

Board Meeting Agenda

10 February 2021

9:15 am to 4.30 pm

XRB Offices, Level 7, 50 Manners St, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
10.30 am	Morning tea				
B: PUBLIC SESSION					
10.45 am	3	<u>NAS and Fees – compelling reason discussion</u>			
	3.1	Board meeting summary paper	Consider	Paper	
	3.2	Issues Paper – NAS	Consider	Paper	
	3.3	Issues Paper - Fees	Consider	Paper	
11.45 am	4	<u>Meet with Treasury</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Improving External Reporting	Note	Paper	
12:30 pm	Lunch				
1:15 pm	5	<u>PIE definition ED</u>			
	5.1	Board meeting summary paper	Consider	Late	
	5.2	Issues paper	Note	Late	
	5.3	IESBA ED	Note	Late	
2.00 pm	6	<u>Quality management ED</u>			
	6.1	Board meeting summary and issues paper	Note	Paper	
	6.2	Disposition of NZ paragraphs in extant PES 3	Consider	Paper	
	6.3	Draft QM Invitation to Comment	Consider	Paper	
	6.4	Proposed PES 3	Consider	Paper	
	6.5	Proposed PES 4	Consider	Paper	
	6.6	Proposed ISA (NZ) 220 (Revised)	Consider	Paper	
	6.7	Proposed Conforming Amendments	Consider	Paper	
3.00 pm	Afternoon tea				
3.15 pm	7	<u>Objectivity of EQR reviewer</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Issues Paper	Consider	Paper	
3.45 pm	8	<u>Strategic Action Implementation Plan</u>			
	8.1	Board meeting summary paper	Note	Paper	251

Est. Time	Item	Topic	Objective		Page
	8.2	SAIP 2020/21 actions vs planned	Note	Paper	
4.15 pm	9	<u>Modified audit reports</u>			
	9.1	Board meeting summary paper	Note	Paper	
4.25 pm	10	<u>Environmental scanning</u>			
	10.1	International Update		Paper	
	10.2	Domestic Update		Paper	
4.30 pm		<u>Closing</u>			

Next meeting: 8 April 2021 – Virtual

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.1

Meeting date: 10 February 2021

Subject: IESBA – Non- Assurance Services and Fees

Date: 26 January 2021

Prepared By: Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to update the Board on the IESBA's Non-Assurance Services and Fee-Related Matters projects following consideration of submissions, and for the Board to provide direction to staff on the way forward.

Background

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

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

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

6. The issues papers at agenda items 3.1 and 3.2:

- Provide an overview of the key issues raised in the consultation on the IESBA proposals and how those issues have been addressed by the IESBA in finalizing the proposals;
- If, and how, matters raised by the NZAuASB have been addressed; and;
- Seek direction from the Board as to the way forward in New Zealand.

Action Requested

7. The Board is asked to NOTE the key matters raised in response to the IESBA proposals and how the IESBA has responded and to PROVIDE direction on the way forward in New Zealand.
8. Subject to Board direction, for NAS we plan to bring a draft ED to the Board for discussion at the April meeting, liaise further with the APESB and other targeted stakeholders, as needed, and seek approval of an ED at the June meeting.
9. We have not identified any compelling reason changes to the Fees proposals. Accordingly, in accordance with our due process protocols, the Fees proposals will not require further exposure in New Zealand. We propose finalising this standard at the same time as the NAS proposals are finalised in New Zealand.

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	NAS issues paper
Agenda item 3.3	Fees issues paper

NZAuASB Board Meeting Summary Paper

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Agenda item 3.2	NAS issues paper
Agenda item 3.3	Fees issues paper

IESBA Non-Assurance Services issues paper

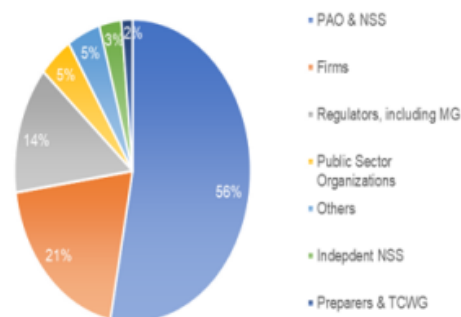
1. This issues paper:

- (a) Provides an overview of the key issues raised in the consultation on the NAS proposals and how they were addressed by the IESBA in finalising the NAS provisions: and
- (b) Highlights if, and how, matters arising from the NZAuASB’s submission have been addressed.
- (c) Seeks direction from the NZAuASB as to the way forward in New Zealand.

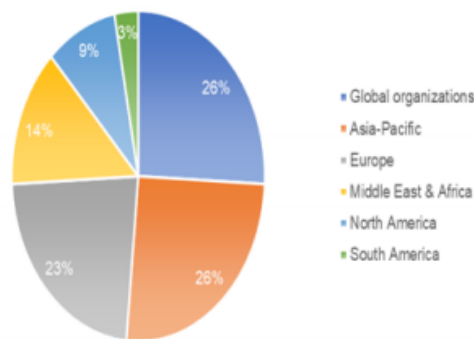
Section 1: Key matters raised in response to IESBA’s ED and how the IESBA has responded.

2. The IESBA received 66 comment letters in response to the NAS exposure draft.

Stakeholder Category	No. respondents
PAOs, including NSS	35
Firms, including Forum of Firm members	13
Regulators, including MG members	9
Public Sector Organizations	3
Others	3
Independent NSS (i.e., APESB & XRB)	2
Preparer/ TCWG	1



Region	No. respondents
Global organizations	17
Asia-Pacific	17
Europe	15
Middle East & Africa	9
North America	6
South America	2



3. On balance, respondents across stakeholder groups and regions expressed clear support for the NAS proposals. However, there were some reservations expressed. These related to:

- (a) The proposed requirement and supporting application material relating to the prohibition on firms and network firms providing a NAS that will create a self-review threat in the case of an audit client that is a PIE.

- (b) The timeline for finalising the NAS revisions given (i) the impact of the COVID-19 pandemic and (ii) questions about the interaction of the NAS and the forthcoming project to review the definition of a PIE.
 - (c) The IESBA’s approach and focus on responding to concerns about “independence in appearance”. There is a view that the approach would result in the Code, overtime, becoming more “rules based”.
 - (d) The withdrawal of “materiality” as a conditionality in certain NAS prohibitions. With respect to the new self-review threat prohibition that applies to PIE audit clients, there is a view that materiality should be a factor in determining the likelihood that the result or outcome of a NAS will affect or impact the accounting records, or internal controls over financial reporting, or the financial statements on which the firm will express an opinion.
 - (e) The IESBA’s intent with respect to the prohibition of providing advice and recommendations that will create a self-review threat to PIE audit clients when such advice/recommendation is permissible under local laws, regulations, and auditing standards.
4. Concerns were also raised by stakeholders that represent the SMP perspective about the impact of the NAS proposals on SMEs, particularly those that are public interest entities.
 5. Several regulatory respondents, including Monitoring Group members IFIAR and IOSCO questioned the adequacy of NAS safeguards, which are used extensively throughout the Code as examples of safeguards, involving:
 - (a) Using professionals who are not audit team members to perform the NAS; and
 - (b) Having an appropriate reviewer who was not involved in providing the service review the audit work of the NAS performed;

There is a concern within the regulatory group that professionals within the same firm may be incentivised to make judgements that protect the economics and other interests of the firm rather than the public interest and needs of investors. Rather, these respondents consider that the review should be performed by an individual who is not a member of the firm.

