

Subject: Certificate Signing Memorandum: *International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, Agreed-Upon Procedures Engagements*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, Agreed-Upon Procedures Engagements*.

Background

2. The IAASB completed its revision of ISRS 4400 in December 2019. The revised ISRS 4400 responds 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 mandate of the XRB was revised in 2019 to include related services engagements. Accordingly, it is now timely for the NZAuASB to adopt ISRS 4400 (Revised) in New Zealand.
5. The NZAuASB issued ED-2020 Proposed International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, *Agreed-Upon Procedures Engagements*, in June 2020 with a comment period of 90 days. The ED was based on the international standard and the

NZAuASB did not identify any compelling reasons for modification of the international standard.

6. The NZAuASB received four submissions to the ED. All respondents were supportive of the proposals, as drafted.
7. In addition, a webinar was held to help practitioners understand the key requirements of the ED. Informal feedback on the questions asked in the Invitation to Comment was received during the webinar through the use of polls. The majority of respondents to the polls were supportive of the proposals.
8. In response to submissions, the NZAuASB determined that early adoption should be permitted. The ISRS is silent on early adoption.

Harmonisation with AUASB

9. The AUASB has approved compelling reason amendments to:
 - Mandate a restriction on use for all AUP reports;
 - Amend the illustrative engagement letter to include situations where the practitioner is required to be independent;
 - Require the practitioner to include, in the agreed-upon procedures report, a statement indicating that the practitioner is always objective when performing an agreed-upon procedures engagement.
 - Add, as an appendix, a table of differences between assurance engagements and agreed-upon procedures engagements.
10. The NZAuASB considered whether to include similar amendments in the finalised standard. The Board determined not to include such amendments.
11. The Board does not consider it would be in the public interest to mandate restriction of use in New Zealand. The finalised standard permits the practitioner to restrict the agreed-upon procedures report, but does not require it. It is the Board's view that, in most circumstances, practitioners will continue to restrict the use of the report.
12. In relation to the other amendments to the standard made by the AUASB, the Board considers, where necessary in New Zealand additional guidance can be provided outside the standard through, for example, implementation material.

Privacy

13. 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

14. 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 External Reporting Strategy

15. 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.
16. 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.
17. The international standard has been modified to permit early adoption in New Zealand.

Other matters

18. 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

19. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, Agreed-Upon Procedures Engagements

Robert Buchanan

Chair

NZAuASB

DRAFT

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	21 October 2020
Subject:	Amending PES 1 to reflect revisions to the IESBA Code relating to the role and mindset project
Date:	8 October 2020
Prepared by:	Peyman Momenan

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

Agenda Item Objectives

1. The objective for this agenda item is for the Board to:
 - CONSIDER and APPROVE as a final standard *Revisions to Professional and Ethical Standard 1: Revisions to the Code to promote the role and mindset expected of assurance practitioners.*
 - CONSIDER and APPROVE the draft signing memorandum.

Background

2. The Board, in its September 2020 meeting, CONSIDERED the approved changes made by the IESBA (subject to PIOB approval), which followed amendments (subsequent to feedback received from stakeholders) to the IESBA's ED, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants.*
3. Subject to the PIOB approval (the PIOB has now approved the revisions to the Code) the Board AGREED to the proposed amendments and concluded that other than the matter discussed below, the amended Code is consistent with the Board's feedback provided to the IESBA in its submission.
4. The Board NOTED that the IESBA has not amended the Code to incorporate the Board's suggestion to clarify that a professional accountant is also responsible for maintaining and enhancing the public trust in the profession. The Board DISCUSSED this matter and concluded that it would be in the public interest to include this reference in PES 1 when this section is amended in New Zealand. Consequently, the Board REQUESTED staff to prepare a compelling reason test analysis to incorporate this statement into PES 1.

Matters to Consider

5. We completed a compelling reason analysis to evaluate whether the proposed modification (see paragraph 4 for details) meets the relevant criteria for introducing a modification. The result of the compelling reason test is presented in Agenda item 5.2. According to the outcome of the test, in our view the proposed modification does not meet the criteria for altering the IESBA's Code.
6. PES1 is amended to reflect the revisions to the IESBA Code to promote the role and mindset expected of professional accountants (assurance practitioners in New Zealand). The changes are marked-up from the extant PES1. The marked-up changes mirror the changes to the IESBA Code (as no compelling reasons to amend the IESBA's approved revisions is identified) with one exception. The exception relates to the fact that the IESBA Code is written for professional accountants and PES 1 is for assurance practitioners. Consequently, references to professional accountants in the Code are replaced with "assurance practitioners" in PES 1 where appropriate. These amendments are highlighted in the marked-up PES 1.
7. The Board is asked to:
 - CONSIDER the outcome of the requested compelling reason test
 - APPROVE *Amendments to PES 1: Part 2 – Revisions to the Code to promote the role and mindset expected of assurance practitioners.*
 - APPROVE the draft signing memorandum

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Compelling reasons test
Agenda item 5.3	Amendments to PES 1: Role and Mind
Agenda item 5.4	Draft signing memorandum

Compelling Reason Test: Inquiring Mind

Compelling reason tests are included in this paper for the following modifications:

#	Modification	Additional materials
1	To include the statement that professional accountants are responsible for maintaining and enhancing the public trust in the profession.	N/A

Modification 1: To include the statement that professional accountants are responsible for maintaining and enhancing the public trust in the profession.

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
Modification	
Section 100, paragraphs 100.1 – to include the statement that “A professional accountant is also responsible for maintaining and enhancing the public trust in the profession.”	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a.
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	<p>The international standard is not inconsistent with principles and practices that are considered appropriate in New Zealand.</p> <p>The proposed amendment is not a requirement or application material, but introductory. Although the principle is appropriate, Paragraphs 110.1 A1 (e) and R115.1 that require professional accountants to behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships capture the intention of the suggested modification</p> <p>It is not clear what will be achieved by adding this in the introduction as it does not impact the requirements. Furthermore, the intended outcome of professional behaviour is achieved by the practitioner acting in the public interest by complying with the fundamental principles in the Code in general and their compliance with the revised fundamental principle of Professional Behaviour in particular.</p> <p>Finally, including the modification in the introduction section without it being clearly linked to</p>

	<p>requirements or fundamental principles in the Code may result in interpretations of the Code in New Zealand that are more onerous than what is intended by the IESBA's Code.</p> <p>Overall, there is no to limited benefits for including the modification and there is low to medium risk of more onerous requirement being placed on NZ practitioners. Therefore, we are of the opinion that the compelling reason test for introducing this modification to PES 1 is not met.</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
<p>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 NZ.</p>	<p>n/a</p>
<p>The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.</p>	<p>n/a. The proposed amendment is not a requirement or application material, but introductory.</p>
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
<p>1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB.</p>	<p>The proposed amendment is not a requirement or application material, but introductory. Although the principle is appropriate, Paragraphs 110.1 A1 (e) and R115.1 that require professional accountants to behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships capture the intention of the suggested modification.</p> <p>We consider this responsibility is satisfied through the professional accountants' compliance with the spirit and letter of the Code.</p> <p>So, while including the modification may clarify the introduction to the standard, it is unlikely to have a stronger compliance impact than the above discussed requirements already included in the Code.</p>

	<p>There is also a possibility of unintended consequences should we add this.</p> <p>Consequently, the modification does not meet the criteria.</p>
<p>2. The modification results in a standard that is clear and promotes consistent application by all practitioners.</p> <p><i>(For example, excluding options not relevant in NZ and Australia)</i></p>	<p>No. We do not consider adding this to the introduction will impact the consistent application of all practitioners, as it does not impact on the requirements.</p>
<p>3. The modification will promote significant improvement in audit quality in New Zealand</p> <p><i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i></p>	<p>No. We do not consider adding this to the introduction will impact the consistent application of all practitioners, as it does not impact on the requirements. It will therefore not promote significant improvement in audit quality.</p>
<p>4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	<p>There are no expected additional compliance costs for adding this statement to PES 1. The IESBA's Code already considers professional accountants responsible for acting in the public interest, despite concerns that this might result in undue personal liability for individual professional accountants.</p>
<p>5. The modification does not conflict with or result in lesser requirements than the international standard.</p>	<p>No.</p>
<p>6. The modification overall does not result in the standard being overly complex and confusing.</p>	<p>No.</p>
<p>7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.</p>	<p>The proposed amendment is not a requirement or application material, but introductory. Including the amendment without it being linked to fundamental principles and requirements may result in interpretation of the Code in New Zealand that places more onerous requirement on NZ practitioners.</p>
<p>Conclusion</p>	<p>Compelling reason test NOT met.</p>



**NZ AUDITING
AND ASSURANCE
STANDARDS BOARD**

PROFESSIONAL AND ETHICAL STANDARD 1

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

This Standard was issued on 20 December 2018 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 17 January 2019.

An assurance practitioner that is required to apply this Standard is required to apply it as follows:

- Parts 1 and 3 will be effective as of 15 June 2019.
- Part 4A relating to independence for audit and review engagements will be effective for periods beginning on or after 15 June 2019.
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after 15 June 2019; otherwise it will be effective as of 15 June 2019.

Early adoption is permitted.

Paragraph R540.19 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023.

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 as a result of the issuance of the International Code of Ethics for Professional Accountants, including International Independence Standards by the International Ethics Standards Board for Accountants.

This Standard, when applied, supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*.

COPYRIGHT

© External Reporting Board (“XRB”) 2018

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Ethics Standards Board for Accountants (IESBA), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-0-947505-61-5

PROFESSIONAL AND ETHICAL STANDARD 1

INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Page
History of Amendments	4
Guide to the Code	5
International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)	9
New Zealand Preface	12
New Zealand Scope and Application	13
Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework	15
Part 3 – Application of the Code, Fundamental Principles and Conceptual Framework	30
International Independence Standards (New Zealand) (Parts 4A and 4B)	
Part 4A – Independence for Audit and Review Engagements	69
Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements	140
Glossary	174
Effective Date	184
Conformity to the International and Australian Codes of Ethics	185

History of Amendments

Table of pronouncements – PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

This table lists the pronouncements establishing and amending PES 1.

Pronouncements	Date approved	Effective date
PES 1, <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>	December 2018	PES 1 is effective on 15 June 2019 or for periods beginning on or after 15 June 2019

GUIDE TO THE CODE

(This Guide is a non-authoritative aid to using the Code.)

Purpose of the Code

1. Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (“the Code”) sets out fundamental principles of ethics for assurance practitioners, reflecting the profession’s recognition of its public interest responsibility. These principles establish the standard of behaviour expected of an assurance practitioner. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
2. The Code provides a conceptual framework that assurance practitioners are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help assurance practitioners apply the conceptual framework to those topics.
3. In the case of audits, reviews and other assurance engagements, the Code sets out *International Independence Standards (New Zealand)*, established by the application of the conceptual framework to threats to independence in relation to these engagements.

How the Code is Structured

4. The Code contains the following material:
 - Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework.
 - [Part 2 – *deleted by the NZAuASB*]
 - Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, which sets out additional material that applies to assurance practitioners when providing assurance services.
 - *International Independence Standards (New Zealand)*, which sets out additional material that applies to assurance practitioners when providing assurance services, as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.
 - *Glossary*, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code.
5. The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:

- Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- Requirements – establish general and specific obligations with respect to the subject matter addressed.
- Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to Use the Code

The Fundamental Principles, Independence and Conceptual Framework

6. The Code requires assurance practitioners to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires exercising professional judgement, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.
7. The conceptual framework recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, or the firm, might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the assurance practitioner’s evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires the assurance practitioner to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the assurance practitioner takes that effectively reduce threats to an acceptable level.
8. In addition, the Code requires assurance practitioners to be independent when performing audit, review and other assurance engagements. The conceptual framework applies in the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.
9. Complying with the Code requires knowing, understanding and applying:
 - All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 300, 400 and 900, as applicable.
 - All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled “General” and “All Audit or Review Clients” together with additional specific provisions, including those set out under the subheadings titled “Audit or Review Clients that are not Public Interest Entities” or “Audit or Review Clients that are Public Interest Entities.”
 - All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

Requirements and Application Material

10. Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

Requirements

11. Requirements are designated with the letter “R” and, in most cases, include the word “shall.” The word “shall” in the Code imposes an obligation on an assurance practitioner or firm to comply with the specific provision in which “shall” has been used.
12. In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter “R” but uses “may” or conditional wording.
13. When the word “may” is used in the Code, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.
14. When the word “might” is used in the Code, it denotes the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

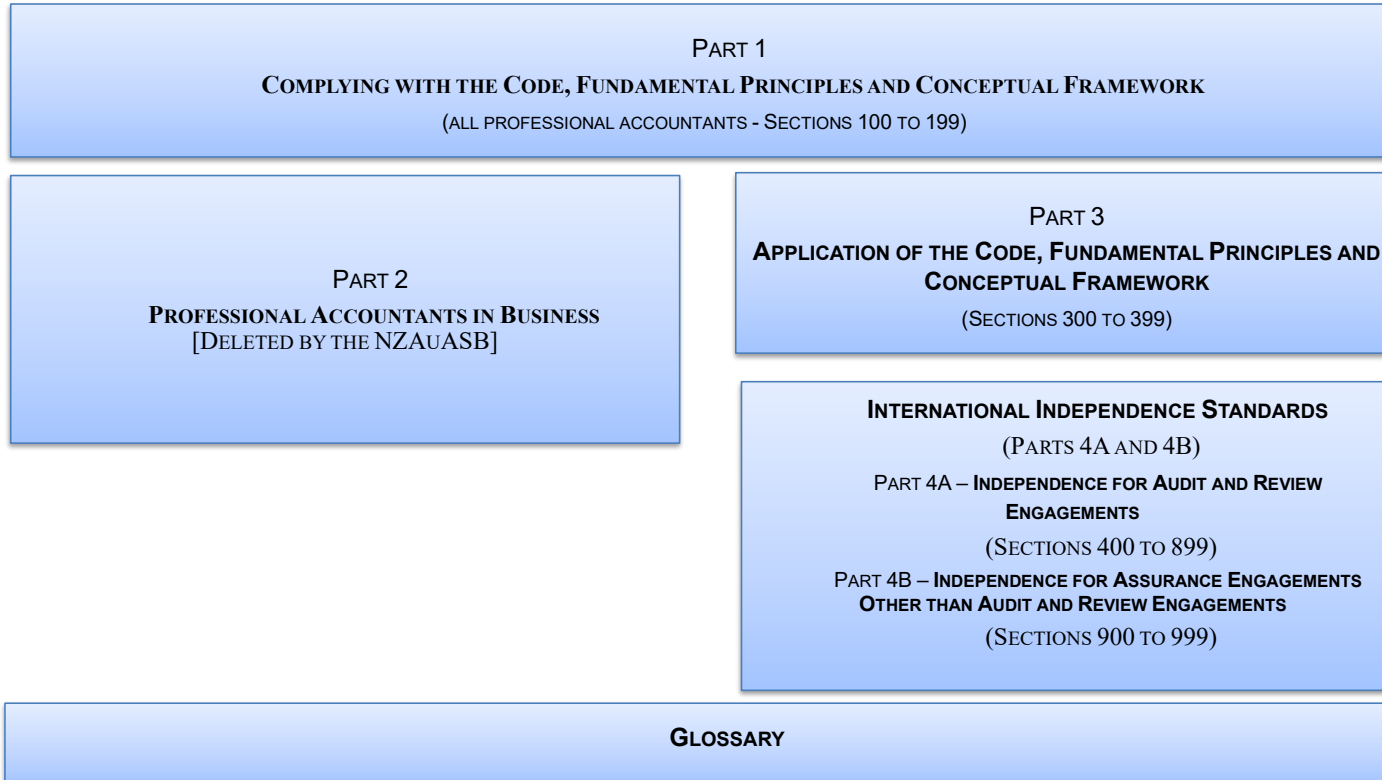
Application Material

15. In addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help an assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. Application material is designated with the letter “A.”
16. Where application material includes lists of examples, these lists are not intended to be exhaustive.

Appendix to Guide to the Code

17. The Appendix to this Guide provides an overview of the Code.

OVERVIEW OF THE CODE



PROFESSIONAL AND ETHICAL STANDARD 1

INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

TABLE OF CONTENTS

New Zealand Preface	12
New Zealand Scope And Application	13
Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework	15
100 Complying with the Code	15
110 The Fundamental Principles	17
111 – Integrity	18
112 – Objectivity	18
113 – Professional Competence and Due Care	18
114 – Confidentiality	19
115 – Professional Behaviour	21
120 The Conceptual Framework	22
Part 3 – Application of the Code, Fundamental Principles and Conceptual Framework	30
300 Applying the Conceptual Framework	30
310 Conflicts of Interest	36
320 Professional Appointments	41
321 Second Opinions	45
330 Fees and Other Types of Remuneration	46
340 Gifts and Hospitality	48
350 Custody of Client Assets	53
360 Responding to Non-Compliance with Laws and Regulations	54
International Independence Standards (New Zealand) (Parts 4A and 4B)	
Part 4A – Independence for Audit and Review Engagements	69
400 Applying the Conceptual Framework to Independence for Audit and Review Engagements	69
410 Fees	81
411 Compensation and Evaluation Policies	85

420	Gifts and Hospitality	86
430	Actual or Threatened Litigation.....	87
510	Financial Interests.....	88
511	Loans and Guarantees.....	93
520	Business Relationships	95
521	Family and Personal Relationships.....	97
522	Recent Service with an Audit or Review Client	100
523	Serving as a Director or Officer of an Audit or Review Client	101
524	Employment with an Audit or Review Client.....	102
525	Temporary Personnel Assignments.....	105
540	Long Association of Personnel (including Partner Rotation) with an Audit or Review Client	106
600	Provision of Non-assurance Services to an Audit or Review Client	112
601	– Accounting and Bookkeeping Services	116
602	– Administrative Services	118
603	– Valuation Services.....	119
604	– Tax Services	120
605	– Internal Audit Services.....	125
606	– Information Technology Systems Services.....	128
607	– Litigation Support Services.....	129
608	– Legal Services.....	131
609	– Recruiting Services	132
610	– Corporate Finance Services	134
800	Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements).....	136
	Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements.....	140
900	Applying the Conceptual Framework to Independence for Assurance Engagements Other Than Audit and Review Engagements	140
905	Fees	147
906	Gifts and Hospitality.....	150
907	Actual or Threatened Litigation.....	151
910	Financial Interests.....	152
911	Loans and Guarantees.....	155

920	Business Relationships	157
921	Family and Personal Relationships.....	159
922	Recent Service with an Assurance Client	162
923	Serving as a Director or Officer of an Assurance Client.....	163
924	Employment with an Assurance Client.....	164
940	Long Association of Personnel with an Assurance Client	166
950	Provision of Non-assurance Services to Assurance Clients Other than Audit and Review Engagement Clients	168
990	Reports that Include a Restriction on Use and Distribution (Assurance Engagements Other than Audit and Review Engagements)	172
	Glossary	174
	Effective Date	184

NEW ZEALAND PREFACE

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

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

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

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

NEW ZEALAND SCOPE AND APPLICATION

- NZ1.1 Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (“the Code”) is effective from 15 June 2019 and supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*, issued by the XRB in January 2013. Early adoption of the Code is permitted.
- NZ1.2 The Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. The Code makes reference to the accountancy profession to establish a benchmark and is not intended to exclude assurance practitioners that are not part of the accountancy profession. Some professions may have requirements and guidance that differ from those contained in the Code. Assurance practitioners from other professions, including any person or organisation appointed or engaged to perform assurance engagements, need to be aware of these differences and comply with the more stringent requirements and guidance.
- NZ1.3 The Code is not intended to detract from responsibilities which may be imposed by law or regulation.
- NZ1.4 In applying the requirements outlined in the Code, assurance practitioners shall be guided not merely by the words, but also by the spirit of the Code.

Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework 15

100 Complying with the Code 15

110 The Fundamental Principles 17

111 – Integrity 18

112 – Objectivity 18

113 – Professional Competence and Due Care 18

114 – Confidentiality 19

115 – Professional Behaviour 21

120 The Conceptual Framework 22

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

SECTION 100

COMPLYING WITH THE CODE

General Introduction

100.1 ~~A~~ A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. ~~An assurance practitioner's responsibility is not exclusively to satisfy the needs of an individual client. Therefore, the Code contains requirements and application material to enable assurance practitioners to meet their responsibility to act in the public interest.~~

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

Commented [PM1]: see Paragraph NZ1.2 (on page 13)

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behaviour expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that professional accountants may encounter, whether in business or in public practice.

Requirements and Application Material

- 100.2-5 A1 The requirements in the Code, designated with the letter “R,” impose obligations.
- 100.2-5 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help an assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.
- ~~R100.36~~ An assurance practitioner shall comply with the Code. ~~There might be circumstances where laws or regulations preclude an assurance practitioner from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the assurance practitioner shall comply with all other parts of the Code.~~
- 100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable assurance practitioners to meet their responsibility to act in the public interest.
- 100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.
- 100.6 A3 Compliance with the requirements of the Code does not mean that assurance practitioners will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which an assurance practitioner believes the complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the assurance practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body.
- 100.6 A4 In acting in the public interest, an assurance practitioner considers not only the preferences or requirements of an individual client or employing organisation, but also the interests of other stakeholders when performing professional activities.
- R100.7 If there are circumstances where laws or regulations preclude an assurance practitioner from complying with certain parts of the Code, those laws and regulations prevail, and the assurance practitioner shall comply with all other parts of the Code.
- 100.3-7 A1 The principle of professional behaviour requires an assurance practitioner to comply with relevant laws and regulations.
- ~~100.3 A2 An assurance practitioner might encounter unusual circumstances in which the assurance practitioner believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the assurance practitioner is encouraged to consult with a professional or regulatory body.~~

Commented [PM2]: The IESBA code refers to “professional accountants”, as PES 1 is intended to be applied by assurance practitioners, references to PA are replaced by assurance practitioners. To highlight this change, all such replacements are highlighted in blue.

Breaches of the Code

R100.48 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards (New Zealand)*. An assurance practitioner who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the assurance practitioner's ability to comply with the fundamental principles. The assurance practitioner shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.4.8.A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for assurance practitioners:

(a) Integrity – to be straightforward and honest in all professional and business relationships.

~~(b)~~ Objectivity ~~– not to compromise or exercise~~ professional or business judgements ~~without being compromised by: because of~~

~~(i)~~ ~~bias~~ ~~Bias~~;

~~(ii)~~ ~~Conflict of interest~~; or

~~(iii)~~ ~~Undue influence of, or undue reliance on, individuals, organisations, technology or other factors, others.~~

~~(b)~~~~(c)~~ Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance services, based on current 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

(ii) Act diligently and in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.

(e) Professional Behaviour – to:

~~(i)~~ ~~comply~~ ~~Comply~~ with relevant laws and regulations; ~~and~~

~~(ii)~~ ~~Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships;~~
~~and~~

~~(iii)~~ ~~avoid~~ ~~Avoid~~ any conduct that the assurance practitioner knows or should know might discredit the profession.

R110.2 An assurance practitioner shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner. The conceptual framework establishes the approach which an assurance practitioner is required to apply ~~to assist~~ in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 An assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental

principles. In such a situation, the assurance practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the assurance practitioner from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 An assurance practitioner shall comply with the principle of integrity, which requires an assurance practitioner to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity ~~implies involves~~ fair dealing ~~and~~, truthfulness ~~and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences.~~

111.1 A2 Acting appropriately would involve:

(a) Standing one's ground when confronted by dilemmas and difficult situations; or

(b) Challenging others as and when circumstances warrant,

in a manner appropriate to the circumstances.

R111.2 An assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the assurance practitioner believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If an assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the assurance practitioner is not in breach of paragraph R111.2.

R111.3 When an assurance practitioner becomes aware of having been associated with information described in paragraph R111.2, the assurance practitioner shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

R112.1 An assurance practitioner shall comply with the principle of objectivity, which requires an assurance practitioner ~~not to compromise~~ exercise professional or business judgement ~~because without being compromised by:~~ of

(a) ~~bias~~ Bias;

(b) ~~conflict~~ Conflict of interest; or

~~(c) undue~~ Undue influence of others or undue reliance on, individuals, organisations, technology or other factors.

R112.2 An assurance practitioner shall not undertake a professional activity if a circumstance or relationship unduly influences the assurance practitioner’s professional judgement regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 An assurance practitioner shall comply with the principle of professional competence and due care, which requires an assurance practitioner to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance 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

(b) Act diligently and in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

113.1 A1 Serving clients with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional ~~and~~ business and technology-related developments. Continuing professional development enables an assurance practitioner to develop and maintain the capabilities to perform competently within the assurance environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, an assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the assurance practitioner’s authority have appropriate training and supervision.

R113.3 Where appropriate, an assurance practitioner shall make clients, or other users of the assurance practitioner’s assurance services, aware of the limitations inherent in the services.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 An assurance practitioner shall comply with the principle of confidentiality, which requires an assurance practitioner to respect the confidentiality of information acquired as a result of professional and business relationships. An assurance practitioner shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm;
- (c) Maintain confidentiality of information disclosed by a prospective client;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the assurance practitioner or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the assurance practitioner's control, and individuals from whom advice and assistance are obtained, respect the assurance practitioner's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the assurance practitioner's client to the assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where assurance practitioners are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorised by the client; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an enquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of an assurance practitioner in legal proceedings; or

- (iv) To comply with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

NZ114.1 A1.1 The circumstances in paragraph 114.1 A1 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing confidential information about a client without their consent is advised to first obtain legal advice.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client consents to the disclosure of information by the assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

R114.2 An assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the assurance practitioner and a client. When acquiring a new client, the assurance practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

R115.1 An assurance practitioner shall comply with the principle of professional behaviour, which requires an assurance practitioner to:

- (a) ~~comply with relevant laws and regulations and;~~
- (b) Behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships; and
- (c) ~~avoid~~ Avoid any conduct that the assurance practitioner knows or should know might discredit the profession.

An assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the accountancy profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

R115.2 When undertaking marketing or promotional activities, an assurance practitioner shall not bring the accountancy profession into disrepute. An assurance practitioner shall be honest and truthful and shall not make:

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the assurance practitioner; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If an assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the assurance practitioner is encouraged to consult with the relevant professional body.