6. It is the IESBA’s view that these safeguards are appropriate. The NAS proposals build on the concepts set out in the extant Code which state that:
 - (a) “safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to compliance... to an acceptable level” and that “...in some situations...safeguards might not be available... [and] the application of the conceptual framework... requires the firm to decline or end the NAS or the audit engagement”.
 - (b) An “appropriate reviewer” is an individual who has the (i) authority and (ii) knowledge, skills and experience to review work in an objective manner and that that individual may be external to the firm, as well as employed by the firm.

7. The IESBA is of the view that the suggested conflict of interest may not, in fact, be avoided if the audit firm arranges for the proposed NAS or the review of the auditor work to be undertaken by a professional from another firm. The threat to independence might also be created by the relationship between that professional (who is external to the firm) and the firm.
8. The overarching theme in the NZAuASB submission was that the proposals are a step in the right direction, but they do not go far enough:
 - (a) There is a perception issue to be resolved which requires decisive action. Users of the auditor's report do not distinguish threats to the fundamental principles between those in appearance and those in fact.
 - (b) In order to effect the necessary change in perception and ensure independence, the provision of non-assurance services to audit clients that are public interest entities should be prohibited.

1.1 Self -review threat prohibition, providing advice and recommendations and materiality

9. The NAS ED proposed:
 - (a) For audit clients that are PIEs, self-review threats cannot be eliminated and safeguards are not capable of being applied to reduce them to an acceptable level. NAS that create a self-review threat should be prohibited.
 - (b) For audit clients that are not PIEs, firms may continue to provide NAS that create a self-review threat provided that the identified self-review threat can be reduced to an acceptable level in accordance with the conceptual framework.
10. The materiality qualifier in the extant Code was withdrawn for audit clients that are PIEs, i.e., the NAS self-review threat prohibition would apply even if the NAS is not material. In addition, it was proposed that the materiality qualifier be withdrawn for all audit clients when (i) the effectiveness of certain types of tax advice or corporate finance advice is dependent on a particular accounting treatment or presentation; and (ii) the audit team has doubt about the appropriateness of that treatment or presentation. The implication of this proposal is that, for non-PIEs, the NAS proposal would be more restrictive than the approach in the extant Code.
11. The NZAuASB questioned whether limiting the prohibition to the self-review threat goes far enough, i.e., will it change the perception that providing NAS impairs the auditor's independence? The NZAuASB also expressed concern that singling out the self-review threat, among all the threats to independence, creates, in effect, a hierarchy of threats, i.e., the self-review threat is more important than the other threats to independence.
12. The NZAuASB also suggested that further thought could be given to independence in appearance, i.e., how a situation looks from the perspective of a reasonable and informed third party.
13. Other respondents were generally supportive of the prohibition on NAS that create a self-review threat for PIE audit clients. Along with many comments of an editorial nature, the following substantive points were raised:
 - (a) Consider extending the prohibition to audits clients that are not PIEs.

- (b) The prohibition should also apply where an advocacy threat is created.
 - (c) Implications of the self-review threat prohibition on smaller PIEs, particularly in light of COVID-19.
 - (d) Disagreement about the withdrawal of the materiality qualifier in determining whether a NAS will create a self-review threat.
 - (e) Confusion about whether one or all of the subparagraphs of ED 600.11 A2 needed to be present in order for a self-review threat to be exist. [This paragraph has been re-drafted and elevated to a requirement (see R600.14 in agenda item 3.4)].
 - (f) Reference to “audit procedures” in paragraph ED 600.11 A2 was viewed as reintroducing the concept of materiality in determining whether a NAS will create a self-review threat. [The phrase “the results of the service will be subject to audit procedures” has been replaced with “on which the firm will express an opinion”.]
14. Many respondents expressed concern that it was difficult to understand, without specific examples, how a firm should assess whether the combined effect of providing multiple NAS to the same audit client creates new threats or affects the level of a previously identified threat.
15. The task force has made a number of refinements to clarify these paragraphs, however, there have been no significant changes to the fundamental concepts in the ED.

1.2 Communication with those charged with governance

16. The NAS ED sought views on proposals to improve firm communication with those charged with governance, including a requirement to obtain concurrence from those charged with governance of for the provision of a NAS to an audit client that is a public interest entity.
17. The NZAuASB supported the proposals for improved communications noting that the Code needs to be clear that the concurrence of those charged with governance can only be sought if the auditor has concluded that the non-assurance service is permitted under the Code, i.e., this provision should not be used as a mechanism whereby those charged with governance provide a “waiver” to the auditor. The task force agreed with the NZAuASB on this point.
18. The NZAuASB also recommended that the concurrence of those charged with governance be obtained in writing. The task force considered whether communications with those charged with governance about NAS should be in writing and determined that it was best to allow firms and those charged with governance the flexibility to determine the optimal mode of communication that allows for timely, informative, frank, and non-boiler-plate discussion.
19. Respondents were generally supportive of the proposals. Concerns were raised about how the provisions might apply in a group engagement where the parent entity is not a public interest entity and implications for private equity companies. Additional requirements and application material have been added to clarify the application of the proposals in the following situations:
- (a) Where a NAS is to be provided to an audit client that is a public interest entity or to a related entity over which the audit client has direct or indirect control.

- (b) Where a NAS is to be provided to an entity that has direct control over an audit client that is a public interest entity.
- (c) Where a NAS is to be provided to a related entity of an audit client that is a public interest entity over which the audit client does not have direct or indirect control (other than a parent entity).

1.3 Tax Services

20. With respect to tax services, the IESBA sought views about

- (a) The prohibition on the provision of certain tax services or recommending a transaction for which the significant purpose is tax avoidance; and
- (b) The application material outlining when the provision of tax advisory and tax services will not create a self-review threat.

21. The NZAuASB expressed concern that tax advisory and tax planning services appear to be specifically scoped out of the self-review threat. It is the view of the Board that providing tax advisory and tax planning services to an audit client that is a public interest entity creates a self-review threat, regardless of whether one of the conditions below is identified. Paragraph 604.12 A2 of the NAS ED states,

“Providing tax advisory and tax planning services will not create a self-review threat if such services:

- (a) Are supported by a tax authority or other precedent;*
- (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or*
- (c) Have a basis in tax law that the firm is confident is likely to prevail.”*

22. Anecdotal evidence indicates that firms can receive large fees for the provision of tax services to audit client. This, in itself, creates the perception that the firm is not independent.

23. Other respondents were generally supportive of the proposed requirement and application material. Many questioned the use of the term “likely to prevail”, describing it as being subjective and lacking clarity. Some suggested that the term “more likely than not” should be used in place of “likely to prevail” because it is more prevalent in the accounting literature, noting also that the phrases “more likely than not” and “likely to prevail” are equivalent.

24. The task force is of the view that “more likely than not” and “likely to prevail” are not equivalent. In its view, “more likely than not” requires only a marginal increased probability, whereas “likely to prevail” implies a greater likelihood.

25. Concerns were raised about the meanings of “significant purpose” and “tax avoidance”. The term “tax avoidance” was described as being ambiguous and it was observed that a globally accepted definition of the term does not exist.