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

- 120.1 The circumstances in which assurance practitioners operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist assurance practitioners in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter assurance practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for an assurance practitioner to:
- Identify threats to compliance with the fundamental principles;
 - Evaluate the threats identified; and
 - Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

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

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

(a) Part 2 – Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm;

~~(a)~~**(b)** Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*; and

~~(b)~~**(c)** *International Independence Standards (New Zealand)*, as follows:

- Part 4A – *Independence for Audit and Review Engagements*; and
- Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

R120.4 [Amended by the NZAuASB. Refer to NZ R120.4.1]

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

Commented [PM3]: This amendment is not part of the IESBA's revision to the Code for the Role and Mindset. This change relates to the approved but yet to be issued Amendments to PES 1: Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm.

circumstances.

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

Commented [PM4]: This amendment is not part of the IESBA's revision to the Code for the Role and Mindset. This change relates to the approved but yet to be issued Amendments to *PES 1: Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm*.

R120.5 When applying the conceptual framework, the assurance practitioner shall:

(a) Have an inquiring mind;

~~(a)~~(b) Exercise professional judgement; and

~~(b)~~ Remain alert for new information and to changes in facts and circumstances; and

(c) Use the reasonable and informed third party test described in paragraph 120.5 A4A6.

Having an Inquiring Mind

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

(a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and

(b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the assurance practitioner might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the assurance practitioner.
- There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all assurance practitioners to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all assurance practitioners regardless of the professional activity undertaken. Under auditing, review

and other assurance standards, including those issued by the NZAuASB. Assurance practitioners are also required to exercise professional scepticism, which includes a critical assessment of evidence.

Commented [PM5]: "the IAASB" in the IESBA's Code

Exercise-Exercising of Professional Judgement

120.5 A1A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including taking into account the nature and scope of the particular assurance activities, and the interests and relationships involved.

~~120.5 A5 In relation to undertaking assurance activities, the exercise of professional~~ Professional judgement is required when the assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the assurance practitioner might consider matter such as whether:

~~120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgement.~~

~~120.5 A3 In exercising professional judgement to obtain this understanding, the assurance practitioner might consider, among other matters, whether:~~

- ~~• There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the assurance practitioner.~~
- ~~• There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.~~
- The assurance practitioner's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- ~~• The information provides a reasonable basis on which to reach a conclusion.~~
- The assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.
- ~~• There might be other reasonable conclusions that could be reached from the available information.~~

Reasonable and Informed Third Party

120.5 A4A6 The reasonable and informed third party test is a consideration by the assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to

understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.

Identifying Threats

R120.6 The assurance practitioner shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, or the firm that can enhance the assurance practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner's judgement or behaviour;
- (b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made, or an activity performed by the assurance practitioner, or by another individual within the assurance practitioner's firm, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that an assurance practitioner will promote a client's position to the point that the assurance practitioner's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R120.7 When the assurance practitioner identifies a threat to compliance with the fundamental principles, the assurance practitioner shall evaluate whether such a threat is at an

acceptable level.

Acceptable Level

120.7 A1 An acceptable level is a level at which an assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the assurance practitioner and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the assurance practitioner shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the assurance practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the assurance practitioner

shall address the threats by eliminating them or reducing them to an acceptable level. The assurance practitioner shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

R120.11 The assurance practitioner shall form an overall conclusion about whether the actions that the assurance practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the assurance practitioner shall:

- (a) Review any significant judgements made or conclusions reached; and
- ~~(b)~~ ~~(b)~~—Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to provide additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organisational Culture

120.13 A1 The effective application of the conceptual framework by an assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the assurance practitioner's organisation.

120.13 A2 The promotion of an ethical culture within an organisation is most effective when:

- Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating the ethical values of the organisation;
- Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistleblowers; and
- The organisation adheres to ethical values in its dealings with third parties.

120.13 A3 Assurance practitioners are expected to encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority.

Considerations for Audits, Reviews ~~and~~ Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 [Proposed] ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Independence

~~120.12-15~~ A1 Assurance practitioners are required by *International Independence Standards (New Zealand)* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit, review or assurance team member's integrity, objectivity or professional scepticism has been compromised.

~~120.12-15~~ A2 *International Independence Standards (New Zealand)* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Assurance practitioners and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

Professional Scepticism

~~120.13-16~~ A1 Under auditing, review and other assurance standards, including those issued by the New Zealand Auditing and Assurance Standards Board, assurance practitioners are required to exercise professional scepticism when planning and performing audits, reviews and other assurance engagements. Professional scepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

~~120.13-16~~ A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism, as shown in the following examples:

- *Integrity* requires the assurance practitioner to be straightforward and honest. For example, the assurance practitioner complies with the principle of integrity by:

- Being straightforward and honest when raising concerns about a position taken by a client; ~~and~~
- Pursuing enquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
- Having the strength of character to act appropriately. This would involve:
 - (a) Standing one's ground when confronted by dilemmas and difficult situations.
 - (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the assurance practitioner demonstrates the critical assessment of audit evidence that contributes to the exercise of professional scepticism.

- Objectivity requires the assurance practitioner ~~not to compromise exercise~~ professional or business judgement ~~because of~~ without being compromised by:
 - (a) ~~bias~~ Bias;
 - (b) ~~C~~ onflict of interest; or
 - (c) ~~the u~~ Undue influence of, or undue reliance on, individuals, organisations, technology or other factors. ~~others.~~

For example, the assurance practitioner complies with the principle of objectivity by:

- (a) Recognising circumstances or relationships such as familiarity with the client, that might compromise the assurance practitioner's professional or business judgement; and
- (b) Considering the impact of such circumstances and relationships on the assurance practitioner's judgement when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

- Professional competence and due care requires the assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the assurance practitioner complies with the principle of professional competence and due care by:
 - (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;

- (b) Designing and performing appropriate audit procedures; and
- (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

.....

GLOSSARY

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

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

.....

Professional activity An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, tax, management consulting, and financial management.

Professional Judgement Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

Professional services Professional activities performed for clients.

[NZ] Proposed assurance practitioner An assurance practitioner who is considering accepting an audit, review or assurance appointment for a prospective client (or in some cases, an existing client).

.....

Memorandum

Date: 2 October 2020

To: Michele Embling, Chair XRB Board

From: Robert Buchanan, Chair NZAuASB

Subject: Certificate Signing Memorandum: *Revisions to Professional and Ethical Standard 1: Revisions to the Code to promote the role and mindset expected of assurance practitioners*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Revisions to Professional and Ethical Standard 1 (PES 1): Revisions to the Code to promote the role and mindset expected of assurance practitioners*.

Background

2. In 2015 and in response to the International Auditing and Assurance Standards Board (IAASB) Invitation to Comment [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#), many commentators called for a more consistent exercise of appropriate professional scepticism (PS) by professional accountants in the context of audit and other assurance engagements. There was also a call from some stakeholders for all professional accountants to exercise PS. The International Ethics Standards Board for Accountants (IESBA), the International Accounting Education Standards Board (IAESB) and the IAASB established a joint Professional Scepticism Working Group (PSWG) to facilitate a coordinated approach to the topic across the Standard Setting Boards.
3. The PSWG published its discussion paper [Towards Enhanced Professional Scepticism](#), in 2017 to set out actions the global standard-setting boards were to take in enhancing professional scepticism.
4. In April 2018, the IESBA published its consultation paper, *Professional Scepticism – Meeting Public Expectations*, which requested feedback on:
 - The behavioural characteristics comprised in professional scepticism;
 - Whether all professional accountants should apply these behavioural characteristics; and
 - Whether the International Code of Ethics for Professional Accountants (including International Independence Standards) should be further developed to address behaviours associated with the exercise of appropriate professional scepticism.

5. The CP set out 5 possible ways, or a combination thereof, in which the IESBA might address the promotion of professional scepticism, namely by:
 - Requiring all PAs to exercise ‘professional scepticism’ as defined in the ISAs (Option A);
 - Keeping the term ‘professional scepticism’ and developing a different definition that would be appropriate for all types of professional activity (Option B);
 - Developing a different term to use with the behaviour expected of all PAs (Option C);
 - Adding additional application material to expand on the concepts underlying the fundamental principles (Option D);
 - Adding requirements and/or application material to address bias, pressure and other impediments to the proper exercise of professional judgement (Option E).

6. On 16th of July 2018, Craig Fisher (then a member of the NZAuASB), Warren Allen (then the XRB CE), Sylvia van Dyk (Director Assurance Standards) and staff attended the IESBA Roundtable held in Melbourne, jointly hosted by the XRB and the Australian Professional and Ethical Standards Board (APESB). The Roundtables were led by Richard Fleck, IESBA Deputy Chairman and the Chair of NAS and PS Working Group, and Patricia Mulvaney, IESBA Member and PSWG Member. The Roundtable was well attended with participants representing a wide range of stakeholders including assurance practitioners, national standard setters, academia, regulators and professional accountants in business. Feedback from these stakeholders informed the [NZAuASB response to the CP](#) submitted to the IESBA on 14th August 2018. In the submission, the NZAuASB:
 - Supported the IESBA’s vision for the Code to enable all professional accountants to act in the public interest by not associating with misleading information.
 - Did not support “professional scepticism” being introduced into the Code as a “catch all” term for all professional accountants. Adopting this approach might dilute or otherwise adversely affect the understanding and application of professional scepticism in the context of audit and other assurance engagements, and therefore be detrimental to the public interest.

7. The IESBA analysis of feedback received from its stakeholders shows that a clear majority agreed with the NZAuASB’s notion that the term ‘professional scepticism’ should be reserved for use in relation to PAs in public practice undertaking audit and other assurance. This promoted the IESBA to abandon Option A and focus on Option B. In perusing option B, the IESBA developed a new term “inquiring mind” to better articulate behavioural characteristics to be applied by professional accountants.

8. There was mixed support for the articulation of the public expectation of professional accountants in the CP. However, the IESBA concluded that it would be appropriate to maintain this focus and revise the Code accordingly.

9. In July 2019, the IESBA published its Exposure Draft *proposes revisions to the International Code of Ethics for Professional Accountants (including International*

Independence Standards) that promoted the role and mindset expected of professional accountants. Among other matters, the proposals:

- Highlight professional accountants' wide-ranging role in society and the relationship between compliance with the Code and a professional accountant's responsibility to act in the public interest;
- Include enhancements to the robustness of the fundamental principles of integrity, objectivity and professional behaviour;
- Further strengthen the Code through requiring professional accountants to have an inquiring mind when applying the conceptual framework; and
- Highlight the importance of being aware of bias and having the right organisational culture.

10. [The NZAuASB responded to the ED](#) on 10th October 2019 expressing its support for the ED and suggesting changes to improve the flow of the proposed changes as well as a specific recommendation to include an statement that professional accountants must behave in a manner that does not endanger the public trust in the profession .
11. In its June 2020 meeting, the IESBA approved the revisions to the Code and issued the Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants in October 2020¹. The NZAuASB considered the final revisions in its September 2020 meeting and supported all the final revisions to the Code. The NZAuASB also noted that the IESBA has not incorporated the NZAuASB's suggestion to include a statement that professional accountants are responsible for maintaining and enhancing the public trust in the profession. The NZuASB considered a compelling reason analysis to decide whether it is in New Zealand's interest to add this reference in PES1. However, the compelling reason test was not met. It was noted that the proposed amendment is not a requirement or application material, but introductory. Although the principle is appropriate, Paragraphs 110.1 A1 (e) and R115.1 that require professional accountants to behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships capture the intention of the suggested modification.

Privacy

12. 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.

¹ [Basis for Conclusions: Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#).

Due Process

13. 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 External Reporting Strategy

14. 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.

15. 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

16. 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

17. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Amendments to Professional and Ethical Standard 1(PES 1): Revisions to the Code to promote the role and mindset expected of assurance practitioners.

Robert Buchanan

Chair

NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	21 October 2020
Subject:	Discussion Paper Fraud and Going Concern
Date:	2 October 2020
Prepared by:	Misha Pieters and Peyman Momenan

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

Agenda Item Objectives

- For the Board to:
 - CONSIDER the IAASB's discussion paper on Fraud and Going Concern;
 - APPROVE an outreach plan to solicit views of New Zealand stakeholders;
 - PROVIDE initial thoughts or views on the matters explored to inform the development of a submission.

Background

- The IAASB issued a Discussion Paper in September, available at agenda item 6.3, to explore the expectation gap on matters relating to fraud and going concern in an audit of financial statements and is seeking a response by **12 January 2021**. The discussion paper is seeking views from all stakeholders across the financial reporting supply chain.
- Both fraud and going concern are key topics identified by the NZAuASB's discussions when considering the recommendations coming out of the UK in response to the Brydon Review and the Australian PJC review.
- The IAASB held a virtual roundtable on 28/09/2020 to discuss these matters. A recording of this session can be viewed on the IAASB's [YouTube Channel](#).

Matters to Consider

- We are planning a virtual discussion event for New Zealand stakeholders in November.
- Board members are asked to comment on:
 - the outreach plan and ways to best engage with New Zealand stakeholders
 - any initial thoughts to include in developing a New Zealand response.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Outreach plan
Agenda item 6.3	IAASB's Discussion Paper

Fraud and Going Concern Outreach event plan

Date: 24 November 2020

Time: 10 am-12 noon

Target: NZAuASB distribution list, XRAP members and request XRAP to circulate within their networks. CAANZ and CPA also requested to circulate and encourage participation by their members. Staff will provide an update on registrations at the meeting. Please do encourage participation through Board member networks or share the “Save the date” LinkedIn post.

Format: Online zoom event, using break away rooms at appropriate times to solicit feedback from all stakeholders.

Break out rooms will be set up in zoom, to include a mixture of stakeholders in each room (practitioners, preparers, users etc) depending on registrants.

Agenda:

Time	Topic	Facilitated by
10 am	Welcome and overview	Robert Buchanan
10:10 am	Fraud overview	Peyman
10:20 am	Fraud Break away room:	Mixture of stakeholders in each room to explore the questions posed on fraud
10:50	Report back	By each room
11 am	Going concern overview	Misha
11:10 am	Going concern Break away room:	Mixture of stakeholders in each room to explore the questions posed on going concern
11:40	Report back	By each room
11:50 am	Wrap-up and thank you	April

DATE: 5 October 2020

TO: External Reporting Board
New Zealand Auditing and Assurance Standards Board (NZAuASB)
Chartered Accountants Australia and New Zealand (CA ANZ)

FROM: Lyn Provost, IAASB member
Sylvia van Dyk, Technical advisor

SUBJECT: Report on IAASB September 2020 Meeting

Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) virtual meeting held 14-23 September 2020. Key items on the agenda included:
 - Approval of the Quality management standards and conforming amendments
 - Consideration of initial proposals for key enhancements to the EER draft guidance.
2. The full meeting papers can be accessed [here](#).

Quality Management Standards

3. The Board approved the three quality management standards and related conforming amendments. None of the Board members voted for re-exposure.
4. The effective dates for the standards are:

ISQM 1: (Quality management at the firm level)

Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management is required to be performed within one year following December 15, 2022.

ISQM 2 (Engagement quality reviews)

This ISQM is effective for:

- (a) Audits and or reviews of financial statements for periods beginning on or after December 15, 2022; and
- (b) Other assurance or related services engagements beginning on or after December 15, 2022.

ISA 220: (Quality management at the engagement level)

This ISA is effective for audits of financial statements for periods beginning on or December 15, 2022.

ISQM 1 – Quality Management at the Firm Level

5. In finalising the standard the Board discussed targeted revisions of the proposed standard in response to Board comments raised in June and March 2020. Key matters discussed included:

- Various matters related to human resources, including reinstating the definition of personnel as partners and staff of the firm, and clarifying that other individuals may be used by the firm in performing activities in the SOQM. The definition of service providers was also updated to remove the reference to “engaged by the firm” so that it does not inadvertently exclude circumstances where the firm uses a component auditor engaged by the client or management of the component.
- The PIOB has continued to emphasise the need for the objective of the standard to focus on the public interest. The Board considered how to enhance the focus on the public interest and consistent performance of quality engagements in the context of the objective of the standard. The Board agreed that the objective remains appropriate, but there was mixed support for positioning the public interest paragraph, previously included in the introductory material, with the objective. On the other hand, the PIOB observer felt it did not go far enough but that it was a satisfactory compromise.

A number of Board members expressed concern that this approach is different to the general drafting conventions, and that they would not want to see this approach throughout the standards. The Board eventually agreed by a show of hands with the placement of the public interest paragraph with the objective within proposed ISQM 1, given the nature of ISQM1 is different to other standards. It was noted that the ISA 220 Task Force was proposing a similar approach in proposed ISA 220. The **Board’s discussion on that proposal** is noted below in paragraph 9.

- The Board discussed the revisions to the **firm’s risk assessment process**, which included clarifications that the firm can modify or delete additional objectives set by the firm, but not the objectives set in the standard. The Board further agreed that the risk assessment process is an area where implementation guidance will be needed, specifically to illustrate which risks are quality risks arising from conditions, events, circumstances etc.
- The Board discussed the applicability of relevant ethical requirements to the network and service providers. Staff engaged with IESBA staff to clarify that while the IESBA Code does not explicitly contain requirements for service providers and the network, relevant ethical requirements may be applicable in a number of ways. The Board agreed that ISQM 1 should be principled base and that the quality objective relating to relevant ethical requirements is appropriate.
- External communication – the Board agreed the requirement to communicate with TCWG of listed entities for which the firm performs audit engagements is better located in proposed ISQM 1, rather than in ISA 260 (Revised).

6. One Board member (from Germany) abstained from voting on proposed ISQM1, for the following reasons:
 - There are too many required quality objectives, which will make the standard difficult to scale down for SMPs.
 - The practicality of the definition of engagement team as it applies to other assurance engagements has not really been investigated.
 - The requirement that others outside the firm must be subject to the same ethical requirements is not practical.
 - **The deletion of the word “assessed”** prior to quality risk would make it difficult to identify quality risks, even if is assessed as low risk.
7. All other Board members approved the standard.

ISA 220 – Quality Management at the Engagement Level

8. Lyn, as the Chair of the ISA 220 Task Force, provided an overview of the amendments to proposed ISA 220 since the April 2020 Board videoconference. In finalising the standard, the Board focused on further clarifying the engagement **partner’s responsibilities**, human resource matters, and the linkages with ISQM 1.
9. There was a rigorous debate on the proposal to move the introductory paragraph on public interest immediately to follow the objective in ISA 220, as was agreed for ISQM 1. All Board members agreed that the public interest paragraph should remain in the introductory paragraph. It was noted that it would be more appropriate to use such an approach in ISA 200¹, which is the overarching standard for the ISAs.
10. The Board agreed to address the matter in the Basis of Conclusions and requested staff and the planning committee to further explore the amendment to ISA 200 as an option, as well as possible amendments to ISAE 3000², which is also an umbrella standard. The PIOB observer noted their strong interest in this matter.
11. There was also lots of discussion about the scalability example in paragraph A13 which noted that in a smaller firm, the engagement partner may design the responses to **the firm’s quality risks**. It was agreed that implementation guidance will be needed overall on the engagement **partner’s responsibilities** in smaller firms.
12. One Board member raised a concern about possible changes that may be necessary to ISA 220 if substantive concerns are raised on the proposed revisions to ISA 600, *Audits of Group Financial Statements*, given the overlap between ISA 220 and ED ISA 600. It was noted that if there is a problem it will have to be fixed, but that the approval of ISA 220 should not be delayed because of possible comments on ED ISA 600.

¹ ISA 200, *Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

² ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

13. Other than one Board member (from Germany) who voted against the approval of the standard, all other Board members approved it. The reason noted by the Board member who voted against the standard is because the definition of engagement team includes component auditors, which in his view is not practical. Specifically, where the component auditor is from another jurisdiction other than the firm, it would be difficult to comply with the requirements in ISA 220 on supervision and review of engagement team members.

ISQM 2 – Engagement Quality Reviews

14. The Board unanimously approved ISQM 2.
15. The Board also received an update on the approval of the revisions to the IESBA Code, addressing the objectivity of engagement quality reviewers. This includes adding an appropriate cross-reference to proposed ISQM 2 at the end of the new Section 325 in the IESBA Code to highlight the specification of a cooling-off period with respect to the matter of an individual being considered for appointment to the EQR role after having served as the engagement partner.

Extended External reporting (EER) Assurance

16. Lyn, as the EER Task Force Chair, presented an overview of the comment letters received on the March 2020 EER Assurance Consultation Paper. The Board **discussed respondents' comments on the Consultation Paper and the EER Task Force's proposals for addressing the comments.** The Board was overall very **supportive of the Task Force's directions and** congratulated the Task Force on the fantastic effort.
17. The comments from respondents were overall very supportive on the initiative, and on the usefulness of the guidance, specifically the practical examples. They noted there is a need for the guidance to evolve to keep pace with the rapidly evolving landscape of EER reporting, regulation and assurance.
18. Overarching themes on the content of the guidance included the following:
- Limited and reasonable assurance - illustration of practical application needed
 - Use of examples to:
 - replace theoretical discussion
 - illustrate different frameworks
 - Qualitative information
 - **Guidance on 'evaluation' as well as 'measurement' techniques**
 - Further practical examples needed for obtaining evidence, and qualitative misstatements
 - Guidance to be spread throughout the chapters
 - Professional scepticism and professional judgment to focus on EER-specific considerations, rather than general conceptual discussion
 - Multi-location engagement guidance needed.
19. The Board agreed with the initial views of the Task Force, which are:
- Summarise in a table, as an Appendix to the Guidance, key differences between limited and reasonable assurance
 - Develop two additional examples (on SASB and TCFD) for Supplement B
 - Retain in a separate chapter, but enhance guidance to illustrate evaluation and enhance guidance on qualitative misstatements

- Streamline Chapter 2, on professional scepticism and professional judgement, focussing on EER specific and practical examples
 - Add multi-location considerations to the limited and reasonable assurance table, and to one of the practical examples.
20. The Board cautioned the Task Force not to add too many examples, and to consider staggering the issue of the examples and the limited and reasonable assurance table, and to treat the EER Guidance as the priority. The table would be helpful; but would take time to do well. The spectrum between limited and reasonable assurance is the biggest issue.
21. Regarding the overarching themes on the format of the guidance, the Task Force is proposing to:
- explore ways of presenting the EER Guidance in an innovative, accessible way using technology
 - use simple language, avoiding duplication, and use examples
 - reorder chapters as suggested (chapter 6 to after chapter 3, chapter 10 to the end)
 - Replace the complex diagram 5, if possible, or delete.
22. Another issue that the Board discussed was respondents comments on Supplements A and B. Due to mixed views, the Task Force requested the Board's views on whether to retain or delete Supplement A, or if retained, whether to retain Part 1 only, or both parts. There was also discussion on how to link the Guidance to the supplements.
23. In summary, the Board also had mixed views about Supplement A. A suggestion was to stagger the issue by starting with the Guidance including Supplement B, Supplement A Part 1, and to issue Supplement A, Part 2 later.
24. Lyn provided a summary of responses received on each of the chapters, noting where further clarifications was needed. Overall, the Board agreed with the Task **Force's summary** of the identified themes and issues from the responses received.
25. The next steps are:
- Present updates to the EER Guidance and Supplement(s) to the IAASB in December
 - Explore with IFAC and IAASB staff the format of the publication with an aim of having a digital version in place at, or shortly after, publication in early 2021
 - Seek approval of final EER Guidance and Supplement(s) in March 2021.

Future meetings

26. A Video conference has been scheduled for November 11, 2020.
27. The next IAASB meeting is scheduled for December 7 -11, 2020 and will be held virtually via videoconference.

Auditing Standards Reference Group Discussion on topics for IAASB September 2020

8 September 2020

Apologies: Simon Brotherton, Glen Waterhouse.

[Note for the NZAuASB – none of these comments are fatal flaws – all were raised with the IAASB and satisfactorily addressed]

Discussion 1: ISQM 1 (IAASB Agenda Item 2)

Objectives:

To approve proposed ISQM 1.

- Overall remain concerned about the scalability of the standard, but do not have any suggestions how this might be further improved.
- 27 – the addition of “or modify” adds confusion rather than clarification. If the firm has included additional quality objectives, it seems obvious that the firm would amend the firm’s own quality objective, as necessary. This goes without saying. The addition has the potential to confuse and imply that the quality objectives of the standard can be modified.
- 34 (e) - support for inclusion in ISQM 1 (not ISA 260)
- Less complex, more complex, small, and large – a suggestion that these terms be reviewed for consistency and clarity so as to not to confuse complexity with size (small firms may still be complex, large engagements may not be complex). E.g. A134 examples include complex and certain *large* financial institutions, which may again muddle the size/complexity issue (large does not always equal complex, small does not always equal less complex). A156 refers to smaller firms – is competence and capability not related more to the complexity than the size?
- A46 – last sentence repeats the definition of a quality risk. Suggest end the sentence...The firm exercises PF in determining whether a risk is a quality risk.
- A132 - need for consistency between ISQM 1 and ISQM 2 public sector examples and wording. Consider need for reference to laws and regulations.
- A133 – suggest move bullet points to application material related to what firms might decide require an EQR. Unclear why the standard would list areas where laws and regs may require an EQR. The laws and regs will determine this regardless.
- A153 – the words listed entities has been deleted – this seems like a significant change.

Discussion 2: ISQM 2 (IAASB Agenda Item 3)

Objectives:

Approve the scope of engagements subject to an engagement quality review and proposed ISQM 2

- Limited changes from the previous version reviewed by the reference group; mainly editorial.

Engagements subject to an EQR – Agenda item 3C

- A133 – examples relate back to the types of entities for which the firm determines an EQ review is an appropriate response, rather than law or regulation as suggested by the lead-in

to the paragraph. There is no need to provide examples of engagements for which an EQ review is required by law or regulation.

- A134 – difficult to read. Suggestion that second sentence could end after the words “quality risks”, i.e., no need to include the extra words “arising from certain conditions, events, circumstances, actions or inactions”.
- A137 – size and complexity, range of stakeholders, or nature of the services are examples of some quality risks, not an exhaustive list of all quality risks for public sector entities. Suggest changing “due to” to “such as” to make this clear. Complexity around reporting is also a significant factor to consider.

ISQM 2 – Agenda item 3D

- A50 – deletion of causal relationship between ISQM 2 and ISQM1 from the application paragraph removes need to use “therefore”. Suggested editorial to second sentence, An engagement quality review performed in accordance with this ISQM is ~~therefore~~ subject to the documentation requirements in proposed ISQM 1.
- Agreement with task force conclusion that re-exposure is not required.

Discussion 2: ISA 220 (IAASB Agenda Item 4)

Objective:

To approve ISA 220 (Revised)

- Paragraph 41 – Odd to refer to the auditor given the requirements throughout ISA 220 are on the engagement partner/engagement team. Should the requirement go more towards the engagement partner’s responsibility for audit documentation on the engagement, rather than matters to be documented?
- A24 Could this sentence be simplified? Removal of “firm” personnel creates some confusion.
- A28 -editorial – variety of factors
- A113 editorial – remove ~~for being~~ **sufficiently and appropriately involved** to align wording more accurately to ISQM 1
- A114 editorial – not clear why wording “the requirement in” was deleted. Read better before.
- A116 – are “updating and changing” both needed? Changing the plan is updating the plan. Prefer “amending”
- A117 Repetition of application material from ISA 230 seems unnecessarily duplicative.
- Where application material states, “ISQM 1 requires” there needs to be a footnote reference to the requirement in ISQM 1.
- Agree with Task force conclusion that ISA 220 does not require re-exposure.

Discussion 5: EER (IAASB Agenda Item 5)

Objective:

- *Brief the Board on the themes and significant issues identified in the responses received on the March 2020 public consultation*
- *Obtain the IAASB’s views about the Task Force’s initial proposals for key enhancements to the draft guidance, as well as the treatment of material in Supplement A and Supplement B.*

- Support for direction and development of the table to show the differences between limited and reasonable assurance. It is especially useful to highlight both areas where there are similarities (e.g. level of competence) and where there are differences (e.g. understanding internal control). Highlighted the need for more guidance in the differences in expected procedures (some may be doing more than is needed in limited assurance engagements). Noted that procedures are outside the terms of reference of this guidance.
- Support that diagram 5 is overly complex and does not add anything, so support change or removing this.
- Supplement A – second part is especially confusing and unclear how it will help.
- Work in EU on “double materiality” and AICPA’s work on materiality is worth a read – done great work.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	21 October 2020
Subject:	Quality management standards
Date:	8 October 2020
Prepared By:	Misha Pieters and Sharon Walker

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

Agenda Item Objectives

For the Board to:

- RECEIVE an overview of key revisions made by the IAASB in finalising the quality management standards which were approved by the IAASB at its September 2020 meeting.
- CONSIDER preliminary thoughts on New Zealand specific changes

Background

1. The IAASB approved the three quality management standards at its September meeting:
 - a) International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements*.
 - b) ISQM 2, *Engagement Quality Reviews*.
 - c) International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*;together with conforming amendments to the ISAs.
2. The quality management standards are expected to be issued early next year once the Public Interest Oversight Board (PIOB) has confirmed whether due process has been followed.
3. The effective date of the international standards are as follows:
 - ISQM 1: Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management is required to be performed within one year following December 15, 2022.
 - ISQM 2: Effective for audits or reviews of financial statements for periods beginning on or after 15 December 2022 and other assurance

or related services engagements beginning on or after 15 December 2022

- ISA 220 (Revised): Effective for audits of financial statements for periods beginning on or after 15 December 2022.

The standards can be early adopted but only if all three of the standards are early adopted.

4. The IAASB also discussed conforming amendments to other IAASB standards. These are yet to be developed by the IAASB. There are existing differences in New Zealand to the IAASB's quality control requirements that relate to assurance engagements other than audits. These will be considered in due course by the NZAuASB.

New Zealand context

5. The NZuASB submitted its [responses](#) to the IAASB's quality management exposure drafts in July 2019, and has periodically been updated on the IAASB's deliberations in finalising the standards through report backs from the IAASB meetings.
6. At its meeting in April 2019, the NZAuASB considered a preliminary assessment of whether to retain existing NZ compelling reason changes in extant PES 3 in adopting the revised or new IAASB standards. Extracts of the minutes from that discussion are included here:

“The Board DISCUSSED possible compelling reason changes for development of a New Zealand exposure draft and AGREED:

- To amend the requirement for an engagement quality review (EQR) from 'listed entity' to 'FMC reporting entity considered to have a higher level of public accountability' and leave it up to the firms to determine other entities of significant public interest. The Board discussed that requiring an EQR for all public interest entities as defined in PES 1 would be extending the requirements beyond what was intended by the IAASB's proposals. The Board REQUESTED that staff develop additional New Zealand application material to clarify this in the New Zealand context. [\[The IAASB approach has subsequently been amended and the revised approach is explored in the issues paper\]](#)
- To further consider all possible options to amend the reference to Part 2 of the IESBA Code of Ethics and to consult with CAANZ and CPA Australia. [\[The NZAuASB has agreed to include Part 2 in the Code\]](#)
- Support for the initial analysis of whether or not to retain the existing New Zealand specific paragraphs from extant PES 3. [\[Due to the mandate change, our initial analysis has been reconsidered\]](#)

7. “The Board AGREED to defer the development of a New Zealand exposure draft to a later stage, with the option of a short exposure period once the IAASB finalises the standard if the changes needed relate only to terminology changes and clarification of the mandate and scope of the NZAuASB standard. Staff were asked to reflect on whether any further changes may be needed and then determine the most appropriate time to develop the New Zealand exposure draft.”
8. At its meeting in July 2019 the NZAuASB agreed the following (extracts from minutes):

“The Board CONSIDERED matters related to the development of a New Zealand exposure draft of the IAASB's quality management proposals. The Board AGREED tentatively, pending the outcome of any changes to be made by the IAASB:

- to defer the development of the exposure draft until next year, planning to issue the exposure drafts just after the IAASB approves the standards, expected to be in March 2020;
 - with the proposed titles of PES 3 and PES 4;(I.e. PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial statements, or Other Assurance, or Related Services Engagements* and PES 4 *Engagement Quality Reviews*) [*We continue to recommend that the change of scope of the standard be addressed in the standard not in the title*]
 - with the proposed New Zealand definition of a listed issuer; [*this may no longer be necessary given changes made by the IAASB*]
 - with proposed New Zealand application material to describe the scope of the engagements subject to an engagement quality review; [*IAASB has amended the approach and therefore additional material may no longer be needed*]
 - to consider references to PES 1 and the scope of the proposed ISQM 1 in New Zealand in conjunction with the mandate project; (the need to amend the scope is considered in the issues paper) [*The mandate has now been amended so updated ways to clarify the scope are considered in the issues paper*]
 - there is no longer a compelling reason to add additional New Zealand paragraphs related to sufficient time and documentation; [*this decision remains valid given the finalised requirements*]
 - to further consider the need for a reference to reviews conducted by the Office of the Auditor General but to reduce the additional New Zealand paragraphs specific to the public sector; and [*The need for public sector specific guidance will be reviewed*]
 - to include the additional New Zealand requirement for the engagement quality reviewer to consider the teams evaluation of the firms' independence." [*This relates to ISQM 2*]
9. The IAASB has amended the scope of the engagement quality review requirements and this matter is explored in the attached issues paper.
10. The NZAuASB has now adopted Part 2 of the IESBA code and therefore there is no longer a need to amend explicit references to this Part of the Code of Ethics.
11. The NZAuASB's mandate has now been extended to incorporate agreed upon procedures engagements. The NZ scope amendments will need to be refined to reflect this broader scope. The issues paper considers possible ways in which this may be done. The quality management standards will become effective after the agreed-upon procedures standard. The NZAuASB is planning that ISRS (NZ) 4400 will reference the CAANZ quality standards until such time as the revised quality management standards are adopted. A conforming amendment to the New Zealand agreed-upon procedures standard will therefore be required when New Zealand quality management standards are issued.

Matters to Consider

12. The issues paper at agenda item 8.2 provides an overview of the key changes and issues addressed by the IAASB in finalising each of the quality management standards, considers how the IAASB responded to the key points raised by the NZAuASB and identifies potential NZ amendments for consideration by the NZAuASB.
13. This analysis will assist in developing any New Zealand exposure draft.

Material Presented

Agenda item 8.1
Agenda item 8.2
Agenda item 8.3

Board Meeting Summary Paper
Issues Paper
[Draft] ISQM 1 (from IAASB September meeting)

Quality management issues paper

1. This issues paper:
 - 1- Provides an overview of the key changes and issues addressed by the IAASB in finalising the quality management standards.
 - 2- Highlight if and how matters arising from the NZAuASB’s submissions have been addressed
 - 3- Preliminary thoughts on New Zealand changes that might be needed when the NZAuASB adopts the standards.

Section 1: ISQM 1

Key matters raised in response to IAASB’s ED and how the IAASB has responded

2. Respondents to ED-ISQM 1 were generally supportive of the proposals, however raised the following key areas of concern (of which the first two were identified by the NZAuASB, with the third point discussed as part of the mandate of the XRB):
 - The scalability of the standard and firms appropriately tailoring the system of quality management for their circumstances;
 - The complexity and prescriptiveness of the requirements;
 - Developing a standard that can be applied in all circumstances, including when firms only perform related services engagements.
3. The following table summarizes the key areas of concern raised by respondents and how the IAASB has approached addressing these:

	Scalability	Tailoring	Complexity	Prescriptiveness	Applicability
Restructuring the sequence of components (risk assessment process moved above governance and leadership). Reduced length of introduction			X		
Firm’s risk assessment process (RAP) and monitoring and remediation described processes			X		
Adjust requirement to establish additional quality objectives. Include examples and note that additional objectives are not always needed (Para 24 and A42-A44)	X	X	X	X	X
Simplify process for identifying and assessing quality risks. Threshold for identification relocated to the definition of quality risks (Para 16(r))			X	X	
Clarify how to identify and assess quality risks, explaining conditions, events, circumstances,	X	X			X

	Scalability	Tailoring	Complexity	Prescriptiveness	Applicability
actions or inactions that may adversely affect achievement of the quality objectives (Para 25)					
Refine quality objectives and responses in components. (Para 28-33) Reduce number of prescribed responses by including as outcome focused objectives			X	X	X
Relocating remaining responses to a separate section – these responses alone are not sufficient. (Para 34)	X	X	X	X	X
Refocus requirement for engagement inspections on the effect of other monitoring activities on the selection of engagement for inspection, the appropriate combination of electing engagements and engagement partners and risk. (Para 38)	X	X	X	X	X
Clarify the framework for evaluating findings and identifying deficiencies, New definition of findings and examples of deficiencies. (Para 16(a) and (h))			X		
De-emphasize a focus on compliance	X	X		X	X
Signposting scalability examples, with examples of scaling up and down.	X	X	X		X
Move application material to outside the standard			X	X	
Remove duplicative or unnecessary material			X	X	

Key areas raised in the NZAuASB’s submission

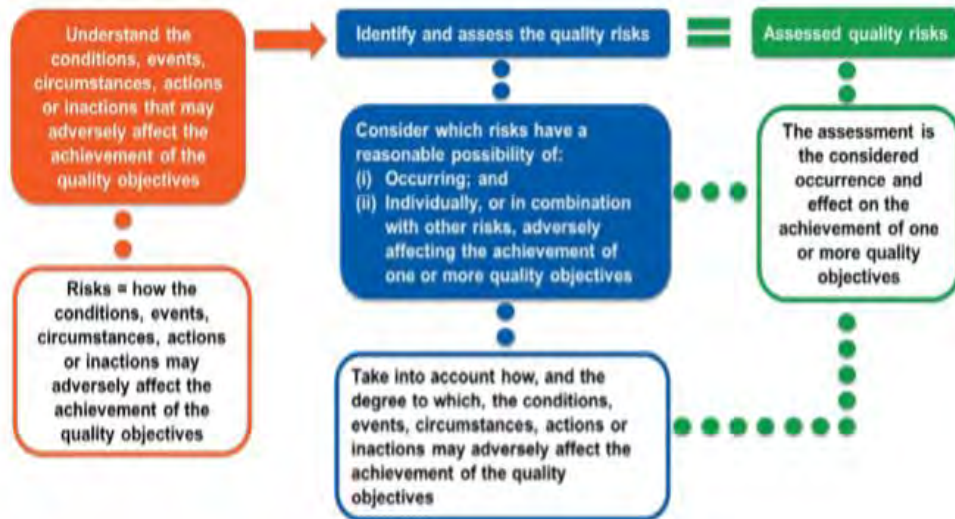
4. The following table summarises key comments made by the NZAuASB and how the IAASB responded:

NZAuASB comment	IAASB response
<i>Changes to address complexity and prescriptiveness and applicability concerns</i>	
<ul style="list-style-type: none"> The length and density of the material. This is a major point of concern and may be a barrier to effective application of the standard. We encourage a review of the drafting conventions used in the exposure draft, to ensure that the requirements are clear and application material will assist practitioners (rather than for example repeating requirements or justifying the requirement). 	<ul style="list-style-type: none"> Re-ordering the sequence of the components (Risk assessment process first); Refocusing the components on the quality objectives, removing duplication between the quality objectives and responses, elevating (and restating) responses as quality objectives (where possible) and

<ul style="list-style-type: none"> The extent of prescription in the standard. The combination of risk management with compliance seems to result in a hybrid that is likely to undermine the real benefits of the risk-based approach. We encourage the IAASB to reconsider the inclusion of prescriptive requirements. 	<p>relocating responses to a discrete section “specified responses”.</p> <ul style="list-style-type: none"> Reducing the introduction, application material and appendix, with a plan to repurpose this material as guidance outside of the standard. Rephrasing the wording to make it more succinct, direct or understandable Quality objectives remain “granular”
<p><i>Scalability</i></p>	
<ul style="list-style-type: none"> More work needs to be done to improve the scalability of the standard. For small to medium-sized practices and sole practitioners, both the cost to transition to the new requirements and ongoing cost to apply the proposed approach will be significant and may not significantly improve engagement quality if such firms are unable to appropriately resource meeting the requirements. Developing a “thinking list” of standard types of quality risks, that firms and practitioners could consider for their circumstances and be required by the standard to add to as appropriate. Three aspects that create significant challenges for implementation: <ul style="list-style-type: none"> The prescriptive, overly granular quality objectives; The requirement for each firm to identify quality risks; The requirement to document the quality objectives and then map the quality risk and responses to those risks. 	<ul style="list-style-type: none"> See above actions to reduce length and density Adding more examples of how to scale-up or scale-down, signposting scalability examples and presenting examples in boxes. Examples reference less complex or more complex firms (or if relevant the size of the firm). Implementation recommendations include the establishment of a working group to provide a resource for practical challenges encountered in its implementation, a “first time implementation guide”, FAQs
<p><i>Objective of the standard</i></p>	
<ul style="list-style-type: none"> It is essential that the standard explains clearly what the firm’s public interest role is and provides clarity about the objective of quality management to be achieved 	<ul style="list-style-type: none"> Positioned paragraph on the public interest with the objective of ISQM 1 (Para 14 and 15)
<p><i>Simplifying the risk assessment process</i></p>	
<ul style="list-style-type: none"> the proposed quality objectives are too granular 	<ul style="list-style-type: none"> Restructuring the sequence of the components (risk assessment process moved above governance and

<ul style="list-style-type: none"> • may be more useful to identify the required quality objectives and required responses in a more neutral manner • concern was raised that the bar for developing a response may be set too low. • risk assessment process (RAP) that requires intensive resources for a smaller firm may be overly burdensome, and therefore not result in the firm identifying appropriate objectives, risks and responses. We consider significant implementation support will be needed to assist SMPs in this task, and also to enable regulators to carry out efficient and effective file reviews • Be clearer as to when it is expected that additional objectives are necessary. 	<ul style="list-style-type: none"> • leadership) and reducing the length of the introduction • Clarifying how to identify and assess quality risks, explaining conditions, events, circumstances, actions or inactions that may adversely affect achievement of the quality objectives. (Refer to diagram below) • The firm shall establish quality objectives specified ...and any additional quality objective considered necessary by the firm (para 24) • Provided examples of additional objectives in application material
--	--

In simplifying the RAP, the IAASB has amended the definition of a quality risk, removing the words “likelihood and magnitude” and removing reference to significance. The following diagram summarises the revised approach:



External communications

<ul style="list-style-type: none"> • Transparency reporting is not required and is uncommon in New Zealand. The NZAuASB is supportive of the proposed approach, and agrees the proposals may encourage transparency as appropriate, without being too prescriptive. 	<ul style="list-style-type: none"> • Removing “transparency reports” which may imply that a transparency report is required in all circumstances. Other communication tools may be more appropriate. • Separating the requirement to communicate with those charged with governance. Clarify what communication relates to, i.e., share information to support an understanding of how the firm
--	---

	<p>through its SOQM, enables consistent performance of quality audits (Para 34(e)(i)) and A126-A132). The IAASB has a focus on listed entities.</p>
<p><i>Monitoring and remediation</i></p>	
<ul style="list-style-type: none"> • The risk assessment process (RAP) does not appear as relevant to the monitoring and remediation (M&R) component • Agrees there should be a requirement for the inspection of at least one completed engagement • The distinction between a finding and a deficiency could be clarified further. Illustrative examples of what would be a finding versus what would be considered to be a deficiency would be helpful. Concern that a root cause analysis may be required in order to determine whether the issue is a deficiency • Inspections may include in-process reviews should be moved to the application material 	<ul style="list-style-type: none"> • Explicitly describing the firm’s RAP and M&R as processes • Revising the paragraphs addressing the selection of engagements for inspection, to encourage a more proactive, risk-based and timely approach to monitoring and to address scalability concerns (Para 38). Retain application material that external inspections are not a substitute for internal monitoring activities. Result of external inspections inform the nature, timing and extent of monitoring activities. • Clarifying the framework for evaluating findings and identifying deficiencies
<p>5. The IAASB has clarified the definition of a deficiency and of findings plus amended the application material to clarify the framework.</p>	
<p><i>Networks</i></p>	
<ul style="list-style-type: none"> • Useful to clarify further whether the firm should understand how the independence requirements applicable 	<ul style="list-style-type: none"> • Requiring that firms obtain information about how the network determined that network requirements have

<p>to the network could affect the firm’s system of quality management</p> <ul style="list-style-type: none"> • Pose implementation challenges, as firms work to identify what further information is required from the network and what actions to implement when determining the impact of the firm’s system of quality management. 	<p>been implemented across network firms.</p> <ul style="list-style-type: none"> • Emphasis on the firm’s responsibility for providing appropriate resources to the engagement team with respect to component auditors (A72, A96-97 and A178)
<p><i>Evaluation of the SOQM</i></p>	
<ul style="list-style-type: none"> • Requiring the individual(s) to evaluate the system of quality management for which they are ultimately responsible may not achieve much to enhance quality, unless this evaluation can be supported by information gathered from other individuals. • Periodic performance evaluations of the individual assigned ultimate responsibility and accountability may be challenging in practice 	<ul style="list-style-type: none"> • Clarify the requirement for evaluating the SOQM, including factors leadership may consider, the timing and how deficiencies may affect the evaluation • Scalability example (paragraph A198) notes that in a less complex firm, the firm may engage a service provider to perform the evaluation. Paragraph A200 includes public sector specific guidance.
<p><i>Documentation</i></p>	
<ul style="list-style-type: none"> • The documentation requirements may be overly onerous. More guidance on what and how-to document may help to alleviate concerns and improve documentation to better demonstrate the application of professional judgement. 	<ul style="list-style-type: none"> • Documentation to include the firm’s quality objectives and quality risks and a description of the responses and how the responses address the quality risks.
<p><i>Engagement quality review</i></p>	
<ul style="list-style-type: none"> • Supportive of broadening the requirements for an engagement quality review (EQR) more broadly than listed entities and recommended that the IAASB and the IESBA align terminology 	<ul style="list-style-type: none"> • Requires an EQR for audits of listed entities, engagements for which a EQR is required by law, engagements for which the firm determines an EQR is an appropriate response to address quality risks
<p><i>Governance and leadership</i></p>	
<ul style="list-style-type: none"> • Requirement for periodic performance evaluations of the individual assigned ultimate responsibility and accountability may be challenging in practice • Questions whether it is appropriate to guide a firm’s performance evaluation policies by highlighting compensation, promotion and other incentives. 	<ul style="list-style-type: none"> • Included scalability example (Para A198) • Para A199 retains rewarding positive performance evaluation through compensation, promotion and other incentives.
<p>Relevant ethical requirements</p>	

<ul style="list-style-type: none"> Useful to clarify further whether the firm should understand how the independence requirements applicable to the network could affect the firm’s system of quality management 	<ul style="list-style-type: none"> Separating out ethical considerations for network firms (Para 29)
---	---

Initial thoughts on possible New Zealand changes to ISQM 1

Scalability

- A key concern for New Zealand stakeholders and of the NZAuASB was the scalability of the exposure draft, the prescriptive approach to setting the quality objectives, and the need for implementation support. The identification of quality risks was identified as challenging, resource intensive and costly, especially for small to medium sized practices (SMPs) or sole practitioners.
- The IAASB has taken action to simplify the standard (as highlighted above) however the key concern, the scalability and cost to implement the revised requirements, is likely to remain high to, especially for SMPs. Additional implementation support will be needed. Staff will monitor the implementation support to be developed by the IAASB implementation working group.
- The NZAuASB’s submission suggested that the IAASB might look to develop a “thinking list” of quality risks to avoid every small firm having to identify their own risks, where in practice these risks are likely to be very similar. It is unclear, but unlikely that this approach will be adopted by the IAASB in developing implementation support. On one hand, such an approach is likely to overcome the high cost of adoption to smaller practices, however on the other hand, such a list might undermine the requirement of the standard, which requires the firm to do this analysis.
- We recommend that CAANZ may be best positioned to develop implementation support for SMPs. The NZAuASB might be best positioned to facilitate a group to consider these matters and find a way to develop implementation support between the smaller practices themselves.
- The NZAuASB is asked for views about the scalability of the final standard. We seek views from Board members as to what actions the NZAuASB should take to address scalability concerns raised from New Zealand stakeholders, which have been somewhat but not entirely removed by the IAASB in finalising the standard, if the NZAuASB is to adopt the final standard.**

Engagement quality review

- The following table shows the existing difference between the international requirement and the New Zealand requirement plus the expected new international approach:

Old IAASB requirement	Current NZ requirement	Proposed IAASB requirement	New international requirement
ISQC 1 (35) The firm shall establish policies and procedures	PES 3 (NZ35.1) The firm shall establish policies and procedures requiring...an	[ED ISQM 1] Establishing policies ... that require an	[ISQM 1] (34 (f)) The firm established policies and procedures that..require an

<p>requiring...an engagement quality control review for all audits of financial statements of listed entities</p>	<p>engagement quality control review for all audits of financial statements of FMC reporting entities considered to have a higher level of public accountability</p>	<p>engagement quality review for:</p> <ul style="list-style-type: none"> (i) audits of financial statements of listed entities (ii) Audits of financial statements of entities that the firm determines are of significant public interest; and (iii) Audits or other engagements for which: <ul style="list-style-type: none"> a. An engagement quality review is required by law or regulation; or b. The firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks. 	<p>engagement quality review for:</p> <ul style="list-style-type: none"> (i) audits of financial statements of listed entities (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (iii) audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address ...quality risk(s)
---	--	--	--

12. The NZAuASB previously considered the scope of the engagement quality control review (EQCR) engagements in 2014 when it deliberated on the Legislative Update Changes contained in the Financial Reporting Bill 2012 together with the auditor reporting changes. Specifically, the NZAuASB considered the application of the term FMC reporting entities considered to have a higher level of public accountability (as opposed to FMC reporting entities) versus the international use of the term listed entities.
13. The Financial Markets Authority (FMA) has the power to designate FMC reporting entities considered to have higher public accountability. The scope of the EQCR and key audit matters reporting was proposed to apply to FMC reporting entities considered to have a higher level of public accountability as part of the NZ

exposure of the auditor reporting standards. At this time, the NZAuASB considered the layers within the ethical and auditing standards, i.e. use of public interest entities, all tier 1 entities and FMC reporting entities considered to have a higher level of public accountability. This scope change also applies to communication requirements with those charged with governance in ISA (NZ) 260.¹

14. In New Zealand, the FMA’s regulations currently require an EQCR for all FMC reporting entities, i.e. this is broader than the PES 3 requirement. The FMA recently sought feedback on their regulations². The FMA’s consultation paper proposes to continue to require an engagement quality control review for all FMC reporting entities. Please refer to the XRB’s comment letter on the FMA’s consultation paper at agenda 2.4.1. about this matter.
15. The NZAuASB does not refer to “listed entities” in the New Zealand auditing standards. Changing “listed entities” to FMC reporting entity considered to have a higher level of public accountability in para 34(f)(i) will retain the extant NZAuASB compelling reason approach to amending terminology in the ISAs (NZ).
16. We recommend that in adopting ISQM 1 in New Zealand, that the NZAuASB continue to amend the reference to “listed entities” to FMC entities considered to have a higher level of public accountability (FMC with HLPAs). Indicative drafting in New Zealand could be:

NZ34(f) The firm established policies and procedures that require an engagement quality review for:

 - (i) audits of financial statements of FMC reporting entities considered to have a higher level of public accountability ~~listed entities~~
 - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation;³ and
 - (iii) audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address ...quality risk(s)
17. We seek views whether to add a footnote to NZ 34(f)(ii) to cross refer to FMA regulations. We note that historically the NZAuASB has purposefully avoided referencing specific regulations. Any explicit reference would require an amendment to the standard if the regulations are later amended or withdrawn.
18. Continuing to broaden the requirement from listed entities to FMC with HLPAs in New Zealand is consistent with application material in A134 that suggests that such entities might otherwise be caught by firms own policies in identifying additional entities that should be subject to an EQCR. An EQCR is required by the FMA for the audit of all FMC entities.
19. If the FMA continues to require a broader scope, we note that the existing inconsistency between PES 3 and the FMA regulations would be more explicitly

¹ ISA (NZ) 260 (Revised), *Communication with Those Charged With Governance*

² [Consultation Paper](#): Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms Notice 2020

³ Question for the NZAuASB as to whether to footnote this wording with reference to FMA regulation should the FMA retain this requirement.

covered by paragraph 34(f)(ii) that refers to EQRs required by law or regulation. We have alerted the FMA to the fact that both the terminology and scope of EQRs will be changing under the revised quality management standards.