26. The task force is of the view that the term “tax avoidance” should be retained because it is generally well understood. The term “significant purpose” has also been retained.

1.4 Litigation Support Services

27. The NAS ED included new provisions regarding acting as an expert witness. Two respondents suggested including an additional exception to allow for a firm or network firm or an individual within a firm or network firm to be engaged to act as an expert witness in circumstances where a firm or network firm is engaged to advise or act as an expert witness in relation to a class action suit. The task force has revised the proposals to add this exception.

Section 2: Way forward for the NZAuASB

28. As noted in the previous section, the NZAuASB was firm in its submission to the IESBA that the provision of NAS creates a threat to independence, whether in fact or in appearance. While the NZAuASB strongly supports the requirement for public interest entities to obtain concurrence from those charged with governance for the provision of non-assurance services, leaving the assessment of independence under the Code to be made by the firm may not be enough to address external perceptions about the lack of independence. The NZAuASB’s position was that the provision of non-assurance services to public interest entities should be prohibited.

29. This is a position supported to varying degrees both in New Zealand and around the world.

NZ Auditor-General

30. The Auditor-General¹ has recently taken the approach of requiring appointed auditors and firms to apply a more stringent test when assessing independence in appearance with regard to non-assurance work, and additional work of an assurance nature, for public sector entities (many of which are also public interest entity under the New Zealand definition).

31. It is important to note that the Auditor-General applies a different definition of “assurance engagement” to Professional and Ethical Standard 1 such that a significant portion of the work carried out the Auditor-General does not meet the definition of assurance engagement under PES 1. In short, an assurance engagement under PES 1 is a process that involves the provision of a reasonable assurance conclusion (an audit) or a limited assurance conclusion (a review). However, a significant proportion on the work carried out on behalf of the Auditor-General is not designed to reach a conclusion that gives reasonable or limited assurance.

32. The Auditor-General considers that all of the work carried out on their behalf under sections 15 to 19 of the Public Audit Act 2001 should be considered an assurance engagement for the purposes of AG PES 1. This includes financial report audits, performance audits, other auditing services of a kind that is reasonable and appropriate for the auditor to perform, and inquiries into any matter concerning a public entity’s use of its resources.

33. Additional work, over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation, is limited to “work of an assurance nature”, subject to some exceptions provided for in AG PES 1. Work of an assurance nature is a subject of the category

¹ [AG PES 1 Code of ethics for assurance practitioners](#)

of work classified in PES 1 as “non-assurance services”. When referring to “work of an assurance nature”, a plain English meaning of the term “assurance” is used. The meaning of “assurance” implies the following components:

- (a) Independence of the party providing the assurance from the subject matter over which assurance is provided;
- (b) Subject matter over which assurance is provided;
- (c) The presence of generally accepted or agreed criteria against which to benchmark the subject matter;
- (d) Competence of the assurer to carry out the work; and
- (e) A report arising from that work.

34. Engagements of an “assurance nature” include:

- (a) Engagements that involve the formal expression of an opinion;
- (b) Agreed-upon procedures;
- (c) Real-time independent quality assurance;
- (d) Probity engagements; and
- (e) Activities involving the examination, investigation, or inquiry into matters of concern.

35. Further restrictions apply when the value of the additional work becomes significant or if there is possible be media or political interest in the subject matter of the engagement or where the matter is generally of a sensitive nature.

Regulation of Auditing in Australia

36. The [final report on the Regulation of Auditing in Australia](#) confirmed the following recommendations with respect to auditor independence and non-assurance services:

- (a) Recommendation 3 –that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020-21 financial year, oversee consultation, development and introduction under Australian standards of:
 - Defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and
 - A list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.
- (b) Recommendation 4 – that the Corporations Act 2001 be amended so that an auditor’s independence declaration is expanded to require the auditor to specifically confirm that no prohibited non-audit services have been provided.
- (c) Recommendation 5 – that the Accounting Professional and Ethical Standards Board consider revising the APES 110 Code of Ethics to include a safeguard that no audit

partner can be incentivised, through remuneration advancements or any other means or proactive, for selling non-audit services to an audited entity.

37. Discussions with staff of the Accounting Professional and Ethical Standards Board in Australia indicate a level of uncertainty about the direction the APESB will take. The direction of APESB is likely to be influenced by whether the FRC and ASIC consider that the IESBA provisions go far enough, including whether a “black list” of prohibited non-assurance services will be developed as referred to in recommendation 3.
38. The APESB staff expressed concern that the IESBA provisions rely on the auditor/firm, applying professional judgement, to determine whether a self-review threat exists. Firms/auditors may push the boundaries, arguing that there is no self-review threat.
39. The APESB is expected to consider a draft of a proposed exposure draft at its March 2021 meeting.

Brydon Report

40. Among its many recommendations, Sir Donald Brydon’s [Report of the Independent Review into the Quality and Effectiveness of Audit](#) makes the following recommendations that relate to the independence of the auditor:
 - (a) the establishment of a corporate auditing profession overseen by a statutory regulator responsible for developing a coherent framework for corporate audit that includes but is not limited to the statutory audit of financial statements. A set of “principles of corporate auditing” will set the basis for the auditor’s behaviour.
 - (b) the audit committees agree an annual assurance budget, within which they have primary responsibility for negotiating and agreeing the audit fees, and which sets a framework for spending on any other assurance work. That budget should encompass any other work the audit committee wishes to have undertaken on its behalf.
 - (c) a change in law to require audit fees to be shown on the face of the profit and loss account as being struck, like the dividend, after the reporting of post-incentive compensation profit. Publishing the audit fees in this way, rather than as now buried in the notes to the profit and loss account, would make it unambiguously clear that the fees are costs incurred by the company at the behest of the audit committee and paid for by shareholders.
 - (d) audit firms establish an independent fee-setting function making its decisions separately from those conducting the audit. In this way, if a difficult issue emerges, there is less temptation to bury it on the grounds that further work would eat into the profitability of the engagement.
41. The Brydon report does not specifically address the provision of non-assurance services to the audit client. The need to do so is negated by the recommended establishment of the corporate auditing profession, thereby effectively prohibiting the provision of non-assurance services.
42. The IESBA proposal prohibits firms and network firms from providing NAS that create a self-review threat to independence to an audit client that is a public interest. A self-review threat is defined as,

the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit (or review) team will rely when forming a judgement as part of an audit (or review).

43. Before providing a non-assurance service to an audit client, a firm or network firm is required to determine whether the provision of that NAS might create a self-review threat by evaluating whether there is a risk that:
 - (a) The results of the service will form part of or affect the accounting records, the international controls over financial reporting, or the financial statements on which the firm will express an opinion; and

In the course of the audit of those financial statements on which the firm will express an opinion,
 - (b) The audit team will evaluate or rely on any judgements made or activities performed by the firm or network firm in the course of providing the non-assurance activity.
44. The revised proposals explain, when the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity. Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.
45. While the IESBA provisions do not expressly prohibit all non-assurance services, focusing on those non-assurance services that create a self-review threat to the firm will create consistency in practice. The firm can no longer rely on the "Chinese wall" safeguard. In relation to the other threats to independence, the firm is required to identify threats to the fundamental principles, evaluate the threats and eliminate the threat or apply safeguards to reduce the threat to an acceptable level.
46. We seek the Board's views as to the way forward in New Zealand. Possible alternatives include:
 - (a) No compelling reason changes, i.e., the Board considers that the IESBA proposals are sufficiently robust to effectively prohibit the provision of NAS to audit clients that are PIEs
 - (b) Prohibition of all NAS to audit clients that are PIEs. This position would be consistent with our submission to the IESBA, however, it is likely to be inconsistent with the APESB and goes further than the Auditor-General requirements.
 - (c) Provision of "audit-related services" (to be defined), e.g., in addition to audit and review engagements, permits the provision of AUP engagements, other assurance engagements, and any other services required to be performed by the auditor by law or regulation.