20. **We seek views on the recommendation to amend the reference to listed entities to FMC reporting entities considered to have a higher level of public accountability in New Zealand.**
21. **We ask the NZAuASB whether PES 3 should include a footnote to the FMA’s regulations in paragraph 34(f)(ii). Historically the Board has avoided a direct reference to a specific regulation to future proof the standards.**

Communication with those charged with governance

22. Proposed ISQM 1 also refers to “listed entities” with respect to requirements to communicate with those charged with governance:

34(e) The firm establishes policies or procedures that:

- (i) Require communication with those charged with governance when performing an audit of financial statements of **listed entities** about how the system of quality management supports the consistent performance of quality engagements;*
- (ii) Address when it is otherwise appropriate to communicate with external parties about the firm’s system of quality management;*

23. Application material (paragraph A128) notes that it may be appropriate to communicate with those charged with governance of entities other than listed entities, for example, entities which may have public interest considerations or public accountability considerations.
24. Within ISA (NZ) 260, the NZAuASB has extended the scope of communication requirements for listed entities to FMC reporting entities considered to have a higher level of public accountability (those communication requirements relate to independence matters).⁴
25. ISQM 1 also includes a definition of a listed entity. (Para 16 (f)). Any New Zealand amendment to the terminology would continue to require the addition of a New Zealand definition to define the term used in the NZ standard.
26. We recommend that the reference to listed entities be extended to FMC reporting entities considered to have a higher level of public accountability.
27. **The NZAuASB is asked for views about the appropriateness of the scope of the communication requirements for New Zealand.**

Scope of the standard

28. [Draft] ISQM 1 will apply to all related services engagements as defined by the IAASB. Related services, under the IAASB framework, includes compilation engagements. Paragraph 1 states that this ISQM “deals with the firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements”. Paragraph 10 of ISQM 1 directly references compilation engagements.

⁴ Paragraph NZ17.1 ISA (NZ) 260 (Revised) Communication with Those Charged with Governance

29. The NZAuASB’s legal mandate now extends to related services, however related services in the NZAuASB context does not include compilation engagements, rather extends only to agreed upon procedures engagements.
30. There remains a compelling reason (the legislative mandate of the NZAuASB) to continue to amend the scope of the standard to limit application in line with the NZAuASB’s mandate.
31. Our preliminary analysis of existing NZ specific paragraphs in PES 3⁵ is that there will continue to be a compelling reason to reflect an amended scope, but with a broader application than extant PES 3, to recognise that the NZAuASB’s mandate now extends to agreed-upon procedures engagements (but not compilation engagements). We recommend that this may best be captured by adding NZ paragraphs to clarify that firms that perform compilation engagements are not covered by PES 3. Indicative drafting is as follows (staff will consider where such clarification is warranted in developing the NZ ED, and present to the Board in developing a New Zealand exposure draft):

“PES 3 does not apply to firms that only perform compilation engagements but do not perform audits or reviews of financial statements, or other assurance or related services including agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.”

32. We also recommend that a definition of related services be added into the New Zealand standard, to define “Related Services” in the same way as defined in XRB Au1.⁶ (Draft ISQM 1 does not define related services):

Related services – services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

33. There may be a need to define what is meant by compilation engagements to clarify what is outside of the scope.
34. [Draft] ISQM 1 does make explicit references to compilation engagements and these sentences would be deleted in developing the NZAuASB standard.
35. Given that the NZAuASB now has a broader mandate, we no longer consider there is a need to retain the following additional definitions previously added in PES 3:
 - [NZ12.1] Assurance engagement - An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). [no longer a compelling reason to define assurance engagement as the mandate extends beyond assurance engagements to non-assurance work ordinarily carried out by an assurance practitioner]
 - [NZ12.2] Assurance practitioner – A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements. [no longer relevant]

⁵ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

⁶ XRB Au1, *Application of Auditing and Assurance Standards (Legislative Update)*

[NZ12.3] Engagement – In the context of this Professional and Ethical Standard, an assurance engagement. [no longer relevant]

Ethical requirements

36. The NZAuASB has recently adopted Part 2 of the IESBA Code of Ethics. ISQM 1 references this part explicitly (refer to Paragraph A25). While there is no longer a need to remove references to Part 2, any clarification around the applicability of Part 2 might be needed (however may be best dealt with in PES 1).

Other New Zealand additional paragraphs in extant PES 3

37. The number of remaining New Zealand paragraphs, previously considered and initially assessed by the NZAuASB as remaining appropriate for New Zealand at the July 2019 meeting will be re-evaluated and incorporated into developing a New Zealand exposure draft, in appropriate places, for consideration by the NZAuASB at its next meeting. The IAASB has added a number of public sector examples into [draft] ISQM 1 however it may still be considered as appropriate to retain further NZ specific public sector paragraphs that exist in extant PES 3.

Section 2: ISQM 2

Key matters raised in response to IAASB's ED and how the IAASB has responded

38. One key issue was identified on the ISQM2 proposals based on the feedback received. That issue related to the requirement relating to the objectivity of the engagement quality reviewer in accordance with paragraph 16 of the ED, including a cooling off period for individuals moving into the role of engagement quality reviewer after having served as the engagement partner.
39. Respondents agreed that objectivity of the engagement quality reviewer is critical to the effectiveness of the engagement quality review.
40. Responses to question 4(a) *What are your views on the need for the guidance in proposed ISQM 2 regarding a "cooling off" period for that individual before being able to act as the engagement quality reviewer?* were:
- 16 (18%) – agreed on the need for guidance on a cooling-off period;
 - 54 (59%) – agreed but had further comments
 - 12 (13%) – disagreed with the guidance or did not support a cooling-off period; and
 - 9 (10%) – responses were unclear or did not include specific comments.
41. Responses to question 4(b) *If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the Code?* were:
- 16 (18%) – agreed on the need for guidance on a cooling-off period;
 - 35 (38%) – agreed but had further comments that the guidance (or requirement) should be located in ISQM 2, in both ISQM 2 and the IESBA Code, or align with, or include reference to the IESBA Code;
 - 26 (29%) – disagreed with the guidance or did not support a cooling-off period; and

- 14 (15%) – responses were unclear or did not include specific comments.
42. The respondents that agreed with the need for guidance on a cooling-off period but with concerns or comments had varying views about the requirement in ED-ISQM2 and in particular about the lack of clarity and potential for inconsistent application of the related application material.
 43. Respondents that commented on the location of the guidance (or requirement) for a cooling-off period for an individual moving into an engagement quality reviewer role were about evenly split between a preference for ISQM2 or the IESBA Code. There were respondents who had strong views about the preferred location. Other respondents suggested the guidance could reside in either location as long as appropriate cross-references were provided while others noted that there was no harm in having the guidance in both places.
 44. In light of the responses to ED-ISQM2, the IAASB determined that threats to objectivity of an engagement partner stepping into an engagement quality role is an important issue that needs to be addressed in the IESBA Code, or in ISQM 2 if not addressed in the IESBA Code. In addition, the IAASB supported establishing a specific cooling off period. In the absence of such cooling-off period in the IESBA Code, the IAASB supported a new requirement in ISQM2 to address it.
 45. In response to concerns about the need for flexibility, and scalability, the IAASB has pointed out that an engagement quality review is only one of a number of responses to assessed quality risks. Except for audits of listed entities, and when required by law or regulation, the engagements for which an engagement quality review is performed is a firm determination based on the assessed quality risks. If the nature of the engagement is such that the firm determines that an engagement quality review is the most appropriate response, all the requirements of ISQM 2 would apply, including any specific threat to address threats to objectivity, such as a cooling-off period.
 46. Following coordination with the IAASB, the IESBA came to the view that it is necessary to amend the Code to address the issue of engagement quality reviewer objectivity holistically in the Code. The IESBA considered this would be best achieved by having guidance in the Code to explain clearly the application of the conceptual framework when considering the objectivity of the engagement quality reviewer. This guidance would provide the context for and support for any specific provisions the IAASB might determine necessary to include in ISQM2 to address the specific matter of an individual being appointed to the engagement quality role after having served on the engagement team. The IESBA determined that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in ISQM 2 and the circumstances in which the requirement should apply.

Key areas raised in the [NZAuASB submission](#)

47. The NZAuASB expressed support for the proposed provisions in ED-ISQM 2 in all respects except in relation to the requirement to establish policies and procedures that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. The NZAuASB strongly opposed the related guidance suggesting a two year cooling off period in the case of an audit of financial statements of a listed entity.

48. In support of its opposition to the cooling off provisions, the NZAuASB expressed the following concerns:
- The drafting of the requirement, along with related application material creates a de facto requirement that is not consistent with the IESBA Code.
 - The IESBA Code’s conceptual framework should be applied to the circumstances.
 - In revising its long association provisions, the IESBA has considered the impact of changing roles during the “time on” period, explicitly catering for the assurance practitioner moving between the roles of the engagement partner and engagement quality reviewer.
 - IESBA’s rotation rules apply to public interest entities and the IAASB’s proposed application material relates to listed entities. This is inconsistent with the IESBA Code.
 - IAASB is operating outside its mandate in establishing ethical provisions.
49. The NZAuASB strongly encouraged the IAASB to refer this issue back to the IESBA for consideration. (See preceding section for IAASB response to this issue).
50. The NZAuASB also made the observation that extant requirements for the engagement quality review to include consideration of the engagement team’s evaluation of the firm’s independence in relation to the specific engagement and the related requirement in extant ISA 220 are not included in ED-ISQM 2. The NZAuASB recommended amending paragraph 22 of the ED to include evaluation about whether relevant ethical requirements, including those related to independence, have been fulfilled. This recommendation has been accepted in the finalised ISQM 2.

Initial thoughts on possible New Zealand changes to ISQM 2

51. We have considered the paragraphs in Professional and Ethical Standard 3 (Amended), related to engagement quality control reviews (paragraphs 35-42). There are two NZ paragraphs in this section. The first relates to the scope of the policies and procedures for engagement quality control reviews. (paragraph NZ35.1); the second establishes a requirement for the firm to establish policies and procedures to consider specified matters (paragraph NZ38.1). Both of these paragraphs are amended to broaden the international application material replacing the term “listed entity”, to apply to FMC reporting entities considered to have a higher level of public accountability in New Zealand. As noted in the ISQM 1 discussion, engagement quality reviews are required more broadly under the new proposals.
52. ISQM 2 includes one reference to listed entity that may require changing in NZ to instead refer to a FMC reporting entity considered to have a higher level of public accountability. Changing “listed entities” to FMC reporting entity considered to have a higher level of public accountability will retain the extant NZAuASB compelling reason approach to amending terminology in the ISAs (NZ). (Refer Section I, paragraphs 12-22).
53. No further compelling reason amendments have been identified.

Section 3: ISA 220 (Revised)

Key matters raised in response to IAASB's ED and how the IAASB has responded

Engagement Partner Responsibilities

54. Respondents to ED-220 raised concerns that it would not be possible for the engagement partner alone to fulfil each of the requirements in the proposed ISA.
55. Additional contextual material has been included in the introductory section of the ISA to clarify the engagement partners responsibilities. The requirements of the ISA are intended to be applied in the context of the nature and circumstances of the engagement; when the engagement is carried out entirely by the engagement partner, some of the requirements are not relevant because they are conditional on the involvement of other members of the engagement team; when an audit is not carried out entirely by the engagement partner, the engagement partner may assign the design or performance of some procedures, tasks or actions to other members of the engagement team.
56. When a requirement is intended to be fulfilled by the engagement partner, the requirement states, "the engagement partner shall...". For those requirements that the engagement partner is permitted to assign to appropriately skilled or suitably experienced member so the engagement team, the term "the engagement partner shall take responsibility for..." is used.

Engagement Team Definition

57. ED-220 proposed changing the definition of an engagement team as follows:

Engagement team – All partners and staff performing the audit engagement, and any individuals who perform audit procedures on the engagement, including individuals engaged by the firm, who perform audit procedures on the engagement. ~~This~~ The engagement team excludes an auditor's external expert engaged by the firm or a network firm. ~~The term "engagement team"~~ and also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).
58. The Explanatory Memorandum accompanying ED-220 did not pose a specific question related to the proposed change in the engagement team definition; however, respondents commented on the change in response to the question dealing with the use of different audit delivery models.
59. The proposed definition was well supported, including by the Monitoring Group member respondents and regulators.
60. Clarification was sought in relation group audit situations (including component auditors) and about what is meant by "performs audit procedures" with respondents citing the concern that "perform audit procedures" may scope in too many individuals who would need to comply with ISA requirements.
61. Respondents who thought component auditors should not be part of the engagement team noted that the IESBA Code does not currently address the independence requirements applicable to component auditors that are outside the group auditor's network.

62. The definition of engagement team in the IESBA Code was developed based on the engagement team definition in extant ISA 200. Accordingly, changing the definition in ISA 220 to include component auditors would result in a number of practical implications with respect to compliance with the independence requirements of the Code. By dealing with quality management matters for group audits in ED-220 rather than ISA 600, the definitions of engagement team would no longer align between the two boards.
63. The IAASB agreed that the engagement team definition be retained, supporting the premise of ED-220 that, regardless of where individuals are located, or how they are related to the firm, if they are performing audit procedures then they are to be appropriately directed and supervised and their work reviewed in accordance with ED-220.
64. The IAASB also agreed to clarify what is meant by “audit procedures” and to clarify the role of component auditors. This has been achieved through provision of additional application material.

Key areas raised in the NZAuASB’s submission

65. The NZAuASB was very supportive in the proposals in ED ISA 220 (Revised). There were no substantive issues raised in the submission.

Initial thoughts on possible New Zealand changes to ISA 220 (Revised)

66. We have considered the NZ paragraphs in extant ISA (NZ) 220; which deal with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements, including the responsibilities of the engagement quality control reviewer.
67. Extant ISA 220 requires, for audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, to consider the following:
 - a) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;
 - b) Whether appropriate consultation has taken place on matters involving difference of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements and supports the conclusions reached.
68. In New Zealand this requirement is broader. It applies to audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, and other engagements for which the firm has determined that an engagement quality control review is required. (extant NZ21.1)
69. In ISQM 2, the equivalent requirement applies to all entities for which an engagement quality review is required.
70. In addition to the above, in extant ISA (NZ) 220, references to listed entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand in extant ISA (NZ) 220. (extant paragraphs: NZ7.1; NZA30.1; NZA31.1; and NZA33.1). Changing “listed entities” to FMC reporting entity considered to have a higher level of public accountability in

para 34(f)(i) will retain the extant NZAuASB compelling reason approach to amending terminology in the ISAs (NZ).

71. There are no references to listed entity in ISA 220 (Revised) and we have not identified any further compelling reason changes to ISA 220 (Revised).

INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1 (PREVIOUSLY INTERNATIONAL STANDARD ON QUALITY CONTROL 1) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

(Effective as of December 15, 2022)

UPDATED AND MARKED FROM AGENDA ITEM 2-A AND AGENDA ITEM 2-A.1

Please note:

Text highlighted in Grey throughout this document was presented in **Agenda Item 2-A.1** discussed by the IAASB on Friday, September 18, 2020.

The track changes in this document are as follows

- Items not in grey text – track changes from **Agenda Item 2-A**.
- Items in grey text – track changes from **Agenda Item 2-A.1**.

Paragraphs 34(f) and A133–A137 in this document are from **Agenda Item 3-A (Updated)**, as finalized by the Board in the meeting on Monday, September 21, 2020.

CONTENTS

[Content Page to be Inserted]

~~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*, should be read in conjunction with the *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Introduction	Application and Other Explanatory Material
Scope of this ISQM	Scope of this ISQM (Ref: Para. 3–4)
<p>1. This International Standard on Quality Management (ISQM) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.</p> <p>2. Engagement quality reviews form part of the firm's system of quality management and:</p> <p>(a) This ISQM addresses the firm's responsibility to establish policies or procedures addressing<u>for</u> which engagements <u>that</u> are required to be subject to engagement quality reviews.</p> <p>(b) ISQM 2¹ deals with the appointment and eligibility of the engagement quality reviewer, and the performance and</p>	

¹ ~~Proposed~~-ISQM 2, *Engagement Quality Reviews*

documentation of the engagement quality review.	
<p>3. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB):</p> <p>(a) Are premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding;² and</p> <p>(b) Include requirements for engagement partners and <u>other</u> engagement teams <u>members</u> regarding quality management at the engagement level. For example, ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related</p>	<p>A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)³ and ISAE 3000 (Revised),⁴ also establish requirements for the engagement partner for the management of quality at the engagement level.</p>

² See, for example, ~~Proposed~~ International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* (Revised), paragraph 3

³ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁴ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

responsibilities of the engagement partner. (Ref: Para. A1)	
4. This ISQM is to be read in conjunction with relevant ethical requirements. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ISQM. (Ref: Para. A2)	A2. The IESBA Code ⁵ contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. <u>As indicated in paragraph 15,</u> in the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.
5. This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies and the system of quality management that is established in accordance with the requirements of this ISQM enables the <u>consistent</u> performance by the firm of all such engagements).	

⁵ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<p>The Firm's System of Quality Management</p>	<p>The Firm's System of Quality Management (Ref: Para. 6–9)</p>
<p>6. A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ISQM, a system of quality management addresses the following eight components: (Ref: Para. A3)</p> <ul style="list-style-type: none"> (a) The firm's risk assessment process; (b) Governance and leadership; (c) Relevant ethical requirements; (d) Acceptance and continuance of client relationships and specific engagements; (e) Engagement performance; (f) Resources; (g) Information and communication; and 	<p>A3. The firm may use different terminology or frameworks to describe the components of its system of quality management.</p>

<p>(h) The monitoring and remediation process.</p>	
<p>7. This ISQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: Para. A4)</p>	<p>A4. Examples of the interconnected nature of the components include the following:</p> <ul style="list-style-type: none"> • The firm’s risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management. • The governance and leadership component establishes the environment that supports the system of quality management. • The resources and information and communication components enable the design, implementation and operation of the system of quality management. • The monitoring and remediation process is a process designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm’s risk assessment process. • There may be interrelationships betweenof specific matters, for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
<p>8. The risk-based approach is embedded in the requirements of this ISQM through:</p> <p>(a) Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to</p>	

<p>establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.</p> <p>(b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.</p> <p>(c) Designing and implementing responses to address the quality risks. The nature, timing and extent of the firm's responses to address the quality risks are based on, and <u>are</u> responsive to, the reasons for the assessments given to the quality risks.</p>	
<p>9. This ISQM requires that, at least annually, the individual(s)</p>	<p>A5. Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 14(a) and (b) are not achieved. Reasonable</p>

<p>assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 14(a) and (b), are being achieved. (Ref: Para. A5)</p>	<p>assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management. Such limitations include that human judgment in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behavior or failures in information technology (IT) applications.</p>
<p><i>Scalability</i></p> <p>10. In applying a risk-based approach, the firm is required to take into account:</p> <ul style="list-style-type: none"> (a) The nature and circumstances of the firm; and (b) The nature and circumstances of the engagements performed by the firm. <p>Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide</p>	

<p>variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.</p>	
<p><i>Networks and Service Providers</i></p> <p>11. This ISQM addresses the firm's responsibilities when the firm:</p> <ul style="list-style-type: none"> (a) Belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in the performance of engagements; or (b) Uses resources from a service provider in the system of quality management or in the performance of engagements. <p>Even when the firm complies with network requirements or uses network services or resources</p>	

<p>from a service provider, the firm is responsible for its system of quality management.</p>	
<p>Authority of this ISQM</p>	<p>Authority of this ISQM (Ref: Para. 12)</p>
<p>12. Paragraph 14 of this ISQM contains the objective of the firm in following this ISQM. and This ISQM contains: (Ref: Para. A6)</p> <p>(a) Requirements designed to enable the firm to meet the at stated objective in paragraph 14; In addition, this ISQM contains (Ref: Para. A7)</p> <p>(b) Related guidance in the form of application and other explanatory material; and (Ref: Para. A8)</p> <p>(c) Introductory material that provides context relevant to a proper understanding of this ISQM; and</p> <p>(d) Definitions. (Ref: Para. A6–A9)</p>	<p>A6. The objective of this ISQM provides the context in which the requirements of this ISQM are set, establishes the desired outcome of this ISQM and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.</p> <p>A7. The requirements of this ISQM are expressed using “shall.”</p> <p>A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:</p> <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover; and • Include examples that illustrate how the requirements might be applied. <p>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 ISQM. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQM. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQM.</p> <p>A9. This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the <i>Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> published by IFAC includes the terms defined in this ISQM. The Glossary of Terms also includes descriptions of other terms found in the ISQMs to assist in common and consistent interpretation and translation.</p>

<p>Effective Date</p>	
<p>13. Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of this ISQM is required to be performed within one year following December 15, 2022.</p>	
<p>Objective</p>	
<p>14. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:</p> <p>(a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such</p>	

<p>standards and requirements; and</p> <p>(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p> <p>15. The public interest is served by the consistent performance of quality engagements. The design, implementation and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a) and (b), are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when</p>	
---	--

applicable to the type of engagement, exercising professional skepticism.	
Definitions	Definitions
16. For purposes of this ISQM, the following terms have the meanings attributed below:	
<p>(a) Deficiency in the firm's system of quality management (referred to as "deficiency" in this ISQM) – This exists when: (Ref: Para. A10, A158–A159)</p> <p>(i) A quality objective required to achieve the objective of the system of quality management is not established;</p> <p>(ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11)</p> <p>(iii) A response, or combination of responses, does not</p>	<p><i>Deficiency</i> (Ref: Para. 16(a))</p> <p>A10. The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.</p> <p>A11. When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the response(s) to address such quality risk(s) may also be absent, or not appropriately designed or implemented.</p> <p>A12. The other aspects of the system of quality management consist of the requirements in this ISQM addressing:</p> <ul style="list-style-type: none"> • Assigning responsibilities (paragraphs 20–22); • The firm's risk assessment process; • The monitoring and remediation process; and • The evaluation of the system of quality management. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Examples of deficiencies related to other aspects of the system of quality management</i></p> <ul style="list-style-type: none"> • The firm's risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives, or modify the quality risks or responses. • The firm's monitoring and remediation process is not designed or implemented in a manner that: </div>

<p>reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or</p> <p>(iv) An other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this ISQM has not been addressed. (Ref: Para. A12)</p>	<ul style="list-style-type: none"> ○ Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management. ○ Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis. ● The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not undertake the annual evaluation of the system of quality management. 	
<p>(b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers”</p>		

or “work papers” are sometimes used).	
(c) Engagement partner ⁶ – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the 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) Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.	
(e) Engagement quality reviewer – A partner, other individual in the firm, or an	

⁶ “Engagement partner” and “partner” ~~should be~~ is to be read as referring to their public sector equivalents where relevant.

<p>external individual, appointed by the firm to perform the engagement quality review.</p>	
<p>(f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert engaged by the firm or a network firm⁷ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13)</p>	<p><i>Engagement Team (Ref: Para. 16(f))</i></p> <p>A13. Proposed ISA 220 (Revised)⁸ provides guidance in applying the definition of engagement team in the context of an audit of financial statements.</p>
<p>(g) External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed</p>	<p><i>External Inspections (Ref: Para. 16(g))</i></p> <p>A14. In some circumstances, an external oversight authority may undertake other types of inspections, for example, thematic reviews that focus on, for a selection of firms, particular aspects of audit engagements or firm-wide practices.</p>

⁷ ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

⁸ ~~Proposed~~ ISA 220 (Revised), paragraphs A15–A24~~1~~

by the firm. (Ref: Para. A14)	
<p>(h) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: Para. A15–A17)</p>	<p><i>Findings</i> (Ref: Para. 16(h))</p> <p>A15. As part of accumulating findings from monitoring activities, external inspections and other relevant sources, the firm may identify other observations about the firm’s system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management. Paragraph A157^A explains how other observations may be used by the firm in the system of quality management.</p> <p>A16. Paragraph A148 provides examples of information from other relevant sources.</p> <p>A17. Monitoring activities include monitoring at the engagement level, such as inspection of engagements. Furthermore, external inspections and other relevant sources may include information that relates to specific engagements. As a result, information about the design, implementation and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.</p>
<p>(i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A18)</p>	<p><i>Firm</i> (Ref: Para. 16(i))</p> <p>A18. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISQM.</p>
<p>(j) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed</p>	

<p>under the regulations of a recognized stock exchange or other equivalent body.</p>	
<p>(k) Network firm – A firm or entity that belongs to the firm’s network.</p>	
<p>(l) Network – A larger structure: (Ref: Para. A19–A20)</p> <p>(i) That is aimed at cooperation, and</p> <p>(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p>	<p><i>Network</i> (Ref: Para. 16(l), 48)</p> <p>A19. Networks and the firms within the network may be structured in a variety of ways. For example, in the context of a firm’s system of quality management:</p> <ul style="list-style-type: none"> • The network may establish requirements for the firm related to its system of quality management, or provide services that are used by the firm in its system of quality management or in the performance of engagements; • Other firms within the network may provide services (e.g., resources) that are used by the firm in its system of quality management or in the performance of engagements; or • Other structures or organizations within the network may establish requirements for the firm related to its system of quality management, or provide services. <p>For the purposes of this ISQM, any network requirements or network services that are obtained from the network, another firm within the network or another structure or organization in the network are considered “network requirements or network services.”</p>

<p>(m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	
<p>(n) Personnel – Partners and staff in the firm. (Ref: Para. A21–A22)</p>	<p><i>Personnel</i> (Ref: Para. 16(n))</p> <p>A21. In addition to personnel (i.e., individuals in the firm), the firm may use individuals external to the firm in performing activities in the system of quality management or in the performance of engagements. For example, individuals external to the firm may include individuals from other network firms (e.g., individuals in a service delivery center of a network firm) or individuals employed by a service provider (e.g., a component auditor from another firm not within the firm’s network).</p> <p>A22. Personnel also includes partners and staff <i>personnel</i> in other structures of the firm, such as a service delivery center in of the firm.</p>
<p>(o) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.</p>	

<p>(p) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i>, and relevant ethical requirements.</p>	
<p>(q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.</p>	
<p>(r) Quality risk – A risk that has a reasonable possibility of:</p> <ul style="list-style-type: none"> (i) Occurring; and (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. 	

<p>(s) Reasonable assurance – In the context of the ISQMs, a high, but not absolute, level of assurance.</p>	
<p>(t) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A23–A25, A62)</p>	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 16(t), 29)</p> <p>A23. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the IESBA Code defines the term “professional accountant” and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice and their firms.</p> <p>A24. The IESBA Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the IESBA Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the IESBA Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.</p> <p>A25. Various provisions of the relevant ethical requirements may apply only to individuals in the context of <u>the performanceing of</u> engagements and not the firm itself. For example:</p> <ul style="list-style-type: none"> • Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when <u>they are</u> performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner, and may be relevant in the context of <u>the performanceing of</u> engagements. • Certain requirements in Parts 3 and 4 of the IESBA Code <u>also apply to individuals who areaddress the individual</u> professional accountants in public practice when <u>they are</u> performing professional activities for clients. <p>Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm’s system of quality management.</p>

	<p><i>Example of relevant ethical requirements that are applicable only to individuals and not the firm, and which relate to <u>the performance of engagements</u></i></p> <p>Part 2 of the IESBA Code addresses pressure to breach the fundamental principles, and includes requirements that an individual shall not:</p> <ul style="list-style-type: none"> • Allow pressure from others to result in a breach of compliance with the fundamental principles; or • Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles. <p>For example, circumstances may arise when, in performing an engagement, an individual considers that the engagement partner or another senior member of the engagement team has pressured them to breach the fundamental principles.</p>
<p>(u) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s): (Ref: Para. A26–A28, A50)</p> <p>(i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be</p>	<p><i>Response</i> (Ref: Para. 16(u))</p> <p>A26. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams), or through their restraint from taking actions that would conflict with the firm’s policies.</p> <p>A27. Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but are rather conditioned by the firm’s culture. Procedures may be enforced through the actions permitted by IT applications, or other aspects of the firm’s IT environment.</p> <p>A28. If the firm uses individuals external to the firm in the system of quality management or in the performance of engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals. Proposed ISA 220 (Revised)⁹ provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of financial statements.</p>

⁹ ~~Proposed~~ ISA 220 (Revised), paragraphs A22–A24

<p>documented, explicitly stated in communications or implied through actions and decisions.</p> <p>(ii) Procedures are actions to implement policies.</p>	
<p>(v) Service provider (in the context of this ISQM) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm’s network, other network firms or other structures or organizations in the network. (Ref: Para. A28A, A105)</p>	<p><i>Service Provider</i> (Ref: Para. 16(v))</p> <p>A28A. Service providers include component auditors from other firms not within the firm’s network.</p>
<p>(w) Staff – Professionals, other than partners, including any experts the firm employs.</p>	

<p>(x) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:</p> <p>(i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</p> <p>(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p>	
---	--

Requirements		
Applying, and Complying with, Relevant Requirements	Applying, and Complying with, Relevant Requirements (Ref: Para. 17)	
<p>17. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)</p>	<p>A29. <i>Examples of when a requirement of this ISQM may not be relevant to the firm</i></p> <ul style="list-style-type: none"> • The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant. • The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for the-related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant. 	
<p>18. The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management overall shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.</p>	<p>A29A. Paragraph 20 addresses the assignment of responsibilities.</p>	
System of Quality Management	System of Quality Management	

<p>19. The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management. (Ref: Para. A30–A31)</p>	<p><i>Design, Implement and Operate a System of Quality Management</i> (Ref: Para. 19)</p> <p>A30. Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm’s strategy, operational activities and business processes. As a result, designing the system of quality management and the firm’s operational activities and business processes in an integrated manner may promote a harmonious approach to managing the firm, and enhance the effectiveness of quality management.</p> <p>A31. The quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind, which involves:</p> <ul style="list-style-type: none"> • Considering the source, relevance and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements; and • Being open and alert to a need for further investigation or other action.
<p>Responsibilities</p> <p>20. The firm shall assign: (Ref: Para. A32–A35)</p> <p>(a) Ultimate responsibility and accountability for the system of quality management to the firm’s chief executive officer or the firm’s managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent);</p>	<p><i>Responsibilities</i> (Ref: Para. 20–21, 28(d))</p> <p>A32. The governance and leadership component includes a quality objective that the firm has an organizational structure and assignment of roles, responsibilities and authority that is appropriate to enable the design, implementation and operation of the firm’s system of quality management.</p> <p>A33. Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 20, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with paragraphs 53 and 54, although the firm is responsible for the evaluation of the system of quality management and conclusion thereon, the firm assigns the <u>evaluation of the system of quality management and conclusion thereon</u> activities to the individual(s) assigned ultimate responsibility and accountability for the system of quality management, <u>the firm is responsible for the evaluation and conclusion</u>.</p> <p>A34. An individual(s) assigned responsibility for the matters in paragraph 20 is typically a partner of the firm so that they have appropriate influence and authority within the firm, as to fulfill the requirements by paragraph 21. However, based on the legal structure of the firm, there may be circumstances</p>

<p>(b) Operational responsibility for the system of quality management overall;</p> <p>(c) Operational responsibility for specific aspects of the system of quality management, including:</p> <p>(i) Compliance with independence requirements; and (Ref: Para. A36)</p> <p>(ii) The monitoring and remediation process.</p>	<p>when an individual(s) may not be a partner of the firm but the individual(s) has the appropriate influence and authority within the firm to perform their assigned role because of formal arrangements made by the firm or the firm's network.</p> <p>A35. How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities. An individual(s) assigned responsibility for a matter(s) in paragraph 20 may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities. However, an individual(s) assigned responsibility for a matter(s) in paragraph 20 remains responsible and accountable for the responsibilities assigned to them.</p> <div data-bbox="718 560 1852 1182" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability example to demonstrate how assigning roles and responsibilities may be undertaken</i></p> <ul style="list-style-type: none"> • In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management overall, and operational responsibility for compliance with independence requirements and the monitoring and remediation process. • In a more complex firm, there may be multiple levels of leadership that reflect the organizational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in paragraph 20(c), such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line. </div> <p>A36. Compliance with independence requirements is essential to the performance of audits, or reviews of financial statements, or other assurance engagements, and is an expectation of stakeholders relying on the firm's reports. The individual(s) assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to</p>
--	---

	<p>independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.</p>
<p>21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (Ref: Para. A37)</p> <p>(a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A38)</p> <p>(b) Understands their assigned roles and that they are accountable for fulfilling them.</p>	<p>A37. Law, regulation or professional standards may establish <u>additional</u> requirements for an individual assigned responsibility for a matter(s) in paragraph 20, such as requirements for professional licensing, professional education or continuing professional development.</p> <p>A38. The appropriate experience and knowledge for the individual(s) assigned operational responsibility for the system of quality management <u>ordinarily may include</u>s an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.</p>
<p>22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management overall, and operational responsibility for compliance with independence requirements and the monitoring and remediation process, have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	

<p>The Firm's Risk Assessment Process</p>	<p>The Firm's Risk Assessment Process (Ref: Para. 23)</p>
<p>23. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. (Ref: Para. A39–A41)</p>	<p>A39. How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organized.</p> <div data-bbox="718 409 1885 997" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability examples to demonstrate how the firm's risk assessment process may differ</i></p> <ul style="list-style-type: none"> In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management—overall may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks and responses may be less extensive and more condensed than for a more complex firm (e.g., it may be documented in a single document). In a more complex firm, there may be a formal risk assessment process, involving multiple individuals and numerous activities. The process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks and responses to be included in the firm's system of quality management. </div> <p>A40. The process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is iterative, and the requirements of this ISQM are not intended to be addressed in a linear manner. For example:</p> <ul style="list-style-type: none"> In identifying and assessing quality risks, the firm may determine that an additional quality objective(s) needs to be established. When designing and implementing responses, the firm may determine that a quality risk was not identified and assessed.

	<p>A41. Information sources that enable the firm to establish quality objectives, identify and assess quality risks and design and implement responses form part of the firm’s information and communication component and include:</p> <ul style="list-style-type: none"> • The results of the firm’s monitoring and remediation process (see paragraphs 42 and A170). • Information from the network or service providers, including: <ul style="list-style-type: none"> ○ Information about network requirements or network services (see paragraph 48); and ○ Other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 50–51). <p>Other information, both internal or external, may also be relevant to the firm’s risk assessment process, such as:</p> <ul style="list-style-type: none"> • Information regarding complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures <u>established in accordance with this ISQM</u>. • The results of external inspections. • Information from regulators about the entities for whom the firm performs engagements which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity’s financial statements or non-compliance with securities regulation). • Changes in the system of quality management that affect other aspects of the system, for example, changes in the firm’s resources. • Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider.
<p>24. The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve</p>	<p><i>Establish Quality Objectives</i> (Ref: Para. 24)</p> <p>A42. Law, regulation or professional standards may establish requirements that give rise to additional quality objectives. For example, such as when the firm is required <u>by law or regulation</u> to appoint non-executive individuals to the firm’s governance structure and the firm <u>considers it necessary to</u> establishes additional quality objectives to address the requirements.</p>

<p>the objectives of the system of quality management. (Ref: Para. A42–A44)</p>	<p>A43. The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives.</p> <p>A44. The firm may establish sub-objectives to enhance the firm’s identification and assessment of quality risks, and design and implementation of responses.</p>					
<p>25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:</p> <p>(a) Obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, including: (Ref: Para. A45–A47)</p> <p>(i) With respect to the nature and circumstances of the firm, those relating to:</p> <p>a. The complexity and operating characteristics of the firm;</p> <p>b. The strategic and</p>	<p><i>Identify and Assess Quality Risks</i> (Ref: Para. 25)</p> <p>A45. There may be <u>other</u> conditions, events, circumstances, actions or inactions not described in paragraph 25(a) that may adversely affect the achievement of a quality objective.</p> <p>A46. A risk arises from how, and the degree to which, a condition, event, circumstance, action or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk. Professional judgment assists the firm in determining whether a risk is a quality risk, which is based on the firm’s consideration of whether there is a reasonable possibility of the risk occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.</p> <table border="1" data-bbox="703 792 1854 1398"> <tr> <td data-bbox="703 792 1249 976"> <p><i>Examples of the firm’s understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i></p> </td> <td data-bbox="1249 792 1854 976"> <p><i>Examples of quality risks that may arise</i></p> </td> </tr> <tr> <td data-bbox="703 976 1249 1398"> <p>The strategic and operational decisions and actions, business processes and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ISQM.</p> </td> <td data-bbox="1249 976 1854 1398"> <p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM. Decisions about financial and operational priorities do not fully or adequately consider </td> </tr> </table>		<p><i>Examples of the firm’s understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i></p>	<p><i>Examples of quality risks that may arise</i></p>	<p>The strategic and operational decisions and actions, business processes and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ISQM.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM. Decisions about financial and operational priorities do not fully or adequately consider
<p><i>Examples of the firm’s understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i></p>	<p><i>Examples of quality risks that may arise</i></p>					
<p>The strategic and operational decisions and actions, business processes and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ISQM.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM. Decisions about financial and operational priorities do not fully or adequately consider 					

operational decisions and actions, business processes and business model of the firm;			the importance of quality in the performance of engagements within the scope of this ISQM.
	c. The characteristics and management style of leadership;	The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.	In the context of governance and leadership, this may give rise to a number of quality risks such as: <ul style="list-style-type: none"> • Leadership’s responsibilities and accountability for quality are not clearly defined and assigned. • The actions and behaviors of leadership that do not promote quality are not questioned.
	d. The resources of the firm, including the resources provided by service providers;	The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.	In the context of resources, this may give rise to a number of quality risks including: <ul style="list-style-type: none"> • Technological resources used by the two merged firms may be incompatible. • Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.
e. Law, regulation, professional standards and the environment in which the firm operates; and	<p>A47. Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions or inactions that result in further quality risks. For example, the firm may implement a resource (e.g., a <u>technological</u> resource) to address a quality risk, and quality risks may arise from the use of such resource.</p> <p>A48. The degree to which a risk, individually, or in combination with other risks may adversely affect the achievement of a quality objective(s) may vary based on the conditions, events, circumstances,</p>		

<p>f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.</p> <p>(ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:</p> <p>a. The types of engagements performed by the firm and the reports to be issued; and</p> <p>b. The types of entities for which such engagements are undertaken;</p>	<p>actions or inactions giving rise to the risk, taking into account, for example and how they affect the quality objective(s), such as:</p> <ul style="list-style-type: none"> • How the condition, event, circumstance, action or inaction would affect the achievement of the quality objective. • How frequently the condition, event, circumstance, action or inaction is expected to occur. • How long it would take after the condition, event, circumstance, action or inaction occurred for it to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action or inaction. • How long the condition, event, circumstance, action or inaction would affect the achievement of the quality objective once it has occurred. <p>The assessment of quality risks need not comprise formal ratings or scores, although however firms are not precluded from using them.</p>
--	--

<p>(b) Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions in paragraph 25(a) may adversely affect the achievement of the quality objectives. (Ref: Para. A48)-</p>	
<p>26. The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in paragraph 34. (Ref: Para. A49–A51)</p>	<p><i>Design and Implement Responses to <u>Address the</u> Quality Risks</i> (Ref: Para. 16(u), 26)</p> <p>A49. The nature, timing and extent of the responses are based on the reasons for the assessment given to the quality risks, which is the considered occurrence and effect on the achievement of one or more quality objectives.</p> <p>A50. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level.</p> <div data-bbox="718 870 1885 1182" style="border: 1px solid black; padding: 10px;"> <p><i>Example of a response <u>designed and implemented by the firm</u> that operates at both the firm and engagement level</i></p> <p>The firm establishes policies or procedures for consultation which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when matters for consultation occur and initiating consultation, and implementing the conclusions from consultation.¹⁰</p> </div> <p>A51. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.</p>

¹⁰ [ISA 220 \(Revised\), paragraphs 35](#)

<p>27. The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A52–A53)</p> <p>(a) Establish additional quality objectives or modify additional quality objectives already established by the firm; (Ref: Para. A54)</p> <p>(b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or</p> <p>(c) Design and implement additional responses, or modify the responses.</p>	<p><i>Changes in the Nature and Circumstances of the Firm or its Engagements</i> (Ref: Para. 27)</p> <p>A52. <i>Scalability example to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary</i></p> <ul style="list-style-type: none"> • In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual(s) responsible for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is able to identify such information in the normal course of their activities. • In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements. This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm’s internal and external environment. <p>A53. Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with paragraph 42.</p> <p>A54. The firm may have established quality objectives in addition to those specified by this ISQM. The firm may also identify information that indicates that additional quality objectives already established by the firm are no longer needed, or need to be modified.</p>
--	---

Governance and Leadership	Governance and Leadership
<p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces: (Ref: Para. A55–A56)</p> <p>(i) The firm's role in serving the public interest by consistently performing quality engagements;</p> <p>(ii) The importance of professional ethics, values and attitudes;</p> <p>(iii) The responsibility of all personnel for quality relating to the performance of engagements or</p>	<p><i>Commitment to Quality</i> (Ref: Para. 28(a))</p> <p>A55. The firm's culture is an important factor in influencing the behavior of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ISQM. Professional values and attitudes may include:</p> <ul style="list-style-type: none"> • Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability. • A commitment to teamwork. • Maintaining an open mind to new ideas or different perspectives in the professional environment. • Pursuit of excellence. • A commitment to continual improvement (e.g., setting expectations beyond the minimum requirements and placing a focus on continual learning). • Social responsibility. <p>A56. The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialization or new service offerings. The firm's financial and operational priorities may directly or indirectly affect the firm's commitment to quality, for example, the firm may have incentives that are focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality.</p> <p><i>Leadership</i> (Ref: Para. 28(b) and 28(c))</p> <p>A57. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 56.</p>

<p>activities within the system of quality management, and their expected behavior; and</p> <p>(iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.</p> <p>(b) Leadership is responsible and accountable for quality. (Ref: Para. A57)</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors. (Ref: Para. A58)</p> <p>(d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management. (Ref: Para. A32, A33, A35, A59)</p>	<p>A58. Although leadership establishes the tone at the top through their actions and behaviors, clear, consistent and frequent actions and communications at all levels within the firm collectively contribute to the firm's culture and demonstrates a commitment to quality.</p> <p><i>Organizational Structure</i> (Ref: Para. 28(d))</p> <p>A59. The organizational structure of the firm may include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery center, and engagement teams may include personnel from the firm's service delivery center who perform specific tasks that are repetitive or specialized in nature.</p> <p><i>Resources</i> (Ref: Para. 28(e))</p> <p>A60. The individual(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management overall is in most cases able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how those resources are allocated or assigned, including the timing of when they are used.</p> <p>A61. As resource needs may change over time it may not be practicable to anticipate all resource needs. The firm's resource planning may involve determining the resources currently required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.</p>
---	--

<p>(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: Para. A60–A61)</p>	
<p>Relevant Ethical Requirements</p>	<p>Relevant Ethical Requirements (Ref: Para. <u>16(t)</u>, 29)</p>
<p>29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)</p> <p>(a) The firm and its personnel:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject. (Ref: Para. A23, A25)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical</p>	<p>A62. The IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and, when applicable, the International Independence Standards. In addition, the IESBA Code addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.</p> <p>A63. In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.</p> <div data-bbox="716 1019 1885 1349" style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements</i></p> <ul style="list-style-type: none"> • The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential. • The firm sets rotation periods for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members. </div>

<p>requirements to which the firm and the firm's engagements are subject.</p> <p>(b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:</p> <p>(i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A23, A25, A65)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.</p>	<p>A64. Other components may affect or relate to the relevant ethical requirements component.</p> <div data-bbox="716 261 1885 951" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of relationships between the relevant ethical requirements component and other components</i></p> <ul style="list-style-type: none"> • The information and communication component may address the communication of various matters related to relevant ethical requirements, including: <ul style="list-style-type: none"> ○ The firm communicating the independence requirements to all personnel and others subject to independence requirements. ○ Personnel and Engagement teams and other individuals in the firm communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence, or breaches of relevant ethical requirements. • As part of <u>the resources component</u>, the firm may: <ul style="list-style-type: none"> ○ Assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements. ○ Use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence. </div> <p>A65. The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management, or in <u>the performance of</u> engagements.</p> <div data-bbox="703 1094 1885 1404" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of relevant ethical requirements that apply to others</i></p> <ul style="list-style-type: none"> • Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, the IESBA Code includes independence requirements that apply to network firms. • Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who performs assurance procedures on the engagement (e.g., a component auditor or a service provider engaged to attend a </div>
---	--

	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p>physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.</p> <ul style="list-style-type: none"> • The principle of confidentiality may apply to the firm’s network, other network firms or service providers, when they have access to client information obtained by the firm. </div> <p><i>Public Sector Considerations</i></p> <p>A66. In achieving the quality objectives in this ISQM related to independence, public sector auditors may address independence in the context of the public sector mandate and statutory measures.</p>
<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>
<p>30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p> <p>(a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</p> <p>(i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical</p>	<p><i>The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client</i> (Ref: Para. 30(a)(i))</p> <p>A67. The information obtained about the nature and circumstances of the engagement may include:</p> <ul style="list-style-type: none"> • The industry of the entity for which the engagement is being undertaken and relevant regulatory factors; • The nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed; and • The nature of the underlying subject matter and the applicable criteria, for example, in the case of integrated reporting: <ul style="list-style-type: none"> ○ The underlying subject matter may include social, environmental or health and safety information; and ○ The applicable criteria may be performance measures established by a recognized body of experts.

<p>values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and (Ref: Para. A67–A71)</p> <p>(ii) The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A72)</p> <p>(b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A73–A74)</p>	<p>A68. The information obtained to support the firm’s judgments about the integrity and ethical values of the client may include the identity and business reputation of the client’s principal owners, key management, and those charged with its governance.</p> <div data-bbox="716 337 1885 1057" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client</i></p> <ul style="list-style-type: none"> • The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure. • The nature of the client’s operations, including its business practices. • Information concerning the attitude of the client’s principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment. • Whether the client is aggressively concerned with maintaining the firm’s fees as low as possible. • Indications of a client-imposed limitation in the scope of work. • Indications that the client might be involved in money laundering or other criminal activities. • The reasons for the proposed appointment of the firm and non-reappointment of the previous firm. • The identity and business reputation of related parties. </div> <p>A69. The firm may obtain the information from a variety of internal and external sources, including:</p> <ul style="list-style-type: none"> • In the case of an existing client, information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client. • In the case of a new client, inquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements. • Discussions with other third parties, such as bankers, legal counsel and industry peers.
---	--

	<ul style="list-style-type: none"> • Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search. <p>A70. Information that is obtained during the firm’s acceptance and continuance process may often also be relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, ISA 220 (Revised)¹¹ requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.</p> <p>A71. Professional standards or <u>applicable</u> legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300¹² requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements.</p> <p><i>The Firm’s Ability to Perform <u>the Engagements</u></i> (Ref: Para. 30(a)(ii))</p> <p>A72. The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by:</p> <ul style="list-style-type: none"> • The availability of appropriate resources to perform the engagement; • Having access to information to perform the engagement, or to the persons who provide such information; and • Whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements.
--	--

¹¹ ~~Proposed~~ ISA 220 (Revised), paragraph 23

¹² ISA 300, *Planning an Audit of Financial Statements*, paragraph 13(b)

	<p><i>Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement</i></p> <ul style="list-style-type: none"> • The circumstances of the engagement and the reporting deadline. • The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having: <ul style="list-style-type: none"> ○ Individuals to take overall responsibility forte <u>directing</u> and <u>supervising</u> the engagement; and ○ Individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements; and ○ Individuals to perform audit procedures <u>on the financial information of</u> related to a component for purposes of an audit of group financial statements. • The availability of experts, if needed. • If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in ISQM 2. • The need for technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity’s data. • The need for intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources. <p><i>The Firm’s Financial and Operational Priorities (Ref: Para. 30(b))</i></p> <p>A73. Financial priorities may focus on the profitability of the firm, and fees obtained for <u>the performing of</u> engagements have an effect on the firm’s financial resources. Operational priorities may include strategic focus areas, such as growth of the firm’s market share, industry specialization or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values).</p>
--	---

	<p>A74. There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The IESBA Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.</p>
<p>Engagement Performance</p>	<p>Engagement Performance</p>
<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>(a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75)</p> <p>(b) The nature, timing and extent of direction and supervision of engagement teams and review of the</p>	<p><i>Responsibilities of the Engagement Team and Direction, Supervision and Review</i> (Ref: Para. 31(a) and 31(b))</p> <p>A75. Professional standards or <u>applicable</u> legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, ISA 220 (Revised) deals with the overall responsibility of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement, including <u>having</u> responsibility for appropriate direction and supervision of the engagement team and review of their work.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>A76. <i>Examples of direction, supervision and review</i></p> <ul style="list-style-type: none"> • Examples of dDirection and supervision of the engagement team <u>may</u> include: <ul style="list-style-type: none"> ○ Tracking the progress of the engagement; ○ Considering the following with respect to members of the engagement team: <ul style="list-style-type: none"> • Whether they understand their instructions; and • Whether the work is being carried out in accordance with the planned approach to the engagement; ○ Addressing matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and ○ Identifying matters for consultation or consideration by more experienced engagement team members during the engagement. </div>

<p>work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77)</p>	<ul style="list-style-type: none"> • Examples of a review of work performed may include considering whether: <ul style="list-style-type: none"> ○ The work has been performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements; ○ Significant matters have been raised for further consideration; ○ Appropriate consultations have been undertaken and the resulting conclusions have been documented and implemented; ○ There is a need to revise the nature, timing and extent of planned work; ○ The work performed supports the conclusions reached and is appropriately documented; ○ The evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and ○ The objectives of the engagement procedures have been achieved.
<p>(c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A78)</p>	<p>A77. In some circumstances, the firm may use personnel from a service delivery center in the firm or individuals from a service delivery center of the firm or in another network firm to perform procedures on the engagement; (i.e., the personnel or other individuals are included in the engagement team). In such circumstances, the firm’s policies or procedures may specifically address the direction and supervision of the individuals and review of their work, such as:</p>
<p>(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A79–A81)</p>	<ul style="list-style-type: none"> • What aspects of the engagement may be assigned to individuals in the service delivery center; • How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by individuals in the service delivery center; and • The protocols for communication between the engagement team and individuals in the service delivery center.
<p>(e) Differences of opinion within the engagement team, or between the</p>	<p>Professional Judgment and Professional Skepticism (Ref: Para. 31(c))</p> <p>A78. Professional skepticism supports the quality of judgments made on an assurance engagement and, through these judgments, the overall effectiveness of the engagement team in performing the</p>

<p>engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)</p> <p>(f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A83–A85)</p>	<p>assurance engagement. Other pronouncements of the IAASB may address the exercise of professional judgment or professional skepticism at the engagement level. For example, ISA 220 (Revised)¹³ provides examples of 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 such impediments.</p> <p><i>Consultation</i> (Ref: Para. 31(d))</p> <p>A79. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.</p> <p>A80. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions should <u>are to</u> be agreed and implemented.</p> <p>A81. ISA 220 (Revised)¹⁴ includes requirements for the engagement partner related to consultation.</p> <p><i>Differences of Opinion</i> (Ref: Para. 31(e))</p> <p>A82. The firm may encourage that differences of opinion are identified at an early stage, and may specify the steps to be taken in raising and dealing with them, including how the matter is to <u>should</u> be resolved and how the related conclusions should be implemented and documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.</p> <p><i>Engagement Documentation</i> (Ref: Para. 31(f))</p> <p>A83. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of <u>engagements conducted</u></p>
---	--