IESBA Fee-Related Matters issues paper

1. This issues paper:
 - Provides an overview of the key issues raised in the consultation on the Fees proposals and how they were addressed by the IESBA in finalising the fees provisions: and
 - Highlights if, and how, matters arising from the NZAuASB's submission have been addressed.

Section 1: Key matters raised in response to IESBA's ED and how the IESBA has responded.

2. The IESBA received 64 comment letters in response to the Fees exposure draft.
3. Respondents generally supported the need to strengthen fee-related provisions in the Code and the direction of the proposed changes.

Definition of PIE

4. A number of respondents from a range of stakeholder groups pointed out that due to the ongoing IESBA project aimed at revisiting the PIE definition, there is a lack of certainty regarding the entities that will be covered by the provisions relating to PIE audit clients; accordingly, it is not possible for them to comment fully on the proposals in the ED as there might be issued for certain entities that they cannot yet envisage.
5. The focus of the task force has been on the principles and requirements that should apply to audits of PIEs, however defined, as compared to audits of non-PIEs. It will be for the PIE project to appropriately delineate the set of entities that should be considered PIEs, having regard to the additional or more stringent independence requirements that would apply to them. It is not appropriate for the fees (and NAS provisions) to be made conditional on how a PIE is defined.

Threats to Independence Created by Fees Paid by the Audit Client

6. There was wide agreement from respondents (including from the NZAuASB) that an inherent self-interest threat to independence is created by the audit client payer model. Several respondents questioned whether the threats from the audit client payer model are already addressed by compliance with regulatory requirements and professional standards, including the Code.
7. A firm's independence might be perceived to be impacted because the entity being audited is also the firm's client and pays its fees. However, the risks related to the audit client payer model are one of the main reasons independence standards and significant safeguards are in place to address the potential threats. This model is widely accepted by users of the financial statements.
8. The task force view is that the Code should recognise the fact that there is an inherent self-interest threat related to the audit client payer model. The purpose of this acknowledgement is to raise the firms' awareness that the self-interest threat exists, and to provide guidance on how to evaluate and address it when it is not at an acceptable level.
9. Some respondents were of the view that risks inherent in the audit client payer model are already adequately addressed, accordingly, the self-interest threat is not a given in all cases.

10. The extant Code already includes requirements regarding the evaluation of threats. Some respondents argued that a specific requirement related to determining the level of threats to independence created by the fees proposed to an audit client is not necessary. Some expressed concern that the costs and documentation related to this requirement are not justified by any additional benefits.
11. The general documentation provision in the Code with respect to audit and review engagements requires documentation in particular when (a) safeguards are applied to address a threat, or (b) when a threat required significant analysis and the firm concluded that the threat was already at an acceptable level. The task force therefore does not believe that the proposed provisions regarding threats created by fees paid by the audit client will create an undue documentation burden.

Impact of Services Other than Audit Provided to an Audit Client

12. Respondents generally agreed with the proposition that the audit fee should be a standalone fee, and that it should not be considered as part of a spectrum of fees that might be charged to an audit client. A number of respondents had concerns or disagreed with the proposed wording of the requirement. The NZAuASB supported the requirement, noting that in New Zealand, outreach indicated that the level of audit fee is not influenced by the provision of services other than audit to an audit client, a position which is further supported by review of academic research in New Zealand.
13. Those who disagreed or had reservations mainly raised the issue that the requirement could be challenging to operationalise and enforce as many factors go into the determination of fees. Several respondents argued that it would be difficult to assess whether the provision of certain services “influenced” the audit fees as there would be too much subjectivity and it would be difficult to demonstrate compliance. Respondents suggested that such uncertainty could cast doubt on the robustness of this requirement.
14. The task force view is that the requirement sets a clear principle that firms should be mindful of when setting the level of audit fees. The Board’s view is that realising any cost savings through the experience derived from the provision of services other than audit to the audit client does not constitute undue influence, rather it is part of the firm’s normal business operations. Nevertheless, to better link the application material allowing a firm to take the cost savings from other services into consideration, the guidance is presented as an exception to the requirement.

Proportion of Fees for Services Other than Audit to Audit Fees

15. Overall, respondents agreed that a large proportion of fees for services other than audit to audit fees could create a threat to independence. Respondents, apart from some regulators, supported the Code not to include a threshold for what would be determined to be a large proportion, but allow firms to determine such proportion on a case-by-case basis.
16. Some regulatory respondents expressed concerns regarding not including an explicit threshold in the Code relative to the determination of the proportion of fees. In their views, not providing such a threshold could result in inconsistent application.

17. Some respondents were of the view that the proposed changes do not provide enough guidance on what constitutes a “large proportion”. They suggested that the Code include guidance or examples as to what would amount to a “large proportion of fees”.
18. In its response to the ED, the NZAuASB noted its position with respect to non-assurance services, i.e., the prohibition of all non-assurance services to audit clients that are public interest entities. Further the NZAuASB considered the ratio of fees for services other than audit to audit fee is oversimplified as it does not take into account the broader category of “audit related services” which may be required, for example, by a regulator, to be performed by the auditor, or it may not make sense for another practitioner to perform them.
19. In developing the proposals, the IESBA considered both including a threshold as a cap and as a trigger for the re-evaluation of threats. Early outreach activities indicated little or no support for establishing fee caps in the Code. Within the fees project, the IESBA explored whether to use a threshold as a trigger for a re-evaluation of the threats to independence. As the proportion of fees would be determinable also at a network level, the calculation of the exact ratio of fees for services other than audit to the audit fee would be a complex task, and firms might not be able to obtain all the necessary information in a timely manner.
20. The IESBA further considered that the proposed requirements regarding transparency of fees for services other than audit would mitigate the threats to independence created by a large proportion of fees for service other than audit to audit fees. Accordingly, the IESBA view is that a specific fee cap or other threshold would not be warranted.
21. Regarding the computation of the proportion of fees, many respondents raised that the determination of fees for services other than audit is not granular enough. They suggested that the IESBA consider introducing the term “audit-related services” in the Code. They also noted that the proposal did not recognise that depending on the nature of the service the level of the self-interest threat to the auditor’s independence might be different. It was therefore argued that it could be misleading including all services other than audit in the completion of the proportion of fees.
22. The task force is of the view that from the perspective of the self-interest threat created by a high proportion of fees for services other than audit, any type of fee is relevant to the computation of fees, even fees for audit related services. Furthermore, it would be impractical to specify which services are audit-related at a global level.
23. Several respondents raised that there might be practical and implementation challenges in complying with the provision at a network level as processes may not exist to capture fees for services other than audit charged by network firms for all audit clients and related entities. A few respondents questioned whether the determination of the proportion of fees for all audit clients should be required at a firm level, similar to the EU Regulation. Respondents also raised concerns regarding the challenges in determining the proportion of fees at a group level.
24. The task force agreed that the level of threats created in the case of fees for services provided by network firms or delivered to related entities, other than “downstream” related entities, is usually lower and that this should be taken into account in the determination of whether the proportion of

fees is high. The task force has added factors to consider in evaluating the level of threats created when fees for an auditor other any other engagement are paid by the audit client.