¹³ ~~Proposed~~ ISA 220 (Revised), paragraphs A33–A35

¹⁴ ~~Proposed~~ ISA 220 (Revised), paragraph 35

	<p>under the ISAs or ISAEs an audit of financial statements or an assurance engagement other than an audit or review of historical financial information, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.</p> <p>A84. The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented or deleted without authorization to do so, or if it is permanently lost or damaged.</p> <p>A85. Law, regulation or other professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm’s circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ISAs or ISAEs an audit of financial statements or an assurance engagement other than an audit or review of historical financial information, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor’s report on the group financial statements, when applicable.</p>
<p>Resources</p>	<p>Resources (Ref: Para. 32)</p>
<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)</p>	<p>A86. Resources for the purposes of the resources component include:</p> <ul style="list-style-type: none"> • Human resources. • Technological resources, for example, IT applications. • Intellectual resources, for example, written policies or procedures, a methodology or guides. <p>Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing and maintaining the firm’s human resources, technological resources and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.</p>

<p>Human Resources</p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)</p> <p>(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or</p> <p>(ii) Perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.</p> <p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized</p>	<p>A87. Resources may be internal to the firm, or may be obtained externally from the firm’s network, another network firm or service provider. Resources may be used in performing activities within the firm’s system of quality management, or in <u>the performanceing of</u> engagements as part of operating the system of quality management. In circumstances when a resource is obtained from the firm’s network or another network firm, paragraphs 48–52 form part of the responses designed and implemented by the firm in achieving the objectives in this component.</p> <p><i>Human Resources (Ref: Para. 32(a))</i></p> <p><u>Hiring, Developing and Retaining Personnel and Personnel Competence and Capabilities (Ref: Para. 32(a), 32(d))</u></p> <p>A88. Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.</p> <p>A89. Law, or regulation <u>or professional standards</u> may establish requirements addressing competence and capabilities, such as requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.</p> <p>A90. <i>Examples of <u>policies or procedures relating responses to address</u> hiring, developing and retaining personnel</i></p> <p>The <u>policies or procedures responses</u> designed and implemented by the firm <u>relating to address</u> hiring, developing and retaining personnel may <u>include policies or procedures that</u> address:</p> <ul style="list-style-type: none"> • Recruiting individuals who have, or are able to develop, appropriate competence. • Training programs focused on developing the competence of personnel and continuing professional development. • Evaluation mechanisms that are undertaken at appropriate intervals and include
---	--

<p>through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)</p>	<p>competency areas and other performance measures.</p> <ul style="list-style-type: none"> • Compensation, promotion and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm’s system of quality management.
<p>(c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements. (Ref: Para. A94)</p>	<p>Personnel’s Commitment to Quality and Accountability and Recognition for <u>Commitment to Quality</u> (Ref: Para. 32(b))</p> <p>A91. Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, such as in the case of firms with fewer personnel.</p> <p>A92. Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.</p> <p>A93. The manner in which the firm holds personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm’s responses as designed, may depend on the nature of the action or behavior, including its severity and frequency of occurrence. Actions the firm may take when personnel demonstrate actions or behaviors that negatively affect quality may include:</p> <ul style="list-style-type: none"> • Training or other professional development. • Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of those involved. • Disciplinary action, if appropriate.
<p>(d) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A88–A89, A95–A97)</p>	<p>Individuals Obtained from External Sources (Ref: Para. 32(c))</p> <p>A94. Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, proposed ISA 220 (Revised)¹⁵ addresses the</p>

¹⁵ ~~Proposed~~ ISA 220 (Revised), paragraph 25

<p>(e) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.</p> <p><i>Technological Resources</i></p> <p>(f) Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. (Ref: Para. A98–A101, A104)</p> <p><i>Intellectual Resources</i></p> <p>(g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality</p>	<p>responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm's policies or procedures.</p> <p>Engagement Team Members Assigned to Each Engagement (Ref: Para. 32(d))</p> <p>A95. Engagement team members may be assigned to engagements by:</p> <ul style="list-style-type: none"> • The firm, including assigning personnel from a service delivery center in the firm. • The firm's network or another network firm when the firm uses individuals from the firm's network or another network firm to perform procedures on the engagement (e.g., a component auditor or a service delivery center of the network or another network firm). • A service provider when the firm uses individuals from a service provider to perform procedures on the engagement (e.g., a component auditor from a firm that is not within the firm's network). <p>A96. Proposed ISA 220 (Revised)¹⁶ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. ISA 600¹⁷ expands on how ISA 220 (Revised) is to be applied in relation to an audit of group financial statements. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address:</p> <ul style="list-style-type: none"> • Information that may be obtained by the engagement partner and factors to consider in determining that the engagement team members assigned to the engagement, including those assigned by the firm's network, another network firm or service provider, have the competence and capabilities to perform the engagement. • How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm's network, another network firm or service provider, may be resolved.
---	--

¹⁶ ~~Proposed~~ ISA 220 (Revised), paragraph 26

¹⁷ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 19

<p>management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A102–A104)</p> <p>Service Providers</p> <p>(h) Human, technological or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in the performance of engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g). (Ref: Para. A105–A108)</p>	<p>A97. The requirements in paragraphs 48–52 are also applicable when using individuals from the firm’s network or another network firm on an engagement, including component auditors (see, for example, paragraph A178).</p> <p><i>Technological Resources</i> (Ref: Para. 32(f))</p> <p>A98. Technological resources, which are typically IT applications, form part of the firm’s IT environment. The firm’s IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:</p> <ul style="list-style-type: none"> • An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program. • The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software. • The IT processes are the firm’s processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment. <p>A99. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this ISQM are:</p> <ul style="list-style-type: none"> • Technological resources that are directly used in designing, implementing or operating the firm’s system of quality management; • Technological resources that are used directly by engagement teams in <u>the performanceing of engagements</u>; and • Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ISQM may differ</i></p> </div>
--	--

	<ul style="list-style-type: none"> • In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application). • In a more complex firm, the technological resources may be more complex and may comprise: <ul style="list-style-type: none"> ○ Multiple IT applications, including custom developed applications or applications developed by the firm’s network, such as: <ul style="list-style-type: none"> • IT applications used by engagement teams (e.g., engagement software and automated audit tools). • IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements). ○ The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm’s processes for managing program changes to the IT applications. <p>A100. The firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application:</p> <ul style="list-style-type: none"> • The data inputs are complete and appropriate; • Confidentiality of the data is preserved; • The IT application operates as designed and achieves the purpose for which it is intended; • The outputs of the IT application achieve the purpose for which they will be used; • The general IT controls necessary to support the IT application’s continued operation as designed are appropriate; • The need for specialized skills to utilize the IT application effectively, including the training of individuals who will use the IT application; and
--	--

	<ul style="list-style-type: none">• The need to develop procedures that set out how the IT application operates. <p>A101. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances when the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in paragraph A100. ISA 220 (Revised)¹⁸ addresses the engagement partner’s responsibilities for engagement resources.</p> <p><i>Intellectual Resources</i> (Ref: Para. 32(g))</p> <p>A102. Intellectual resources include the information the firm uses to <u>enable the operation of the system of quality management and</u> promote consistency in <u>the performanceing of</u> engagements.</p> <div data-bbox="716 696 1883 935" style="border: 1px solid black; padding: 5px;"><p><i>Examples of intellectual resources</i></p><p>Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in <u>the performanceing of</u> engagements).</p></div> <p>A103. Intellectual resources may be made available through technological resources, for example, the firm’s methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.</p> <p><i>Use of Technological and Intellectual Resources</i> (Ref: Para. 32(f)–32(g))</p> <p>A104. The firm may establish policies or procedures regarding the use of the firm’s technological and intellectual resources. Such policies or procedures may:</p>
--	--

¹⁸ ~~Proposed~~ ISA 220 (Revised), paragraphs 25–28

- Require the use of certain IT applications or intellectual resources in the performanceing of engagements, or relating to other aspects of the engagement, such as in archiving the engagement file.
- Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training, for example, the firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results.
- Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources.
- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

Service Providers (Ref: Para. 16(v), 32(h))

A105. In some circumstances, the firm may use resources that are provided by a service provider, particularly in circumstances when the firm does not have access to the appropriate resources internally. Notwithstanding that a firm may use resources from a service provider, the firm remains responsible for its system of quality management.

Examples of resources from a service provider

- Individuals engaged to perform the firm's monitoring activities or engagement quality reviews, or to provide consultation on technical matters.
- A commercial IT application used to perform audit engagements.
- Individuals performing procedures on the firm's engagements, for example, component auditors from other firms not within the firm's network or individuals engaged to attend a physical inventory count at a remote location.
- An auditor's external expert usedengaged by the firm to assist the engagement team in obtaining audit evidence.

	<p>A106. In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, which includes <u>conditions, events, circumstances, actions or inactions</u>these relating to service providers. In doing so, the firm may consider the nature of the resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm (e.g., the varying types of other professional services firms that are used), in order to identify and assess quality risks related to the use of such resources.</p> <p>A107. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or <u>in the performanceing of</u> engagements, the firm may obtain information about the service provider and the resource they provide from a number of sources. Matters the firm may consider include:</p> <ul style="list-style-type: none">• The related quality objective and quality risks. For example, in the case of a methodology from a service provider, there may be quality risks related to the quality objective in paragraph 32(g), such as a quality risk that the service provider does not update the methodology to reflect changes in professional standards and applicable legal and regulatory requirements.• The nature and scope of the resources, and the conditions of the service (e.g., in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the service provider addresses confidentiality of data).• The extent to which the resource is used across the firm, how the resource will be used by the firm and whether it is suitable for that purpose.• The extent of customization of the resource for the firm.• The firm's previous use of the service provider.• The service provider's experience in the industry and reputation in the market. <p>A108. The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively, or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.</p>
--	--

Information and Communication	Information and Communication (Ref: Para. 33)
<p>33. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A109)</p> <p>(a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: Para. A110–A111)</p> <p>(b) The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112)</p>	<p>A109. Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication is pervasive to all components of the system of quality management.</p> <p><i>The Firm’s Information System</i> (Ref: Para. 33(a))</p> <p>A110. Reliable and relevant information includes information that is accurate, complete, timely and valid to enable the proper functioning of the firm’s system of quality management and to support decisions regarding the system of quality management.</p> <p>A111. The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases may be embedded within the firm’s responses for other components. In addition, digital records may replace or supplement physical records.</p> <div data-bbox="718 789 1822 1027" style="border: 1px solid black; padding: 5px;"> <p><i>Scalability example to demonstrate how the information system may be designed in a less complex firm</i></p> <p>Less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.</p> </div> <p><i>Communication Within the Firm</i> (Ref: Para. 33(b), 33(c))</p> <p>A112. The firm may recognize and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and with one another by establishing communication channels to facilitate communication across the firm.</p> <div data-bbox="718 1243 1852 1385" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of communication among the firm, personnel and engagement teams</i></p> <ul style="list-style-type: none"> • The firm communicates the responsibility for implementing the firm’s responses to personnel and engagement teams. </div>

<p>(c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including: (Ref: Para. A1123)</p> <p>(i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements.</p> <p>(ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.</p>	<ul style="list-style-type: none"> • The firm communicates changes to the system of quality management to personnel and engagement teams, to the extent that the changes are relevant to their responsibilities and enables personnel and the engagement teams to take prompt and appropriate action in accordance with their responsibilities. • The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements. • Engagement teams communicate to the firm information about: <ul style="list-style-type: none"> ○ The client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement. ○ The operation of the firm's responses (e.g., concerns about the firm's processes for assigning personnel to engagements), which in some cases, may indicate a deficiency in the firm's system of quality management. • Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation. • Group engagement teams communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level. • The individual(s) assigned operational responsibility for compliance with independence requirements communicates to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes. <p><i>Communication with External Parties</i></p> <p>Communication to or within the Firm's Network and to Service Providers (Ref: Para. 33(d)(i))</p>
--	--

<p>(d) Relevant and reliable information is communicated to external parties, including:</p> <p>(i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. (Ref: Para. A113)</p> <p>(ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality</p>	<p>A113. In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network, <u>a network firm</u> or a service provider that supports the firm in the design, implementation and operation of its system of quality management.</p> <div data-bbox="716 375 1885 537" style="border: 1px solid black; padding: 5px;"> <p><i>Example of information obtained by the firm from within the firm's network</i></p> <p>The firm obtains information from the network or other network firms about clients of other <u>network firms</u> within the network, where there are independence requirements that affect the firm.</p> </div> <p>Communication with Others External to the Firm (Ref: Para. 33(d)(ii))</p> <div data-bbox="646 623 1885 1078" style="border: 1px solid black; padding: 5px;"> <p>A114. <i>Examples of when law, regulation or professional standards may require the firm to communicate information to external parties</i></p> <ul style="list-style-type: none"> • The firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances. • Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report. • Securities law or regulation requires the firm to communicate certain matters to those charged with governance. </div> <p>A115. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally.</p> <div data-bbox="716 1187 1885 1393" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of when the firm may be precluded from communicating information externally</i></p> <ul style="list-style-type: none"> • Privacy or secrecy law or regulation prohibits disclosure of certain information. • Law, regulation or relevant ethical requirements include provisions addressing the duty of confidentiality. </div>
--	--

management. (Ref: Para. A114–A115)	
Specified Responses	Specified Responses (Ref: Para. 34)
<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(a) The firm establishes policies or procedures for:</p> <p>(i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)</p> <p>(ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and</p>	<p>A116. The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (e.g., personnel’s commitment to quality), relevant ethical requirements and governance and leadership. The specified responses alone are not sufficient to achieve the objectives of the system of quality management.</p> <p><i>Relevant Ethical Requirements</i> (Ref: Para. 34(a)–34(b))</p> <p>A117. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to should be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.</p> <p>A118. Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties.</p> <p>A119. Matters the firm may address relating to breaches of the relevant ethical requirements include:</p> <ul style="list-style-type: none"> • The communication of breaches of the relevant ethical requirements to appropriate personnel within the firm; • The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements; • The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;

<p>consequences of the breaches in a timely manner. (Ref: Para. A118–A119)</p> <p>(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p> <p>(c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures established in accordance with this ISQM. (Ref: Para. A120–A121)</p> <p>(d) The firm establishes policies or procedures that</p>	<ul style="list-style-type: none"> • Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and • Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach. <p><i>Complaints and Allegations</i> (Ref: Para. 34(c))</p> <p>A120. Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in:</p> <ul style="list-style-type: none"> • Identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm’s commitment to quality; or • Identifying deficiencies in the system of quality management. <p>A121. Complaints and allegations may originate from within or outside the firm and they may be made by personnel, or others external to the firm (e.g., clients, component auditors or individuals within the firm’s network).</p> <p><i>Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement</i> (Ref: Para. 34(d))</p> <p>A122. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:</p> <ul style="list-style-type: none"> • Have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement and the firm was not aware of such information; or • Relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Examples of matters addressed in the firm’s policies or procedures for circumstances when information becomes known subsequent to accepting or continuing a client</i></p> </div>
---	--

<p>address circumstances when:</p> <p>(i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)</p> <p>(ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)</p>	<p><i>relationship or specific engagement that may have affected the firm’s decision to accept or continue a client relationship or specific engagement</i></p> <ul style="list-style-type: none"> • Undertaking consultation within the firm or with legal counsel. • Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement. • Discussing with the appropriate level of the client’s management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances. • When it is determined that withdrawal is an appropriate action: <ul style="list-style-type: none"> ○ Informing the client’s management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal. ○ Considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
	<p>A123. In some circumstances, jurisdictional law or regulation may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be appointed through statutory provisions.</p> <p><i>Example of matters addressed in the firm’s policies or procedures in circumstances when the firm is obligated to accept or continue an engagement or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement</i></p> <ul style="list-style-type: none"> • The firm considers the effect of the information on the performance of the engagement. • The firm communicates the information to the engagement partner, and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work. • The firm assigns more experienced personnel to the engagement.

<p>(e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)</p> <p>(i) Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A128A, A132)</p> <p>(ii) Address when it is otherwise appropriate to communicate with external parties about the firm’s system of quality management; and (Ref: Para. A129)</p>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <ul style="list-style-type: none"> The firm determines that an engagement quality review should be performed. </div> <p><i>Communication with External Parties</i> (Ref. Para: 34(e))</p> <p>A124. The firm’s ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable and transparent communication by the firm about the activities that it has undertaken to address quality, and the effectiveness of those activities.</p> <p>A125. External parties who may use information about the firm’s system of quality management, and the extent of their interest in the firm’s system of quality management, may vary based on the nature and circumstances of the firm and its engagements.</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p><i>Examples of external parties who may use information about the firm’s system of quality management</i></p> <ul style="list-style-type: none"> Management or those charged with governance of the firm’s clients may use the information to determine whether to appoint the firm to perform an engagement. External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction and in understanding the work of firms. Other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) may have requested such information. Other users of the firm’s engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information. </div> <p>A126. The information about the system of quality management provided to external parties, including information communicated to those charged with governance about how the system of quality management supports the consistent performance of quality engagements, may address such matters as:</p> <ul style="list-style-type: none"> The nature and circumstances of the firm, such as the organizational structure, business model, strategy and operating environment.
---	--

<p>(iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A130–A131)</p>	<ul style="list-style-type: none"> • The firm’s governance and leadership, such as its culture, how it demonstrates a commitment to quality, and assigned roles, responsibilities and authority with respect to the system of quality management. • How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence. • Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators. • The results of the firm’s monitoring activities and external inspections, and how the firm has remediated identified deficiencies or is otherwise responding to them. • The evaluation undertaken in accordance with paragraphs 53–54 of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved <u>and the conclusion thereon</u>, including the basis for the judgments made in undertaking the evaluation <u>and concluding</u>.
<p>(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for:</p>	<ul style="list-style-type: none"> • How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes. • The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms.
<p>(i) Audits of financial statements of listed entities;</p> <p>(ii) Audits or other engagements for which an engagement quality review is required by</p>	<p>Communication with Those Charged with Governance <u>(Ref. Para: 34(e)(i))</u></p> <p>A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm’s policies or procedures and the circumstances of the engagement. <u>Given the nature of the information, discussion with those charged with governance may be appropriate instead of, or in addition to, written communication.</u></p>

<p>law or regulation; and (Ref: Para. A133)</p> <p>(iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)</p>	<p>A128. ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate¹⁹ and the communication process.²⁰ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than listed entities (or when performing other engagements), for example, entities thatwhich may have public interest considerations or public accountability characteristics, such as:</p> <ul style="list-style-type: none"> • Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds. • Entities with a high public profile, or whose management or owners have a high public profile. • Entities with a large number and widediverse range of stakeholderholders. <p>Public sector considerations (Ref: Para. 34(e)(i))</p> <p>A128A. The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the public sector entity, the range of itstheir stakeholders, the nature of the services itthey provides, and the role and responsibilitiesscope of those charged with governance.</p> <p>Determining When it is Otherwise Appropriate to Communicate with External Parties (Ref: Para: 34(e)(ii))</p> <p>A129. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as:</p> <ul style="list-style-type: none"> • The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken.
--	---

¹⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

²⁰ ISA 260 (Revised), paragraphs 18–22

- The nature and circumstances of the firm.
- The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates.
- The extent to which the firm has already communicated with external parties in accordance with law or regulation (i.e., whether further communication is needed, and if so, the matters to be communicated).
- The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.
- Jurisdictional trends.
- The information that is already available to external parties.
- How external parties may use the information, and their general understanding of matters related to firms' system of quality management and audits or reviews of financial statements, or other assurance or related services engagements.
- The public interest benefits of external communication and whether it would reasonably be expected to outweigh the costs (monetary or otherwise) of such communication.

The above matters may also affect the information provided by the firm in the communication, and the nature, timing and extent and appropriate form of communication.

Nature, Timing and Extent and Appropriate Form of Communication with External Parties (Ref. Para: [34\(e\)\(iii\)](#))

A130. The firm may consider the following attributes in preparing information that is communicated to external parties:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.

- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm's website).

A131. The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of listed entities, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of form of communication to external parties

- ~~A webpage, videos or interviews.~~
- A publication such as a transparency report or audit quality report.
- Targeted written communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process).
- ~~Direct conversations and interactions with the external party, including through social media~~ (e.g., discussions between the engagement team and those charged with governance).
- A webpage.
- Other forms of digital media, such as social media, or interviews or presentations via webcast or video.

Engagements Subject to an Engagement Quality Review

Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii))

	<p>A133. Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:</p> <ul style="list-style-type: none"> • Are public interest entities as defined in a particular jurisdiction; • Operate in the public sector or which are recipients of government funding, or entities with public accountability; • Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds); • Meet a specified asset threshold; or • Are under the management of a court or judicial process (e.g., liquidation). <p>Engagement Quality Review as a Response to Address One or More Quality Risk(s) (Ref: Para. 34(f)(iii))</p> <p>A134. The firm’s understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, as required by paragraph 25(a)(ii), relates to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses to address one or more quality risk(s), the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response</i></p> <p>Those relating to the types of engagements performed by the firm and reports to be issued:</p> <ul style="list-style-type: none"> • Engagements that involve a high level of complexity or judgment, such as: <ul style="list-style-type: none"> ○ Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern. ○ Assurance engagements that require specialized skills and knowledge in measuring </div>
--	---

		<p>or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).</p> <ul style="list-style-type: none"> • Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements. • Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner). • Engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus. <p>Those relating to the types of entities for which engagements are undertaken:</p> <ul style="list-style-type: none"> • Entities in emerging industries, or for which the firm has no previous experience. • Entities for which concerns were expressed in communications from securities or prudential regulators. • Entities other than listed entities that may have public interest or public accountability characteristics, for example: <ul style="list-style-type: none"> ○ Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation. ○ Entities with a high public profile, or whose management or owners have a high public profile. ○ Entities with a large number and wide range of stakeholders.
--	--	--

	<p>A135. The firm’s responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm’s responses may include reviews of the engagement team’s procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.</p> <p>A136. In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).</p> <p>Public sector considerations</p> <p>A137. The nature and circumstances of public sector entities (e.g., due to their size and complexity, the range of their stakeholders, or the nature of the services they provide) may give rise to quality risks. In these circumstances, the firm may determine that an engagement quality review is an appropriate response to address such quality risks. Law or regulation may establish additional reporting requirements for the auditors of public sector entities (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor’s report on the financial statements). In such cases, the firm may also consider the complexity of such reporting, and its importance to users, in determining whether an engagement quality review is an appropriate response.</p>
<p>Monitoring and Remediation Process</p>	<p>Monitoring and Remediation Process (Ref: Para. 35–47)</p>
<p>35. The firm shall establish a monitoring and remediation process to: (Ref: Para. A138)</p> <p>(a) Provide relevant, reliable and timely information about the design, implementation and</p>	<p>A138. In addition to enabling the evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. For example:</p> <ul style="list-style-type: none"> Given the inherent limitations of a system of quality management, the firm’s identification of deficiencies is not unusual and it is an important aspect of the system of quality management, because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner, and contributes to a culture of continual improvement.

<p>operation of the system of quality management.</p> <p>(b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</p>	<ul style="list-style-type: none"> The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.
<p><i>Designing and Performing Monitoring Activities</i></p> <p>36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies.</p>	<p><i>Designing and Performing Monitoring Activities</i> (Ref: Para. 376–389)</p>
<p>37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)</p> <p>(a) The reasons for the assessments given to the quality risks;</p> <p>(b) The design of the responses;</p> <p>(c) The design of the firm’s risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144)</p>	<p>A139. The firm’s monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities, built into the firm’s processes and performed on a real-time basis, reacting to changing conditions. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.</p> <p>A140. Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor that an aspect of the system of quality management is designed, implemented and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature to an inspection of in-process engagements (e.g., reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity will guide its design and implementation, and where it fits within the system of quality management (i.e., whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).</p>

<p>(d) Changes in the system of quality management; (Ref: Para. A145)</p>	<p>A141. The nature, timing and extent of the monitoring activities may also be affected by other matters, including:</p>
<p>(e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A146–A147)</p>	<ul style="list-style-type: none"> • The size, structure and organization of the firm. • The involvement of the firm's network in monitoring activities. • The resources that the firm intends to use to enable monitoring activities, such as the use of IT applications. <p>A142. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.</p>
<p>(f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures established in accordance with this ISQM, information from external inspections and information from service</p>	<p>The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 37(c))</p> <p>A143. How the firm's risk assessment process is designed (e.g., a centralized or decentralized process, or the frequency of review) may affect the nature, timing and extent of the monitoring activities, including monitoring activities over the firm's risk assessment process.</p> <p>A144. The firm monitors the monitoring and remediation activities to obtain information about whether they are appropriately designed, implemented and operating to achieve their intended purpose described in paragraph 35. The monitoring activities that are undertaken to obtain information about the monitoring and remediation process may be affected by—How the firm's other monitoring and remediation process is activities are designed (i.e., thetheir nature, timing and extent of the monitoring and remediation activities, taking into account the nature and circumstances of the firm), and how the remediation process is designed may affect the monitoring activities undertaken by the firm to determine whether the monitoring and remediation process is achieving the intended purpose as described in paragraph 35. They may also be affected by the nature and circumstances of the firm.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Scalability example to demonstrate the monitoring activities for the monitoring and remediation process</i></p> <ul style="list-style-type: none"> • In a less complex firm, the monitoring activities may be simple, since information about the monitoring and remediation process may be readily available in the form of leadership's </div>

<p>providers. (Ref: Para. A148–A150)</p>	<div data-bbox="716 191 1885 488" style="border: 1px solid black; padding: 5px;"> <p>knowledge, based on their frequent interaction with the system of quality management, of the nature, timing and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm’s actions to address the results.</p> <ul style="list-style-type: none"> In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies. </div> <p>Changes in the System of Quality Management (Ref: Para. 37(d))</p> <p>A145. Changes in the system of quality management may include:</p> <ul style="list-style-type: none"> Changes to address an identified deficiency in the system of quality management. Changes to the quality objectives, quality risks or responses as a result of changes in the nature and circumstances of the firm and its engagements. <p>When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm’s monitoring activities may include monitoring of those areas of change.</p> <p>Previous Monitoring Activities (Ref: Para. 37(e), 43(b))</p> <p>A146. The results of the firm’s previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.</p> <p>A147. Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.</p> <p>Other Relevant Information (Ref: Para. 16(h), 37(f))</p> <p>A148. In addition to the sources of information indicated in paragraph 37(f), other relevant information may include:</p>
--	--

	<ul style="list-style-type: none"> • Information communicated by the firm’s network in accordance with paragraphs 50(c) and 51(b) about the firm’s system of quality management, including the network requirements or network services that the firm has included in its system of quality management. • Information communicated by a service provider about the resources the firm uses in its system of quality management. • Information from regulators about the entities for whom the firm performs engagements, which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity’s financial statements). <p>A149. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm’s consideration of the nature, timing and extent of the monitoring activities.</p> <p>A150. External inspections are not a substitute for the firm’s internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing and extent of the monitoring activities.</p>
<p>38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall: (Ref: Para. A141, A151–A154)</p> <p>(a) Take into account the matters in paragraph 37;</p> <p>(b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and</p>	<p><i>Engagement Inspections</i> (Ref: Para. 38)</p> <div style="border: 1px solid black; padding: 5px; margin: 5px 0;"> <p>A151. <i>Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection</i></p> <ul style="list-style-type: none"> • In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks: <ul style="list-style-type: none"> ○ The types of engagements performed by the firm, and the extent of the firm’s experience in performing the type of engagement. ○ The types of entities for which engagements are undertaken, for example: <ul style="list-style-type: none"> • Entities that are listed, • Entities operating in emerging industries. • Entities operating in industries associated with a high level of complexity or judgment. </div>

<p>the engagements and engagement partners subject to such monitoring activities; and</p> <p>(c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<ul style="list-style-type: none"> • Entities operating in an industry that is new to the firm. <ul style="list-style-type: none"> ○ The tenure and experience of engagement partners. • The results of previous inspections of completed engagements, including for each engagement partner. • In relation to other relevant information: <ul style="list-style-type: none"> ○ Complaints or allegations about an engagement partner. ○ The results of external inspections, including for each engagement partner. ○ The results of the firm’s evaluation of each engagement partner’s commitment to quality. <p>A152. The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining:</p> <ul style="list-style-type: none"> • Which completed engagements to select for inspection; • Which engagement partners to select for inspection; • How frequently to select an engagement partner for inspection; or • Which aspects of the engagement to consider when performing the inspection of completed engagements. <p>A153. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Example of how a firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner</i></p> </div>
---	---

	<p>The firm may establish policies or procedures addressing the inspection of completed engagements that:</p> <ul style="list-style-type: none"> • Set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial statements once every three years, and for all other engagement partners, once every five years; • Set out the criteria for selecting completed engagements, including that for an engagement partner performing audits of financial statements, the engagement(s) selected include an audit engagement; • Address selecting engagement partners in a manner that is unpredictable; and • Address when it is necessary or appropriate to select engagement partners more, or less, frequently than the standard period set out in the policy, for example: <ul style="list-style-type: none"> ○ The firm may select engagement partners more frequently than the standard period set out in the firm's policy when: <ul style="list-style-type: none"> • Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners. • The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgment. • An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory. • The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience. • The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction. 	
--	--	--

	<ul style="list-style-type: none"> ○ The firm may defer the selection of the engagement partner (e.g., <u>deferring</u> for a year <u>beyond</u>within <u>the standard period set out in thean firm's policyinspection cycle</u>) when: <ul style="list-style-type: none"> • Engagements performed by the engagement partner have been subject to other monitoring activities <u>during the standard period set out in the firm's policyin the last three years</u>; and • The results of the other monitoring activities provide sufficient information about the engagement partner, <u>(i.e., performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner).</u> <p>A154. The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (e.g., the firm's policies and procedures in respect of engagement performance), have been implemented as designed and are operating effectively.</p>
<p>39. The firm shall establish policies or procedures that:</p> <p>(a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and</p> <p>(b) Address the objectivity of the individuals performing the monitoring activities.</p>	<p><i>Individuals Performing the Monitoring Activities</i> (Ref: Para. 39(b))</p> <p>A155. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs:</p> <ul style="list-style-type: none"> • An inspection of an engagement was: <ul style="list-style-type: none"> ○ In the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or ○ For all other engagements, an engagement team member or the engagement quality reviewer of that engagement. • Another type of monitoring activity had participated in designing, executing or operating the response being monitored.

<p>Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A155–A156)</p>	<p>A156. In some circumstances, for example, in the case of a less complexsmaller firm, there may not be personnel within the firm who have the competence, capabilities, time or objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.</p>
<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>40. The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A157–A161)</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i> (Ref: Para. 16(a), 40–41)</p> <p>A157. The firm accumulates findings from the performance of monitoring activities, external inspections and other relevant sources.</p> <p>A157A. Information accumulated by the firm from the monitoring activities, external inspections and other relevant sources may reveal other observations about the firm’s system of quality management, such as:</p> <ul style="list-style-type: none"> • Actions, behaviors or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or • Similar circumstances where no findings were noted (e.g., engagements where no findings were noted, and the engagements have a similar nature to the engagements where findings were noted). <p>Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.</p> <p>A158. The firm exercises professional judgment in determining whether findings, individually or in combination with other findings give rise to a deficiency in the system of quality management. In making the judgment, the firm may need to take into account the relative importance of the findings in the context of the quality objectives, quality risks, responses or other aspects of the system of</p>

quality management to which they relate. The firm's judgments may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.

A159. Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency

Quality ~~R~~isks and ~~r~~esponses

- If the findings relate to a response:
 - How the response is designed, for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risk(s) and achieving the quality objective(s) to which it relates.
 - The nature of the quality risk to which the response relates, and the extent to which the findings indicate that the quality risk has not been addressed.
 - Whether there are other responses that address the same quality risk and whether there are findings for those responses.

Nature of the ~~F~~indings and ~~t~~heir ~~P~~ervasiveness

- The nature of the findings. For example, findings related to leadership actions and behaviors may be qualitatively significant, given the pervasive effect this could have on the system of quality management as a whole.
- Whether the findings, in combination with other findings, indicate a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue.

Extent of ~~M~~onitoring ~~a~~ctivity and ~~E~~xtent of ~~F~~indings

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections ~~relative to the entire population.~~

	<ul style="list-style-type: none"> The extent of the findings in relation to the selection covered by the monitoring activity, and in relation to the expected deviation rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the expected deviation rate set by the firm. <p>A160. Evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of an identified deficiency, including investigating the root cause(s) of an identified deficiency, are part of an iterative and non-linear process.</p> <p><i>Examples of how the process of evaluating findings and identifying deficiencies, evaluating identified deficiencies, including investigating the root cause(s) of identified deficiencies, is iterative and non-linear</i></p> <ul style="list-style-type: none"> In investigating the root cause(s) of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances where there were findings that were not considered a deficiency. As a result, the firm adjusts its evaluation of the other findings and classifies them as a deficiency. In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies. <p>A161. The results of monitoring activities, results of external inspections and other relevant information (e.g., network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process. For example, the results of external inspections may provide information about the system of quality management that has not been identified by the firm’s monitoring and remediation process, which may highlight a deficiency in that process.</p>
<p><i>Evaluating Identified Deficiencies</i></p>	<p><i>Evaluating Identified Deficiencies (Ref: Para. 41)</i></p>

<p>41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by: (Ref: Para. A160, A162–A163)</p> <p>(a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), the firm shall take into account the nature of the identified deficiencies and their possible severity. (Ref: Para. A164–A168)</p> <p>(b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.</p>	<p>A162. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:</p> <ul style="list-style-type: none"> • The nature of the identified deficiency, including the aspect of the firm’s system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation or operation of the system of quality management; • In the case of identified deficiencies related to responses, whether there are compensating responses to address the quality risk to which the response relates; • The root cause(s) of the identified deficiency; • The frequency with which the matter giving rise to the identified deficiency occurred; and • The magnitude of the identified deficiency, how quickly it occurred and the duration of time that it existed and had an effect on the system of quality management. <p>A163. The severity and pervasiveness of identified deficiencies affects the evaluation of the system of quality management that is undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p> <p>Root Cause of the Identified Deficiencies (Ref: Para. 41(a))</p> <p>A164. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:</p> <ul style="list-style-type: none"> • Evaluate the severity and pervasiveness of the identified deficiency; and • Appropriately remediate the identified deficiency. <p>Performing a root cause analysis involves those performing the assessment exercising professional judgment based on the evidence available.</p> <p>A165. The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:</p> <ul style="list-style-type: none"> • The complexity and operating characteristics of the firm. • The size of the firm.
---	--

- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities.

Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures to understand the root cause(s) of the identified deficiencies

- The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a listed entity was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviors regarding quality.
- The possible severity of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the deficiency has been identified across multiple engagements or there is an indication that policies or procedures have high rates of non-compliance.
- Nature and circumstances of the firm:
 - In the case of a less complex firm with a single location, the firm's procedures to understand the root cause(s) of an identified deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent.
 - In the case of a more complex firm with multiple locations, the procedures to understand the root cause(s) of an identified deficiency may include using individuals specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalized procedures for identifying root cause(s).

A166. In investigating the root cause(s) of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the identified

	<p>deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of when a deficiency did not arise in other circumstances of a similar nature, and how this information assists the firm in investigating the root cause(s) of identified deficiencies</i></p> <p>The firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.</p> </div> <p>A167. Identifying a root cause(s) that is appropriately specific may support the firm’s process for remediating identified deficiencies.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of identifying a root cause(s) that is appropriately specific</i></p> <p>The firm may identify that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates where management’s assumptions have a high degree of subjectivity. While the firm notes that these engagement teams are not exercising appropriate professional skepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to question individuals with greater authority or insufficient direction, supervision and review of the work performed on the engagements.</p> </div> <p>A168. In addition to investigating the root cause(s) of identified deficiencies, the firm may also investigate the root cause(s) of positive outcomes as doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.</p>
<p><i>Responding to Identified Deficiencies</i></p> <p>42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results</p>	<p><i>Responding to Identified Deficiencies</i> (Ref: Para. 42)</p> <p>A169. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:</p> <ul style="list-style-type: none"> • The root cause(s).

<p>of the root cause analysis. (Ref: Para. A169–A171)</p>	<ul style="list-style-type: none"> • The severity and pervasiveness of the identified deficiency and therefore the urgency with which it needs to be addressed. • The effectiveness of the remedial actions in addressing the root cause(s), such as whether the firm needs to implement more than one remedial action in order to effectively address the root cause(s), or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions. <p>A170. In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.</p> <p>A171. In circumstances when the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the firm may also:</p> <ul style="list-style-type: none"> • Consider whether to continue using the resource provided by the service provider. • Communicate the matter to the service provider. <p>The firm is responsible for addressing the effect of the identified deficiency related to a resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from reoccurring with respect to the firm’s system of quality management. However, the firm is not ordinarily responsible for remediating the identified deficiency on behalf of the service provider or further investigating the root cause of the identified deficiency at the service provider.</p>
<p>43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:</p> <p>(a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and</p>	

<p>determine that they have been implemented; and</p> <p>(b) Implemented to address previously identified deficiencies are effective.</p>	
<p>44. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.</p>	
<p>Findings About a Particular Engagement</p> <p>45. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm's response shall include: (Ref: Para. A172)</p>	<p>Findings About a Particular Engagement (Ref: Para. 45)</p> <p>A172. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:</p> <ul style="list-style-type: none"> • Consulting with appropriate individuals regarding the appropriate action. • Discussing the matter with management of the entity or those charged with governance. • Performing the omitted procedures. <p>The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings to identify deficiencies and when a deficiency exists, investigating the root cause(s) of the identified deficiency.</p>

<p>(a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and</p> <p>(b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.</p>	
<p><i>Ongoing Communication Related to Monitoring and Remediation</i></p> <p>46. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management overall. (Ref: Para. A173)</p>	<p><i>Ongoing Communication Related to the Monitoring and Remediation</i> (Ref: Para. 46)</p> <p>A173. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be communicated on an ongoing basis or periodically. The individual(s) may use the information in multiple ways, for example:</p> <ul style="list-style-type: none"> • As a basis for further communications to personnel about the importance of quality. • To hold individuals accountable for their roles assigned to them. • To identify key concerns about the system of quality management in a timely manner. <p>The information also provides <u>at the</u> basis for the evaluation of the system of quality management, <u>and conclusion thereon</u>, as required by paragraphs 53–54.</p>

<p>(a) A description of the monitoring activities performed;</p> <p>(b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and</p> <p>(c) The remedial actions to address the identified deficiencies.</p>	
<p>47. The firm shall communicate the matters described in paragraph 46 to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.</p>	
<p>Network Requirements or Network Services</p>	<p>Network Requirements or Network Services (Ref: Para. 48)</p>
<p>48. When the firm belongs to a network, the firm shall understand, when applicable: (Ref: Para. A19, A174)</p> <p>(a) The requirements established by the network regarding the firm's system</p>	<p>A174. In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm's system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that belong to the network. The extent to which the network will provide the firm with quality objectives, quality risks and responses that are common across the network will depend on the firm's arrangements with the network.</p>

<p>of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements);</p> <p>(b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm's system of quality management (i.e., network services); and</p> <p>(c) The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A175)</p> <p>The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the</p>	<p><i>Examples of network requirements</i></p> <ul style="list-style-type: none"> • Requirements for the firm to include additional quality objectives or quality risks in the firm's system of quality management that are common across the network firms. • Requirements for the firm to include responses in the firm's system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, or resources, such as network developed methodologies for <u>the performanceing of engagements</u> or IT applications. • Requirements that the firm be subject to the network's monitoring activities. These monitoring activities may relate to network requirements (e.g., monitoring that the firm has implemented the network's methodology appropriately), or to the firm's system of quality management in general. <p><i>Examples of network services</i></p> <ul style="list-style-type: none"> • Services or resources that are optional for the firm to use in its system of quality management or in <u>the performanceing of engagements</u>, such as voluntary training programs, use of component auditors or experts from within the network, or use of a service delivery center established at the network level, or by another <u>network</u> firm or group of <u>network</u> firms within the same network. <p>A175. The network may establish responsibilities for the firm in implementing the network requirements or network services.</p> <p><i>Examples of responsibilities for the firm in implementing network requirements or network services</i></p> <ul style="list-style-type: none"> • The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management.
--	---

<p>network requirements or use of network services to contravene the requirements of this ISQM. (Ref: Para. A19, A176)</p>	<div data-bbox="718 191 1885 289" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology. </div> <p>A176. The firm's understanding of the network requirements or network services and the firm's responsibilities relating to the implementation thereof may be obtained through inquiries of, or documentation provided by, the network about matters such as:</p> <ul style="list-style-type: none"> The network's governance and leadership. The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or network services. How the network identifies and responds to changes that affect the network requirements or network services or other information, such as changes in the professional standards or information that indicates a deficiency in the network requirements or network services. How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms' monitoring activities, and the network's processes for remediating identified deficiencies.
<p>49. Based on the understanding obtained in paragraph 48, the firm shall:</p> <p>(a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management, including how they are to be implemented; and (Ref: Para. A177)</p>	<p><i>Network Requirements or Network Services in the Firm's System of Quality Management</i> (Ref: Para. 49)</p> <p>A177. The characteristics of the network requirements or network services are a condition, event, circumstance, action or inaction in identifying and assessing quality risks.</p> <div data-bbox="718 961 1885 1221" style="border: 1px solid black; padding: 5px;"> <p><i>Example of a network requirement or network service that gives rise to a quality risk</i></p> <p>The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This may give rise to a quality risk that the IT application does not address matters in local law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.</p> </div> <p>A178. The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the <u>network</u> firms that belong to the network. The firm may be expected by the network to implement the network requirements, however, the firm may need to adapt or</p>

<p>(b) Evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A178–A179)</p>	<p>supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and its engagements.</p>	
	<p><i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i></p>	
	<p>Network Rrequirement or Network service</p>	<p>How the Ffirm Aadapts or Ssupplements the Network Rrequirement or Network service</p>
	<p>The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks.</p>	<p>As part of identifying and assessing quality risks, the firm includes the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the quality risks that are required by the network.</p>
<p>The network requires that the firm design and implement certain responses.</p>	<p>As part of designing and implementing responses, the firm determines:</p> <ul style="list-style-type: none"> • Which quality risks the responses address. • How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and its engagements (e.g., tailoring a methodology to include matters related to law or regulation). • Which quality risks the responses address. 	
<p>The firm uses individuals from other network firms as component auditors.</p>	<p>The firm establishes policies or procedures that require the engagement team to confirm with the</p>	

	<p>Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.</p>	<p>component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p>	
<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i></p> <p>50. In circumstances when the network performs monitoring activities relating to the firm's system of quality management, the firm shall:</p> <p>(a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm's monitoring activities performed in accordance with paragraphs 36–38;</p> <p>(b) Determine the firm's responsibilities in relation to the monitoring activities,</p>	<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i> (Ref: Para. 50(c))</p> <p>A179. In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.</p> <p>A180. The results of the network's monitoring activities of the firm's system of quality management may include information such as:</p> <ul style="list-style-type: none"> • A description of the monitoring activities, including their nature, timing and extent; • Findings, identified deficiencies, and other observations about the firm's system of quality management (e.g., positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management); and • The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the identified deficiencies and recommended remedial actions. 		

<p>including any related actions by the firm; and</p> <p>(c) As part of evaluating findings and identifying deficiencies in paragraph 40, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A180)</p>	
<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></p> <p>51. The firm shall:</p> <p>(a) Understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;</p> <p>(b) At least annually, obtain information from the network about the overall results of the network's</p>	<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i> (Ref: Para. 51(b))</p> <p>A181. The information from the network about the overall results of the network's monitoring activities undertaken across the network firms' systems of quality management may be an aggregation or summary of the information described in paragraph A180, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:</p> <ul style="list-style-type: none"> • Be used by the firm: <ul style="list-style-type: none"> ○ In identifying and assessing quality risks. ○ As part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management. • Be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (e.g., common quality objectives, quality risks and responses). <p>A182. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm's system of quality management that affects the firm. The network may also gather information from network firms regarding the results of external inspections over network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may</p>

<p>monitoring activities across the network firms, if applicable, and: (Ref: Para. A181–A183)</p> <p>(i) Communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and</p> <p>(ii) Consider the effect of the information on the firm’s system of quality management.</p>	<p>prevent the network from sharing information with other <u>network</u> firms within the network or may restrict the specificity of such information.</p> <p>A183. In circumstances when the network does not provide the information about the overall results of the network’s monitoring activities across the network firms, the firm may take further actions, such as:</p> <ul style="list-style-type: none"> • Discussing the matter with the network; and • Determining the effect on the firm’s engagements, and communicating the effect to engagement teams.
<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i></p> <p>52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A184)</p>	<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i> (Ref: Para. 52)</p> <p>A184. As network requirements or network services used by the firm form part of the firm’s system of quality management, they are also subject to the requirements of this ISQM regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.</p>

<p>(a) Communicate to the network relevant information about the identified deficiency; and</p> <p>(b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: Para. A185)</p>	<p><i>Example of when a network requirement or network service is monitored by both the network and the firm</i></p> <p>A network may undertake monitoring activities at a network level for a common methodology. The firm also monitors the application of the methodology by engagement team members through performing engagement inspections.</p> <p>A185. In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may:</p> <ul style="list-style-type: none"> • Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and • Consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root cause(s), such as when: <ul style="list-style-type: none"> ○ The network has not taken appropriate remedial actions; or ○ The network’s remedial actions will take time to effectively address the identified deficiency.
<p>Evaluating the System of Quality Management</p>	<p>Evaluating the System of Quality Management (Ref: Para. 53)</p>
<p>53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A186–A188)</p>	<p>A186. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may <u>be assisted by assign</u> other individuals to assist in performing aspects of the evaluation. Nevertheless, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible and accountable for the evaluation.</p> <p>A187. The point in time at which the evaluation is undertaken may depend on the circumstances of the firm, and may coincide with the fiscal year end of the firm or the completion of an annual monitoring cycle.</p> <p><u>A188. The information that provides the basis for the evaluation of the system of quality management includes the information communicated to the individual(s) assigned ultimate responsibility and accountability for the system of quality management in accordance with paragraph 46.</u></p>

	<p>A188. Scalability examples to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained</p> <ul style="list-style-type: none"> In a less complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management. In a more complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may need to establish processes to collate, summarize and communicate the information needed to evaluate the system of quality management.
<p>54. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude, on behalf of the firm, one of the following: (Ref: Para. A189, A194)</p> <p>(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (Ref: Para. A190)</p> <p>(b) Except for matters related to identified deficiencies that have a severe but not</p>	<p><i>Concluding on the System of Quality Management</i> (Ref: Para. 54)</p> <p>A189. In the context of this ISQM, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In evaluating and concluding on the system of quality management, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may, <u>in using</u> the results of the monitoring and remediation process, to consider the following:</p> <ul style="list-style-type: none"> The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management; Whether remedial actions have been designed and implemented by the firm, and whether the remedial actions taken up to the time of the evaluation are effective; and Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 45. <p>A190. There may be circumstances when identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system</p>

<p>pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. A191)</p> <p>(c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: Para. A191–A193)</p>	<p>of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p> <p>A191. An identified deficiency may have a pervasive effect on the design, implementation and operation of the system of quality management when, for example:</p> <ul style="list-style-type: none"> • The deficiency affects several components or aspects of the system of quality management. • The deficiency is confined to a specific component or aspect of the system of quality management, but is fundamental to the system of quality management. • The deficiency affects several business units or geographical locations of the firm. • The deficiency is confined to a business unit or geographical location, but the business unit or location affected is fundamental to the firm overall. • The deficiency affects a substantial portion of engagements that are of a certain type or nature. <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of an identified deficiency that may be considered severe but not pervasive</i></p> <p>The firm identifies a deficiency in a smaller regional office of the firm. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:</p> <ul style="list-style-type: none"> • Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and • Not pervasive, because it is limited to the smaller regional office. </div> <p>A192. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances when identified deficiencies are severe and pervasive, actions taken to remediate the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.</p>
---	---

	<p><i>Example of an identified deficiency that may be considered severe and pervasive</i></p> <p>The firm identifies a deficiency in a regional office, which is the largest office of the firm and provides financial, operational and technical support for the entire region. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:</p> <ul style="list-style-type: none"> • Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and • Pervasive, because the regional office is the largest office and provides support to many other offices, and the non-compliance with firm policies or procedures may have had a broader effect on the other offices. <p>A193. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished and it may be determined that the identified deficiencies are still severe, but no longer severe and pervasive. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p> <p>A194. This ISQM does not require the firm to obtain an independent assurance report on its system of quality management, or preclude the firm from doing so.</p>
<p>55. If the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in</p>	<p><i>Circumstances When Taking Prompt and Appropriate Action is Taken and Further Communication</i> (Ref: Para. 55)</p> <p>A195. In circumstances when the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the prompt and appropriate action taken by the firm may include:</p>

<p>paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A195)</p> <p>(a) Take prompt and appropriate action; and</p> <p>(b) Communicate to:</p> <p>(i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A196)</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e). (Ref: Para. A197)</p>	<ul style="list-style-type: none"> • Taking measures to support the performance of engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams. • Obtaining legal advice. <p>A196. In some circumstances the firm may have an independent governing body that has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.</p> <p><i>A197. Examples of circumstances when it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management</i></p> <ul style="list-style-type: none"> • When the firm belongs to a network. • When other network firms use the work performed by the firm, for example, in the case of a group audit. • When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed. • When law or regulation requires the firm to communicate to an oversight authority or a regulatory body.
<p>56. The firm shall undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, and the individual(s) assigned operational responsibility for the system of quality management</p>	<p><i>Performance Evaluations</i> (Ref: Para. 56)</p> <p>A198. Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take into account:</p> <ul style="list-style-type: none"> • The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm's monitoring activities against those targets.

<p>overall. In doing so, the firm shall take into account the evaluation of the system of quality management. (Ref: Para. A198–A200)</p>	<ul style="list-style-type: none"> • The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions. <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Scalability examples to demonstrate how the firm may undertake the performance evaluations</i></p> <ul style="list-style-type: none"> • In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm’s monitoring activities may provide an indication of the performance of the individual. • In a more complex firm, the performance evaluations may be undertaken by an independent non-executive member of the firm’s governing body, or a special committee overseen by the firm’s governing body. </div> <p>A199. A positive performance evaluation may be rewarded through compensation, promotion and other incentives that focus on the individual’s commitment to quality, and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm’s achievement of its quality objectives.</p> <p>Public Sector Considerations</p> <p>A200. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the results of the performance evaluation, given the nature of the individual’s appointment. Nevertheless, performance evaluations may still be undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.</p>
<p>Documentation</p>	<p>Documentation (Ref: Para. 57–59)</p>
<p>57. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A201–A203)</p>	<p>A201. Documentation provides evidence that the firm complies with this ISQM, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organizational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality</p>

<p>(a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and <u>the performance of engagements</u>;</p> <p>(b) Support the consistent implementation and operation of the responses; and</p> <p>(c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	<p>management. Furthermore, compliance with this ISQM may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.</p> <p>A202. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the firm's judgments about the form, content and extent of documentation, including how often documentation is updated, may include:</p> <ul style="list-style-type: none"> • The complexity of the firm and the number of offices; • The nature and complexity of the firm's practice and organization; • The nature of engagements the firm performs and the nature of the entities for whom engagements are performed; • The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter; and • The frequency and extent of changes in the system of quality management. <p>In a less complex firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, <u>at the less complex</u> firm may determine it appropriate to document such communications in order to provide evidence that they occurred.</p> <p>A203. In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the IESBA Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.</p>
<p>58. In preparing documentation, the firm shall include:</p>	<p>A204. The firm is not required to document the consideration of every condition, event, circumstance, action or inaction for each quality objective, or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the quality risks, the firm may</p>

<p>(a) The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management overall;</p> <p>(b) The firm's quality objectives and quality risks; (Ref: Para. A204)</p> <p>(c) A description of the responses and how the firm's responses address the quality risks;</p> <p>(d) Regarding the monitoring and remediation process:</p> <p>(i) Evidence of the monitoring activities performed;</p> <p>(ii) The evaluation of findings, and identified deficiencies and their related root cause(s);</p> <p>(iii) Remedial actions to address identified</p>	<p>document the reasons for the assessment given to the quality risks (i.e., the considered occurrence and effect on the achievement of one or more quality objectives), in order to support the consistent implementation and operation of the responses.</p>
---	--

<p>deficiencies and the evaluation of the design and implementation of such remedial actions; and</p> <p>(iv) Communications about monitoring and remediation; and</p> <p>(e) The basis for the conclusion reached pursuant to paragraph 54.</p>	
<p>59. The firm shall document the matters in paragraph 58 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 49(b). (Ref: Para. A205)</p>	<p>A205. The documentation may be provided by the network, or other <u>network</u> firms, <u>or other</u> structures or organizations within the network.</p>
<p>60. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer</p>	

period if required by law or regulation.	
--	--

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1
Meeting date: 21 October 2020
Subject: National Standards Setters Meeting
Date: 9 October 2020
Prepared by: Sylvia van Dyk

Action Required

For Information Purposes Only

Objective

To inform the Board at a high level about the upcoming NSS meeting to be held virtually during Oct/Nov. A more detailed update will be provided at the meeting when we have more information to share.