Fee Dependency on Non-PIE Audit Clients

25. A significant number of respondents had comments or concerns about the proposed threshold in the requirement or disagreed with the proposal. Commentators questioned whether it is necessary to set out an exact ratio in the case of non-PIE audit clients, others suggested that the proposed threshold is too high and could create the perception that such level of fee-dependency is acceptable up to 5 years.
26. The NZAuASB expressed the view that the 30% threshold is too high, and five years too long. High levels of fee dependency should be discouraged. The NZAuASB suggested that if the IESBA determines that a numerical threshold is necessary, 15% would be consistent with the requirements for public interest entities.
27. Many respondents were of the view that in the case of non-PIE audit clients, there is no need for the Code to include a bright line to require a re-evaluation of threats. Respondents were of the view that the introduction of a threshold may harm public perception and would convey the message that up until a certain threshold, threats created by fee dependency are at an acceptable level.
28. Some respondents expressed the view that the proposed threshold might be too low with regard to the fact that non-PIEs have minimal impact on the public interest. Some suggested the threshold be further loosened, e.g., 35% or 50%.
29. The task force view is that the proposal should aim to create a consistent approach regarding the expectations in the case of non-PIE audit client as applies to PIEs, while allowing greater latitude in the threshold and safeguards adopted than those applying in the case of PIEs. The task force believes that the proposed 30% threshold in conjunction with the 5-year horizon achieves some scalability, taking into account the different level of public interest in non-PIEs, and allows enough time for newly established firms to deal with fee dependency as they grow their practices.
30. The IESBA broadly supported retaining the approach proposed in the ED and agreed on balance that the 30% threshold for non-PIE clients would promote consistent application.
31. The task force believes that, unlike in the case of PIE audit clients, there is no need for the Code to set out a specific threshold for ending the engagement.
32. A number of respondents were of the view that requiring an external review in the case of a non-PIE audit client would create a significant burden, especially for SMPs. Some respondents felt that the introduction of two alternative courses of action -- a pre- and a post-issuance review -- adds unnecessary complexity and risks an inconsistent application of safeguards. They suggested the Code provide guidance as to when each type of review might be appropriate.
33. Others argued that only a pre-issuance review performed by a professional accountant would be an appropriate safeguard. Several respondents, including the NZAuASB, raised the need for clarification regarding the proposed external review. They felt it was unclear whether it is an engagement quality review. If not, they wondered about the timing, scope, format of the review and qualifications, including objectivity, of the reviewer.

34. In the case of non-PIE audit clients, the IESBA proposed a model for addressing the threats similar to the extant Code's fee dependency model of PIE audit clients but allowing greater latitude in the threshold and safeguards adopted. The IESBA considered this would be a reasonable approach bearing in mind the nature of the threats, the special considerations relating to SMPs, and the public interest.
35. The task force considers the firm should make the determination regarding which option (either pre- or post-issuance review) to use applying appropriate judgement based on the facts and circumstances.

Fee Dependency on PIE Audit Clients

36. Respondents generally supported the enhanced provisions regarding fee dependency in the case of PIE audit clients. Many respondents supported the proposed requirement for the firm to cease to act as auditor if fee dependency continues beyond a specified period. However, several respondents raised that including a definite period in a global Code could have unintended consequences and create implementation challenges.
37. Some respondents suggested that the IESBA align the requirements with the relevant EU rules, and that the proposal should ensure the involvement of the audit committee in any decision in such situations.
38. Several respondents commented that the proposed EQR performed by a professional accountant who is not a member of the firm as the only possible safeguard is not practical. Others, including the NZAuASB, questioned the pre-issuance review equivalent of an EQR alongside the EQR for the audit of listed entities required by ISQM 1. They questioned whether these two should be separate reviews.
39. The task force view is that the proposed safeguards are already safeguards in the extant Code and are appropriate safeguards. No issues were identified during the fact-finding activities in relation to the application of the safeguards. Regarding the interaction between the proposed pre-issuance review and the EQR performed as part of the audit, these serve different objectives and are not performed by the same individuals.
40. Regarding the 5-year period, the task force believes that it provides a reasonable and balanced element to the approach to addressing the threats created by fee dependency at the PIE level, and harmonises with similar requirements already in place in some jurisdictions.

Transparency of Information Regarding Fees for Audit Clients that are PIEs

41. Respondents generally supported that enhanced transparency of fee-related information of PIE audit clients can serve to better inform the views and decisions of stakeholders about the auditor's independence. Many respondents, including regulators, supported the proposals. However, a significant number of respondents raised concerns or disagreed with the proposals, particularly in relation to public disclosure by the auditor.
42. Views expressed by the NZAuASB regarding public disclosure of fee-related information for a PIE audit client included:

- Requiring disclosure of fee-related information extends beyond the mandate of the IESBA; disclosure of financial information is the responsibility of the preparer of financial statements, not the auditor.
 - Encouraging the IESBA to raise concerns with the IASB.
 - There is no consistent location for disclosure of the required fee-related information. Lack of consistency in presentation of the information reduces its usefulness.
 - How are conflicts between the financial reporting framework requirements and the Code addressed?
 - It is not desirable for the auditor to be required to disclose information that the entity itself is not required to disclose.
 - More granular disclosures are necessary so that the information is more useful to users. Audit related services should be considered separately from other services. It would be useful to also disclose fees paid to other professional accountants for both assurance and non-assurance services to provide a fuller picture to users.
43. Respondents generally did not raise comments regarding the enhanced provision on communication of fee related information of PIE audit clients with those charged with governance.
44. While most respondents supported the proposals for enhanced transparency regarding fee-related information, many were of the view that providing such transparency is the responsibility of the client and/or legislature or regulators. They considered transparency of fee-related information as a corporate governance issue that should not be imposed on the auditor through the Code.
45. Several respondents also had concerns regarding how the proposed requirement would interact with pre-existing national laws and regulations. They raised that the firm, as the auditor, should not be required to disclose information that the entity itself is not required to disclose by national laws and may not even have consent to disclose.
46. Several respondents were of the view that disclosing fee-related information in the auditor's report is not appropriate.
47. The task force agrees with respondents that disclosure of fee-related information would be best presented by the audit client. The proposals are intended to support this position and require the disclosure by the auditor only in cases when it is not disclosed by the client. Therefore, if the fee-related information is not disclosed by the client, the first step the firm should take is to discuss this situation with the client. The task force proposes changes to the proposal to emphasize this approach and clarify that the firm is expected to discuss the benefit to the client's stakeholders of the client making such disclosures.
48. The IESBA broadly supported promoting global transparency at the earliest time possible. With regard to suggestions to approach the IASB and IOSCO, the task force considered that in the former case, disclosure of fee-related information is unlikely to be seen as a financial reporting issue. In the latter case, there is a limitation in that fact that IOSCO's remit is focused only on listed entities;

nevertheless, the task force believes there is merit in raising the matter with IOSCO for its consideration.