Background

1. The Chair of the NZAuASB and Director of Assurance Standards will attend the virtual NSS meeting to be held during October and November. Misha Pieters will attend the IESBA NSS discussion on Technology as an IESBA staff member.
2. The meeting dates are as follows:
 - Tuesday 20 Oct IESBA NSS (3 -hour session)
 - Tuesday 3 Nov IESBA NSS (3- hour session)
 - Wednesday 4 Nov Joint IESBA/IAASB NSS (1.5 hours session)
IAASB NSS (1.5- hour session)
 - Tuesday 5 Nov IAASB NSS (3 -hour session)
3. We have not received the detailed agendas but understand the following matters will be covered for the IESBA NSS:
 - a. Matters arising in each jurisdiction (feedback is due to IESBA on the 19th of Oct – we will update the Board on this at our meeting – this is being prepared in conjunction with the Chair))
 - b. Feedback from IESBA on the NAS and Fees project
 - c. Technology project update and request for input (the NZAuASB has already provided input into this)
 - d. Monitoring Group recommendations (NZAuASB discussed at Sept meeting)

4. Matters likely to be covered by the IAASB NSS agenda are the following:
 - a. Matters arising in each jurisdiction
 - b. CUSP and LCE project update
 - c. Auditor reporting post implementation review (NZAuASB to discuss at agenda 3)
 - d. Going concern and fraud (NZAuASB to discuss at agenda 6)
5. We understand one of the topics for the joint NSS meeting is the definition of a listed entity and a public interest entity.
6. We may request input from the Board on specific matters once we have more information about the matters to be discussed.

Recommendation

7. We ask that the Board note the contents of this paper. A more detailed update will be provided at the meeting.

Material Presented

Agenda item 9.1

Board Meeting Summary Paper



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 8 October 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, for September 2020.

International Federation of Accountants (IFAC)

1. IFAC applauds the IFRS Foundation Trustees in issuing their [Consultation Paper on Sustainability Reporting](#). This marks a critical step on the path towards a *global* solution to sustainability reporting, called for earlier this month by IFAC in its [Enhancing Corporate Reporting: The Way Forward](#) roadmap.
2. Together with ICAEW, The International Federation of Accountants (IFAC) today released the first installment in its ***Anti-Money Laundering: The Basics*** educational series: [Installment 1: Introduction to Anti-Money Laundering for Professional Accountants](#).

The publication is part of a 6-month short series helping professional accountants enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest. The series, with its focus on accessibility and ease of use, will be a resource for Small and Medium Practices (SMPs,) and accountants less familiar with AML, while also providing guidance for those looking for a quick refresher or reference.

3. On 3rd of September 2020, the Organisation for Economic Co-operation and Development (OECD) hosted the seventh annual meeting of the Partnership of International Organisations for Effective International Rulemaking (IO Partnership).

The meeting concluded with the publication of a [Joint Statement of International Organisations in Support of Effective International Rulemaking](#).

Signed by nearly 50 major international organizations, as diverse as the World Health Organization (WHO), World Trade Organization (WTO), United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Energy Agency (IEA), and the International Organization for Securities Commissions (IOSCO), the Joint Statement reiterates the central role that international organizations play in promoting the global public good, tackling transboundary issues, and achieving the United Nations Sustainable Development Goals (SDGs).

IFAC is proud to be a member of the OECD IO Partnership and a signatory to the Joint Statement. The Joint Statement complements IFAC's [G20 Call to Action](#) and its themes of *Recommit to Global Collaboration* and *Resist Regulatory Fragmentation*.

Anti-Fraud Collaboration (AFC):

1. "[Skepticism in Practice](#)," a new report by the [Anti-Fraud Collaboration](#), a cooperative dedicated to advancing the discussion of critical anti-fraud efforts and integrity in financial reporting, explores the importance of more critically assessing the potential for fraud and examining some of the biases that can leave organizations blind to deceptive activities.

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1).
2. The IAASB is undertaking a Post-Implementation Review of its Revised Auditor Reporting Standards. The post-implementation review was launched in January 2020, and IAASB published a [Project Update](#) providing information relevant to the post-implementation review.

The principal objective of the post-implementation review is to understand whether the standards are being consistently understood and implemented in a manner that achieves the IAASB's intended purpose in developing them so that the IAASB can determine what possible further actions, if any, should be undertaken. Hearing from users of auditor's reports is an essential part of the post-implementation review.

As part of the post-implementation review, the IAASB is now seeking inputs through a [Auditor Reporting Stakeholder Survey](#). The IAASB is interested in perspectives about various matters related to the implementation of the new and revised auditor reporting standards, how practical challenges and concerns are being addressed, and whether there is global demand for additional information in the auditor's report to improve transparency about the audit. The IAASB also would like to further understand whether there is a global need for wider application of reporting KAM in the auditor's report, or to name the engagement partner for entities that are not listed.

This online Auditor Reporting Stakeholder Survey is open until October 23, 2020. All interested stakeholders are invited to participate in this global request for input. Stakeholders also are encouraged to share the online survey with their respective networks in their jurisdictions that engage with auditors or use auditor reports.

3. The IAASB-facilitated roundtable discussions that focused on:
 - [Fraud in the Digital Age](#): Explores new vulnerabilities and fraud risks auditors should consider; new and emerging technology used to detect fraud; current trends in how frauds are perpetrated using technology; and challenges presented by technology in relation to fraud.
 - [Narrowing the Gap: Fraud and Going Concern](#): The main causes of differences between public perception and auditor's responsibilities with regard to fraud and going concern in audits of financial statements; and what can be done across the external reporting ecosystem to address these differences.
4. Climate change is increasingly front of mind for investors and other stakeholders of the International Auditing and Assurance Standards Board (IAASB) as its effects are increasingly visible. Given climate change's potential to impact most, if not all entities, directly or indirectly, the IAASB issued

a [Staff Audit Practice Alert, *The Consideration of Climate-Related Risks in an Audit of Financial Statement*](#).

This Staff Audit Practice Alert assists auditors in understanding what already exists in the International Standards on Auditing (ISA) today and how it relates to auditors' considerations of climate-related risks in an audit of financial statements.

5. The Technology Working Group of the International Auditing and Assurance Standards Board (IAASB) today [released non-authoritative support for using automated tools and techniques when performing audit procedures](#).

The publication assists auditors in understanding whether a procedure involving automated tools and techniques may be both a risk assessment procedure and a further audit procedure. It also provides specific considerations when using automated tools and techniques in performing substantive analytical procedures in accordance with International Standard on Auditing 520, *Analytical Procedures*.

6. The International Auditing and Assurance Standards Board's Audit Evidence Working Group has published a [Project Update for International Standard on Auditing \(ISA\) 500, *Audit Evidence*](#). The Update includes details about its information gathering activities, issues identified to date, and the way forward for audit evidence.

Based on its information gathering, the Audit Evidence Working Group developed an initial listing of possible issues and categorized the issues into three overarching topics:

- Changes in the source of information and how the information is processed, communicated, and used.
- Continual developments in technology.
- Professional skepticism.

The Audit Evidence Working Group is in the process of developing a project proposal for the IAASB's consideration at its December 2020 meeting

International Ethics Standards Board for Accountants (IESBA)

1. In October 2020, the the Staff of the American Institute of Certified Public Accountants (AICPA), the IESBA and the International Auditing and Assurance Standards Board (IAASB) jointly released the publication, [Using Specialists in the COVID-19 Environment: Including Considerations for Involving Specialists in Audits of Financial Statements](#).

The publication provides guidance to assist professional accountants in business and in public practice determine when there might be a need to use the services of a specialist to assist in performing specific tasks and other professional activities within their employing organizations, and in serving their clients in the COVID-19 environment. The publication also highlights relevant ethical considerations for accountants when thinking about using a specialist, as well as circumstances that indicate a need for a specialist during an audit of financial statements.

2. In October 2020, the IESBA released [revisions](#) to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) to better promote the role and mindset expected of all professional accountants.

The revisions explicitly recognize that the accountancy profession is entrusted with public confidence in the wide-ranging roles it plays in society and that such confidence is based on the skills and values it brings to its professional activities. Importantly, they reaffirm the profession's responsibility to act in the public interest and the fundamental role of the Code in meeting that responsibility.

3. [Committing to the Public Interest, A Speech by Dr. Stavros Thomadakis](#)
Remarks to the Public Interest Oversight Board 15th E-Anniversary Seminar

Accountancy Europe (AE) (former FEE)

1. The European Commission (EC) published a feedback statement summarising 588 responses received to the public consultation on the revision of the Non-Financial Reporting Directive (NFRD).

At large, the analysis shows that there is a strong support towards:

- a requirement to use a common non-financial reporting standard which would resolve issues of data reliability, comparability, and relevance (support by 82% of respondents)
- strengthening the audit requirements for non-financial information – users would like to have mandatory reasonable assurance, while preparers prefer limited assurance
- expanding the scope of the NFRD
- disclosure of materiality assessment process by companies
- simplified standards for SMEs to ease the administrative burden
- digitalisation of non-financial information

The full report is available on the EC's website [here](#).

Public Interest Oversight Board of IFAC (IPIOB)

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

International Integrated Reporting Council (IIRC)

1. The International Integrated Reporting Council has, together with CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) [written an open letter](#) to Erik Thedéen, Director General of Finansinspektionen, Sweden, and Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO).

The letter builds on the joint [statement of intent](#) we co-published earlier this month, which presents a shared vision of the elements necessary for comprehensive corporate reporting and how our frameworks and standards complement Financial GAAP and provide the natural starting point for progress towards a globally coherent solution.

2. The International Integrated Reporting Council has today [23 September 2020] welcomed the publication of the [report](#) by the World Economic Forum, in partnership with Deloitte, EY, KPMG and PwC, 'Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'.

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 IAASB Exposure Draft on ISA 600. Click [here](#) to view the comment letter.
2. IFIAR has published an Information Paper on "Facilitating Oversight of Global Audit Firm Networks". Click [here](#) to access the Information Paper and click [here](#) for the stakeholder announcement.

International Organization of Supreme Audit Institutions (INTOSAI)

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

International Organization of Securities Commissions (IOSCO)

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

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. The AUASB approved a revised version of ASRS 4400 after reviewing and finalising a number of Australian amendments to the standard. Additional requirements that restrict the use of AUP reports to intended users identified in the AUP report and for the AUP report to include an explicit statement that the practitioner has complied with the principle of objectivity were agreed. Changes to the wording relating to independence in the illustrative example engagement letter and an additional Australian appendix containing a table of differences between an AUP engagement and an assurance engagement were also made. The final version of the standard is expected to be released in October 2020.
2. A revised version of GS 012 was approved for issue by the Board and will be made available via the AUASB Website after final editorial changes have been made.
3. The AUASB reviewed a proposed list of AUASB Guidance Statements (GS) to be updated or withdrawn, on the basis of research from the technical group, and feedback from stakeholders. The AUASB supported the proposed GS's (GS 003, GS 008, GS 022, GS 019, GS 016 and GS 010) for update and requested an update to GS 007 be added as a priority. The withdrawal of two GS's (GS 014 and GS 021) was in-principle supported, subject to further information being obtained from potential impacted stakeholders..
4. The AUASB was provided with an update on the final draft of the Quality Management Standards (ISQM 1, ISQM 2 & ISA 220), which are being presented for approval at the next IAASB meeting being held from 14 – 23 September 2020, and noted some minor issues with the standards that the AUASB technical staff will consider prior to the IAASB meeting. A brief update was also provided on the IAASB's EER Guidance which will also be discussed at the forthcoming IAASB meeting and how it was responsive to the AUASB feedback provided on July 2020.
5. The AUASB reviewed and provided feedback on an updated draft of the AUASB's Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications, which will replace the existing AUASB Functions and Process publication. Finalisation of this publication is subject to completion of the AUASB's revised 'Compelling Reasons Test' and the AUASB/NZAuASB harmonisation policy, currently under review. The AUASB was also presented with a paper reviewing the effectiveness of the current AUASB Preambles to AUASB Standards (ASA 100 and ASA 101). The AUASB supported a project to review and amend the Preambles into a single document which will improve understanding of the key components of AUASB Standards.

United Kingdom

FRC

1. Concluding a years-long investigation, the U.K.'s accounting watchdog has fined Deloitte a record 15 million pounds (\$19.4 million) for "serious and serial failures" in its audits of software firm Autonomy.
The Financial Reporting Council's investigation focused on Deloitte's audits of Autonomy's financial statements before the company was acquired for \$11 billion by Hewlett-Packard in 2011. After a seven-week hearing last year, an independent disciplinary tribunal found Deloitte and two former partners, Richard Knights and Nigel Mercer, were culpable of misconduct for audit failings

related to the accounting and disclosure of Autonomy's sales of hardware and its sales of software licenses to value added resellers.

The FRC announced Thursday that the tribunal had upheld its request for sanctions, with Knights and Mercer being fined 500,000 pounds and 250,000 pounds, respectively. The 15 million pound fine against Deloitte surpasses the previous record of 10 million pounds against Big Four rival PwC in 2018 over its audit of retailer BHS.

Institute of Chartered Accountants in England and Wales

1. Pressure is growing on the profession to address the challenges of audit reform. ICAEW offers some [perspectives on the future of audit](#), along with an argument for change from ICAEW.
2. In light of the continuing economic uncertainty caused by the coronavirus pandemic, ICAEW's Financial Reporting Faculty has published a guide on going concern considerations for those preparing micro-entity accounts.
Aimed primarily at preparers of micro-entity accounts in accordance with FRS 105, the newly published [ICAEW Know-How guide](#) summarises management's responsibilities for assessing going concern and the associated practical implications for financial reporting, in light of the coronavirus pandemic.
3. Should the current going concern audit requirements be relaxed for entities unlikely to disappear? A presumption some public sector bodies are a going concern could free up resources to audit areas that add more value.
ICAEW's public sector team recently responded to Public Audit Forum's consultation on Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (revised 2020). A copy can be found [here](#).
4. In August, ICAEW [launched a survey](#) to get members insights on the proposal for a published Audit and Assurance Policy as part of a [major new ICAEW project](#). We have been delighted to receive a diverse mix of inputs and insights from varying stakeholder groups. However, we want to ensure that all views are fully represented, so please help us by accessing the link below and completing the questionnaire.

Our initial analysis indicates there are areas of commonality in views, including a broad belief that this is an exercise that can create value, adding colour, credibility and transparency to the risk disclosures currently included in the Annual Report and Accounts. 87% of respondents to date believe this proposal will provide greater transparency over risk mitigation. 76% believe the proposal will increase the accountability of audit and assurance providers and 71% believe it will assist in reducing the perceived "expectation gap" when it comes to the role of the statutory audit.

However, there are challenges and diverse opinions on questions including (read more [here](#))

The Charity Commission

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

Association of Chartered Certified Accountants (ACCA)

1. The profession needs to prove its future value by evolving from reporting on previous performance towards forward-looking analytics that help businesses make swift and robust decisions in real time.
A [new report](#) from ACCA (the Association of Chartered Certified Accountants), Chartered Accountants Australia and New Zealand (CA ANZ) and NTT DATA reveals that the technological revolution has thrown up an unprecedented chance for finance professionals to champion and lead the use of data analysis, broadening their influence.

However, a survey of 1,150 accountancy professionals showed many were slow to leave behind traditional reporting of results.

Author Clive Webb, head of business management, ACCA, said: 'Our survey shows some reluctance to move from looking backwards to looking ahead. Traditional reports are in the comfort zone for most finance teams. But the most progressive and successful finance teams are those that use data to look ahead to remain relevant in organisations.'

The report - [Analytics in Finance and Accountancy](#) - added that finance professionals using forward-looking tools are vital to their organisations. These include predictive analytics, which uses existing data to make statistical models of what is predicted to happen in the future, and prescriptive analytics goes a further step by suggesting a course of action from a set of options.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. Maintaining Investor Trust: Independent Oversight in the System of Quality Control, a speech by J. Robert Brown, Jr., Board Member.

The speech notes the following that is relevant to the NZAuASB:

Efforts to revise these quality control ("QC") standards are underway. The International Auditing and Assurance Standards Board ("IAASB") is meeting this week to consider adopting changes to its QC standards;^[6] while the PCAOB has sought comments in a Concept Release about possible revisions to its QC standards, including whether any future U.S. effort should be based on the IAASB's standards.^[7]

We have learned from comments by investors and others that aspects of the QC approach proposed by the IAASB raise concerns. In particular, investors indicated that such an approach may not adequately address the importance of independent oversight for audit quality and I want to talk about this issue.

Independent oversight takes into account the possible conflict between the commercial interests of an audit firm and audit quality. This is only one aspect of any system of quality control, nonetheless an important one. (read the full article [here](#)).

2. The Public Company Accounting Oversight Board is making its own push to update standards for audit evidence to reflect the growing use of technology-based auditing tools. The PCAOB said Tuesday that its staff is assessing whether there is a need to change its AS 1105 standard, citing advancements in technology that "are affecting the nature, timing, preparation, and use of financial information and, in turn, the nature and extent of information available to auditors."
"Emerging technologies used in generating financial information could affect how auditors assess the accuracy, completeness, relevance, and reliability of audit evidence," the board said

American Institute of Certified Public Accountants (AICPA)

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

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

1. CAQ published a new article: [The Role of Auditors in Non-GAAP. Financial Measures and Key Performance.](#)

Canada

Canadian Auditing and Assurance Standards Board (AASB)

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

CPA Canada

In collaboration with the American Institute of CPAs (AICPA), CPA Canada has issued this publication, *The Data-Driven Audit: How Automation and AI are Changing the Audit and the Role of the Auditor*. This follows the foundational paper, [A CPA's Introduction to AI: From Algorithms to Deep Learning, What You Need to Know](#).

In addition to exploring the benefits of an AI-enabled audit and how AI will evolve the audit and the role of the auditor, this publication also considers the change in mindset required to meet the challenges and take advantage of the opportunities this evolution presents. Further, it provides a peek into the next step on the digital journey beyond the current state of AI, as well as the assurance-related opportunities that will directly result from these continued advancements.

Project	Overview of the project and its current status
<p data-bbox="204 291 434 320">Quality Control</p> <p data-bbox="204 349 434 416">Has update for the period</p>	<p data-bbox="459 291 1388 600">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="459 633 1388 837">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="459 871 1388 938">The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul data-bbox="459 972 1388 1106" 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 1140 1388 1207">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 1240 651 1270">QC-Firm Level</p> <p data-bbox="459 1303 1388 1644">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 1677 1388 1845">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 1879 1388 1980" 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.

In its March 2020 meeting, the IAASB discussed a full draft of proposed ISQM 1. The IAASB particularly focused on the identification and assessment of quality risks, external communications, findings and deficiencies, the inspection of completed engagements, service providers, and the annual

evaluation of the system of quality management. The IAASB also discussed the meaning of the effective date of proposed ISQM 1.

The IAASB broadly supported the proposals and encouraged the ISQM 1 Task Force to further simplify the identification and assessment of quality risks, clarify the definition of deficiencies, and enhance the standard to encourage communication externally. With respect to the evaluation of the system of quality management, the IAASB also suggested adopting a less binary conclusion about the system of quality management to encourage a positive approach to evaluating the system.

The ISQM 1 Task Force will present certain sections of proposed ISQM 1 to the IAASB via videoconference on April 8, 2020.

The Board discussed revisions to a number of areas of proposed ISQM 1,1 including how the standard addresses public interest, the firm's risk assessment process, the definitions of deficiencies and findings and key aspects of monitoring and remediation, information and communication, service providers, relevant ethical requirements and the evaluation of the system of quality management. The Board in general supported the proposals. The Board encouraged the ISQM 1 Task Force to continue developing the definitions of deficiencies and quality risks, and also requested the Task Force to clarify certain requirements related to the firm's risk assessment process. In supporting the proposals to address external communications, the Board suggested that the requirement focus on the firm's determination of when it is appropriate to communicate with external parties.

In June 2020, the Board discussed revisions to certain areas of proposed ISQM 1,1 including the firm's risk assessment process, resources, relevant ethical requirements, monitoring and remediation, and the evaluation of the system of quality management. The Board also discussed external communications, in particular the firm's communication with those charged with governance when performing an audit of financial statements of a listed entity. The Board supported the proposals, and encouraged the ISQM 1 Task Force to further simplify the approach to human resources, in particular the application material explaining the firm and engagement team responsibilities in addressing the competence and capabilities of individuals assigned to the engagement team. The Board also provided varying comments on external communications, although was generally supportive of the direction proposed by the ISQM 1 Task Force. The ISQM 1 Task Force will present a full draft of proposed ISQM 1 for IAASB approval via videoconference in September 2020.

Update for the period

In September 2020, the Board approved ISQM 11 as a final standard. Firms will be required to design and implement systems of quality management in compliance with ISQM 1 by December 15, 2022. Once the Public Interest Oversight Board's (PIOB) confirmation that due process was followed is received, the Board will formally release the standard. In finalizing ISQM 1, the Board considered how to enhance the focus on the public interest and consistent performance of quality engagements in the context of the objective of the standard, and discussed clarifications relating to human resources and

external communications. The Board also suggested a number of areas that should be emphasized in the basis for conclusions.

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.

	<p>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> <p>In March 2020 The Board discussed clarifications to distinguish requirements that are the sole responsibility of the engagement partner and those the engagement partner is permitted to assign to another engagement team member and the meaning of “resources made available by the firm” in the case of engagement team members who are external to the firm, among other matters.</p> <p>In June 2020, the Board discussed amendments to proposed ISA 220 (Revised)⁴ to clarify how to treat component auditors that are not directly engaged by the firm. The ISA 220 Task Force will present a full draft of proposed ISA 220 (Revised) for IAASB approval via videoconference in September 2020</p> <p>Update for the period:</p> <p>In September 2020, the Board approved ISA 220 (Revised), which will be effective for audits of financial statements for periods beginning on or after December 15, 2022. Once the Public Interest Oversight Board’s confirmation that due process was followed is received, the Board will formally release the standard. In finalizing the standard, the Board focused on clarifying the engagement partner’s responsibilities, the scalability of the standard, and the linkages with ISQM 1.</p>
<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</p>

ITC, reviewed feedback from outreach activities, [presented the results](#) to IAASB at the September 2016 IAASB meeting.

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.

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.

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 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.

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.

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

	<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>In March 2020, after making amendments in response to the IAASB's comments received during the meeting, the IAASB approved the Exposure Draft (ED) of proposed ISA 600 (Revised)¹ and related conforming and consequential amendments for public exposure with 18 affirmative votes out of the 18 IAASB members present. The ED will be issued in mid-April with a comment period of 120 days.</p> <p>In finalizing the ED, the IAASB continued to discuss whether it is sufficiently clear how the standard described the involvement of component auditors. On balance, the IAASB was satisfied that the draft sets out acceptable proposals on all significant areas for this project and that it is appropriate to proceed to seek stakeholder views whether the proposals could be effectively implemented.</p> <p>The IAASB also discussed possible matters to be addressed in the explanatory memorandum that will accompany the ED.</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 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.</p>

	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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	Objective of the project: The objective of the Data Analytics Working Group (WG) is to:

<p>No Update for the period</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>Has update for the period</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 on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide</p>

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 skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and communicating effectively in the assurance

	<p>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>In September 2020, The Board received an overview of the comment letters received on the March 2020 EER Assurance Consultation Paper. The Board discussed respondents' comments on the Consultation Paper and the EER Task Force's proposals for addressing the comments. A revised draft of the Non-Authoritative – EER Assurance will be presented to the Board at the December 2020 IAASB meeting, with a view to finalization in March 2021.</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'</p>

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.

The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, [Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards](#), 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.

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.

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.

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.

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.

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.

LCE

No Update for the period

In March 2019 the Board discussed a proposed Discussion Paper (DP), *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs*. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP's overall direction, noting the importance of the project and the need for action by the IAASB and others.

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.

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.

In June 2020, the Board discussed the LCE Working Group's recommendations for developing a separate standard for Audits of Less Complex Entities (LCEs) on the basis of overarching principles outlining how the separate standard could be developed.

Notwithstanding the support for some of the overarching principles outlined, the Board requested the LCE Working Group to further consider how the separate standard could be developed so that it is standalone, while also clarifying the linkage back to the ISAs as appropriate. In doing so, the Board also encouraged further consideration of materials to help apply the separate standard, either within the standard (as application material) or outside as support materials. The Board highlighted the importance of the description of an LCE to help in developing the content of the separate standard. The Board encouraged a more prescriptive definition for the application of the standard, although the Board recognized there would always be a level of judgment in making this determination. On this basis, the Board supported that the LCE Working Group

	commence development of the separate standard as well as prepare a project proposal for approval at the December 2020 IAASB meeting.
<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> <p>In June 2020, the Board discussed the outcome of the Audit Evidence Working Group's information gathering and targeted outreach activities. Based on the feedback, the Board agreed with the Audit Evidence Working Group's conclusion that the listing of audit evidence related issues, as presented, is appropriate. The Board supported the Audit Evidence Working Group's recommendation to develop a project proposal to revise ISA 500,5 including conforming and consequential amendments to other standards, for approval at the December 2020 IAASB meeting, and to continue in the interim to evolve its approach, as presented, to progress the revision of ISA 500 (and conforming and consequential amendments to other standards). The Board also recommended that the Working Group publish a project update to inform stakeholders about the activities undertaken to date.</p>

Agenda Item 10.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 8 October 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 September 2020.

Financial Markets Authority (FMA)

1. No update for the period.

The New Zealand Institute of Chartered Accountants

1. No update for the period

CPA Australia

1. No update for the period.

The Institute of Directors (IoD)

1. No update for the period.