49. The task force acknowledged the concerns raised regarding disclosure in the audit report. After reflection, the task force has proposed a more flexible approach regarding how to achieve transparency by the firm. The task force has proposed that firms could disclose fee-related information in a manner deemed appropriate for the circumstances, e.g., the firm's website and publications such as a transparency report, audit quality report, audit report and other targeted communication to specific stakeholders.

50. The task force is of the view that non-disclosure of audit fee information could affect the firm's independence, particularly independence in appearance. Therefore, non-disclosure would constitute a breach of the independence provisions of the Code.

51. The IESBA has amended the proposals in respect of public disclosure for fee-related information:

- To provide context of the need to disclose fee information.
- Where laws and regulations do not require disclosure by the entity, require the firm to discuss with those charged with governance the benefits of making such disclosures.
- Providing examples of appropriate ways for the firm to disclose the fee information if the audit client does not.
- Clarified the proposals as they apply to group audit situations, including adding exceptions to the disclosure/communication requirements in certain circumstances.

Way Forward

52. The Board was broadly supportive of the fees proposals as exposed and there has been no significant change to those proposals. We have not identified any compelling reasons to change the IESBA proposals; accordingly, we recommend adopting the international standard. Does the Board agree?

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1
Meeting date: 10 February 2021
Subject: Angela Ryan from Treasury
Date: 29 January 2021
Prepared By: Sylvia van Dyk

Action Required

For Information Purposes Only

Agenda Item Objectives

For the Board to RECEIVE a briefing from Angela Ryan, Principal Accounting Advisor at the Treasury, depending on her availability. (We are waiting for her reply to the invite as she was on annual leave when it was sent, returning only to the office on 1 February).

Background

We have invited Angela Ryan to brief the Board on the changes to The Public Finance Act and Performance Reporting (i.e. the requirements to incorporate a wellbeing approach to planning and performance reporting, and how entities have been responding to the challenge).

Angela is a Principal Accounting Advisor at The Treasury and the Deputy Chair of the NZASB. In her role at the Treasury she provides accounting policy advice on a range of issues affecting the whole of government financial statements. She has also project managed the Government's NZ IFRS implementation process.

Should Angela be unavailable at this time we will arrange a suitable time with her to attend a future meeting. We will provide an update to the Board in due course.

We have also included a publication by Treasury on Improving Performance Reporting at agenda item 4.2, should you want to read it for further information.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Improving External Reporting



TE TAI ŌHANGA
THE TREASURY

Improving external performance reporting

December 2020
Treasury update

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The Treasury URL at December 2020 for this document is <https://www.treasury.govt.nz/publications/guide/improving-external-performance-reporting>

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Purpose – The Treasury wants to support agencies improve performance reporting

This document aims to support agencies to improve their performance reporting to Parliament and the public. The intended audience is staff and managers with responsibilities for external reporting, such as statements of performance expectations, annual reports and Estimates. We think that this reporting may be improved by ensuring there is performance information that reflects:

- ▶ funding and activity changes arising as a **result of COVID-19**
- ▶ a new **standard** for non-financial performance reporting coming into effect in 2022, and
- ▶ the opportunities to use **evaluation information**.

What makes good performance reporting is not static and requires a mind-set and process of continuous improvement. As situations change and agencies learn and develop, what was fit-for-purpose at one time does not always remain so. To reflect a continuous improvement approach, this guidance is based around improvement prompts, rather than a set of requirements, covering the factors listed above.

For this document, ex-ante refers to “before the event”. Public sector performance information is contained in a variety of external reporting, such as the Estimates, statements of intent and statements of performance expectations.

Context – External performance information is important

Performance information provides Parliament and the public with an understanding of how well agencies are serving the public now and how well they are set up to serve the public in the future. The way in which the Public Sector accounts for its performance is critical to maintaining the trust and confidence of the public, and should also support ongoing performance improvement.

Up front (ex-ante) information should set agencies up to be able to tell a meaningful story about what was delivered, how it was delivered, and what was achieved with the funding received.

Future updates will be frequent and follow the reporting cycle

We will review and refresh our reporting guidance at least annually. Each update will spotlight different aspects that align to the reporting cycle and timeframes. The next update will be in early 2021 and will focus on performance reporting in 2020/21 annual reports.

We want our guidance to include practitioner suggestions, approaches and examples of what works well. Please email us on performanceinfo@treasury.govt.nz with suggestions for this, or with any ideas on how our guidance could be improved

Do check legislative requirements, talk to your auditors, and consult other Treasury guidance

This document provides general advice on non-financial agency performance reporting in the **Public Finance Act 1989** (PFA) and **Crown Entities Act 2004** (CEA). Agencies should also check the specific requirements in those acts, and the more specific guidance documents available on the Treasury website.

Agencies will also need to talk to their auditors in considering changes to performance information.

Improvement prompt – How well does your ex-ante performance information reflect COVID-19 related activity and impacts?

COVID-19 has seen significant new funding and new activities for many agencies. This activity and funding *may* need to be reflected in ex-ante performance information.

We expect *material* funding in relation to COVID-19 will be reflected in agencies' ex-ante performance information to ensure meaningful reporting can be provided on what was achieved. Agencies will need to provide ex-ante performance information on those activities either started or changed in nature and scope, due to COVID-19, if these are continuing into the future period.

Information for new appropriations

Any new appropriations created for the Government's COVID-19 Response and Recovery are subject to the Supplementary Estimates process. All supporting information for an appropriation is needed for the Estimates process. The minimum requirements are:

- ▶ Intention statement – What is intended to be achieved through this appropriation.
- ▶ Performance information – How performance will be assessed for this appropriation.
- ▶ Performance reporting – Who, and in which document, is reported to the House for this appropriation (unless exempt from performance reporting).

We encourage you to start the process by engaging with the Treasury via your Vote Analyst in the first instance.

Developing performance information

In developing your ex-ante performance information for the Estimates or the Statement of Performance Expectations, departments and Crown entities will need to consider two broad questions:

- ▶ What is the level of change in funding, operations and activities in the coming year due to COVID-19? Should this be reflected in our performance information?
- ▶ What performance information should be used to report on COVID-19 related work?

Audit New Zealand has developed a series of bulletins on reporting in light of the impacts of COVID-19. The bulletins provide useful advice on answering the above questions. For non-financial information, please see [Bulletin 2: Implications of COVID-19 emergency for service performance reporting – guidance for preparers of performance information.](#)

Improvement prompt – Can you select performance information using or reflecting the new standard for non-financial performance reporting?

Background on the new standard

In 2017, the External Reporting Board (XRB) released the [Public Benefit Entity Financial Reporting Standard 48 Service Performance Reporting](#) (PBE FRS 48 or 'the standard'), a new standard for service performance reporting. The objective of the new standard is to establish principles and requirements for an entity the selection and presentation of service performance information. Under the Public Finance Act¹ and the Crown Entities Act² service performance information in annual reports must be prepared in accordance with generally accepted accounting practice, which includes the new standard.

The standard is published on the XRB website here: <https://www.xrb.govt.nz/accounting-standards/not-for-profit/pbe-frs-48/>. The XRB have also published an explanatory guide for Tier 2 not-for profit entities, which public sector agencies may also find useful and is available here: <https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a10/>

A summary of the standard has been published by BDO (one-page overview of the key elements) which may be useful, particularly for communication purposes.³

The following table lists some of the key principles of the new standard.

Summary of Key Principles

An entity must present service performance information that is useful for accountability and decision-making purposes in the same report as the financial statements
Presentation of service performance information together with financial statements enables users to make assessments of the entity's performance.
In selecting and presenting service performance information an entity applies the qualitative characteristics (relevant, faithful representation, understandability, timeliness, comparability, and verifiability) of information and the pervasive constraints (materiality, cost-benefit and balance between the qualitative characteristics).
Application of the qualitative characteristics and appropriate balancing of the constraints on information results in service performance information that is appropriate and meaningful to users.

¹ Refer to Section 19C(3) of the Public Finance Act
<http://www.legislation.govt.nz/act/public/1989/0044/latest/DLM6184290.html>

² Refer to Section 153 of the Crown Entities Act
<http://www.legislation.govt.nz/act/public/2004/0115/latest/DLM330555.html>

³ http://www.bdo.nz/BDO_NZ/media/bdo/PBE-FRS-48.pdf

We recommend agencies start early to incorporate the new standard into their reporting

We encourage agencies to review and consider the new standard and how they will apply it.

The standard is effective for reporting periods starting **on, or after**, 1 January 2022. Departments and Crown entities will be subject to the new standard and must apply it in their annual reports covering the period from 1 July 2022 to 30 June 2023. The standard does allow for early application (some universities have already adopted the standard in their reporting for 2019⁴).

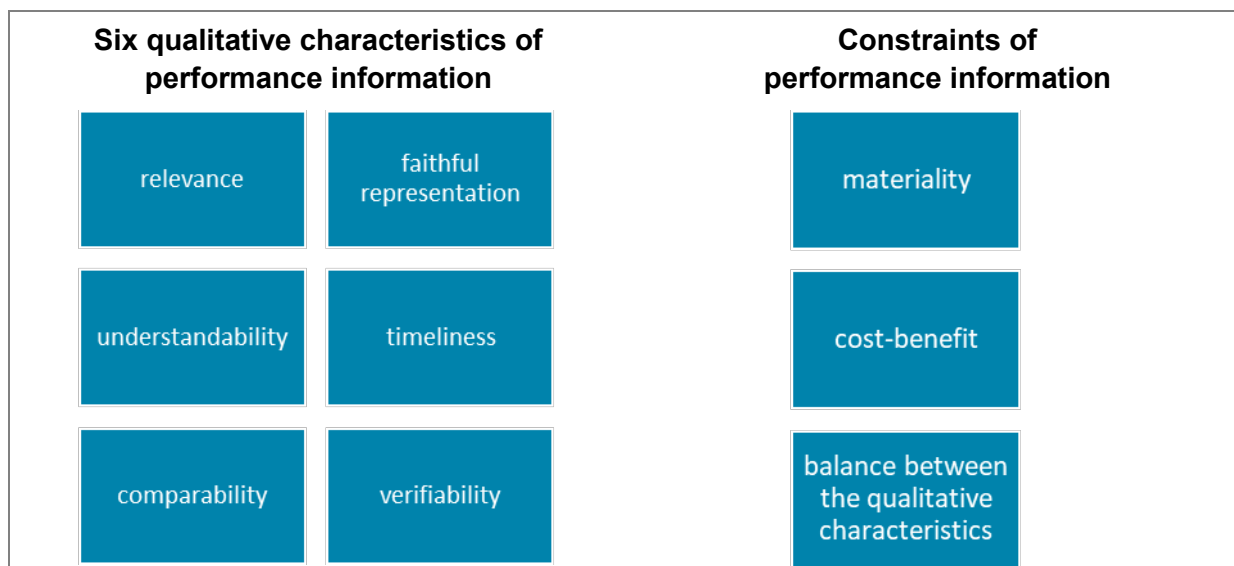
The Treasury and the Office of the Auditor-General encourage departments and Crown entities to consider early application of the new standard (either formally or informally). Early preparation and adoption will help agencies in selecting and presenting their non-financial service performance information and result in more appropriate and meaningful performance reporting to users. It will also allow enable agencies to be more considered in developing their reporting towards the new standard over a longer timeframe.

Identifying appropriate and meaningful ex-ante performance information

The PFA and CEA gives agencies significant flexibility in what performance information they provide.

The standard also describes a range of performance information that may be used (quantitative measures, qualitative measures and qualitative descriptions). Selecting information requires judgement and the standard sets out the factors to be considered. While the standard it is not compulsory until January 2022, it is a useful for helping determine what information could be used. **Section 20** of the standard states that reporting shall provide users with *“an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period”*. To identify what these should be, agencies should consider the six qualitative characteristics of performance information described in the standard and appropriately balance the constraints of performance information (see below).

⁴ See the 2019 annual reports of the [University of Canterbury](#), [University of Otago](#) and [Victoria University of Wellington](#) for how they have incorporated PBE FRS 48 as early adopters.



Further information contained in the standard that may be useful:

- ▶ **Sections 9 to 10** describe the qualitative characteristics, and
- ▶ **Sections 20 to 28** describe different types of performance information and key considerations.

Considering the type of performance information that will be most relevant

The James Q. Wilson matrix of types of organisation can be a useful tool to help identify the type of performance information that is going to be most relevant. The adapted James Q. Wilson matrix below defines services based on observable outcomes and observable outputs to indicate the types of performance information that may be most useful.

Adapted James Q. Wilson matrix for types of performance information

		Observable Outcomes	
		Yes	No
Observable Outputs	Yes	Production eg, administering income support to seniors <i>[quantitative measures are likely to be useful]</i>	Procedural eg, data analytics and evidence services/policy advice <i>[a mix of quantitative and qualitative reporting may be most useful]</i>
	No	Craft eg, improving employment and social outcomes support <i>[a mix of quantitative and qualitative reporting may be most useful]</i>	Coping eg, Care and protection services <i>[qualitative information such as evaluation may be more useful]</i>

Improvement prompt – Can you start considering how your reporting may need to change to reflect the new standard?

Most of these changes relate to annual reports and we will **cover this in more depth in future updates**, however it will be beneficial to start consideration of these requirements now.

Some aspects of PBE FRS 48 will require changes to reporting

Existing legislative requirements and reporting practice mean departments and Crown entities are likely to comply with most of the particular requirements set out in the standard. However there are a few key differences which will require changes relating to:

- ▶ identifying and selecting appropriate and meaningful ex-ante performance information (previously covered)
- ▶ disclosing judgements made in the selection and/or reporting of performance information
- ▶ requiring comparative performance information
- ▶ requiring consistency of reporting.

Below is our interpretation of the standard’s requirements. We recommend agencies also look at the requirements in the standard itself, which goes into more detail than we have in this guidance.

Ensuring disclosure of the judgements made in the selection and reporting of performance information

The standard states that entities shall disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance reported.

Users need to know why, in reporting on its service performance, an entity has chosen to do something one way rather than another. These judgements are presented as part of the service performance information. A summary of the requirements to disclose judgments used is provided below, together with some things to think about.

What PBE FRS 48 requires – paragraph 44	Consider
<p>“An entity shall disclose those judgements that have <i>the most significant effect</i> on the:</p> <ul style="list-style-type: none"> • selection • measurement • aggregation, and • presentation <p>of service performance information reported <i>that are relevant to an understanding</i> of the entity’s service performance information.</p>	<p>Not all judgements have to be disclosed.</p> <p>There are two parts to this requirement.</p> <ul style="list-style-type: none"> • Identify the judgements that have the most significant effect on the service performance information reported. • Decide which judgements are relevant to a user’s understanding

Requiring comparative information

Section 37 of the Standard is about comparative information and states:

“An entity shall report comparative information in respect of the preceding period. An entity may also be required by legislation, or may elect, to report comparative information in respect of previously published prospective service performance information. An entity shall report comparative information for all amounts reported in the current period and, where relevant, for the narrative and descriptive information reported in the current period. Explanations for major variances shall be given.”

This section of the standard requires performance information for the previous period, even if this a new indicator. For qualitative or descriptive information agencies will need to consider if this will be relevant, as it may be impractical to provide this information.

The implication of this is mostly for new measures and being able to provide information for the previous period.

Further material on providing comparative information is in Sections 36 -39 of the new standard.

Requiring consistency of reporting

Section 40 of the standard highlights the importance of providing consistent performance information, and explaining the changes make and their impact. It states:

“An entity shall report service performance information consistently. If an entity changes what it reports or how it reports its service performance information, it shall explain the nature of those changes and their effect on the current period’s service performance information.”

Further information on this aspect is contained in Sections 40 to 43 of the new standard.

Improvement prompt – can evaluation be used in your performance information?

We believe making greater use of evaluation is one way agencies could improve their non-financial performance information. We recognise that planning for and using evaluation in this way requires time, resource, and planning to build this into agency operations and then to reflect this in performance reporting. This section provides improvement prompts and examples to support you to work with others in your agency to consider whether you wish to make greater use of evaluation.

Evaluation can help your agency better serve the public and understand performance

Evaluation is essentially about assessing the value, quality or effect of your activities and programmes.⁵ Evaluation of government policies and programmes is critical to the efficiency and effectiveness of public policy and for accountability.⁶ It can help agencies assess expenditure and programme performance against all aspects of implementation, delivery, and outcomes.

Agencies can deploy different types of evaluation such as process, outcomes, or impact evaluation, and at different stages through developmental, formative, and summative evaluation.⁷ Evaluation goes beyond monitoring because it also applies assessment and critical thinking to monitoring and other data.

We want agencies to use evaluation more and be transparent about its use in their operations. This is because agencies have been appropriated public funding from Parliament and need to demonstrate what they are achieving with it. We expect agencies to consider how best to build evaluation into programme design, implementation, and budgets – particularly when new programmes and activities begin. We also expect this to be reflected in agencies' performance reporting where appropriate, as discussed further below.

⁵ There are several different definitions of evaluation. For example, the United Kingdom (UK) Treasury Magenta Book Guidance for Evaluation says:

“Evaluation examines the actual implementation and impacts of a policy to assess whether the anticipated effects, costs and benefits were in fact realised. Evaluation findings can identify ‘what works’, where problems arise, highlight good practice, identify unintended consequences or unanticipated results and demonstrate value for money, and hence can be fed back into the appraisal process to improve future decision-making.

⁶ Evaluation in the Australian Public Service: current state of play, some issues and future directions, Australia New Zealand School of Government research paper, Gray and Bray, 2019.

⁷ Helpful starting places include:

- [‘Making sense of evaluation: A handbook for everyone’](#) by the Social Policy Evaluation and Research Group
- [‘Getting your organisation ready to do evaluations’](#) guide on the Social Wellbeing Agency hub
- [‘What Works’ website by Community Research](#)
- [‘Rainbow Framework’](#) and the [Evaluation Capacity Development Group Toolkit](#) by Better Evaluation
- [‘Guidance Note on Best Practice Monitoring, Evaluation and Review’](#) by the Treasury.

Evaluation can make your performance reporting more appropriate and meaningful

Evaluation can form part of the appropriate and meaningful mix of your agency's non-financial performance information. Alongside other qualitative measures and information, it can:

- ▶ support the public and Parliament to understand what changes occur or not occur due to new or existing programmes
- ▶ broaden performance indicators beyond numerical targets and binary 'Achieved/Not Achieved' indicators, in a way that meets the new requirements of the standard
- ▶ provide more context for identified trends in performance
- ▶ enhance 'how your agency assesses performance' in year-end reporting like annual reports and statements of performance expectations.

PBE FRS 48's introduction and PFA's existing flexible requirements are an opportunity to increase your agency's use of evaluation and improve performance reporting

Below are five suggestions to help agencies start the journey of incorporating evaluation more into performance reporting.

- 1 **Understand** what your agency currently does in evaluation and who is involved with evaluation inside your agency. Making greater use of evaluation means your agency may need to strengthen their:
 - ▶ current or potential evaluation capability
 - ▶ links or connections to academia and evaluators
 - ▶ ability to gather or generate good qualitative and quantitative information and data, and
 - ▶ capacity to analyse this information and data to create knowledge and evidence.
- 2 **Report** on your agency's current and future use of evaluation. We encourage agencies to share how they plan to use evaluation in how they plan and make decisions. Recent Strategic Intentions by departments have started disclosing how they plan to use evaluation in their ongoing operations.⁸

⁸ Recent examples include:

- Sports New Zealand seeking to address urgent business needs like evaluation as part of optimising organisational capability and performance, and continuing to use evaluation as part of their Strategic Reporting Framework and wider impact measurement
- Ministry for Social Development stating the critical importance of evaluation for making evidence-based policy decisions and understanding what services work and for whom
- Ministry for the Environment establishing evaluation hubs and building up their own evaluation capability
- Ministry of Foreign Affairs establishing an evaluation function to look at organisational delivery of results and value, and
- Ministry of Transport coordinating its Evaluation Strategy with other related planning documents and projects.

- 3 **Publish** evaluations and case studies on agency websites and provide hyperlinks to published evaluations in their performance reports. For example, the Ministry of Social Development and Ministry of Business Innovation and Employment reference a number of evaluation reports in their Annual Reports and publish some of their evaluation reports on their websites.
- 4 **Disclose judgements** about when you have used evaluation as part of your agency's **performance** information, as per paragraph 48 of the standard. Your judgements may depend on factors like:
 - ▶ The nature of the programmes such as the types of services or area it is addressing – see the James Q Wilson matrix earlier in this document. Evaluation could be more applicable for programmes with less observable outputs.
 - ▶ The type of changes you aim to see – current and observable problems are easier to measure changes in, compared to preventative, one-off or less tangible changes.
 - ▶ The time period you are assessing performance over – we encourage agencies to be open that it may take more than a year for programmes' impacts to be realised and be able to be evaluated.
- 5 **Work with** auditors early to develop appropriate indicators in your Annual Reports and Estimates that can draw on evaluation.

Example of evaluation in performance reporting – The Productivity Commission

The Productivity Commission is a useful example of how evaluation is reflected and used in performance reporting. You could consider how some of what they do could be applied to some of the initiatives and programmes you report on. The James Q. Wilson matrix earlier in this guidance indicates where qualitative information would be useful to help understand performance.

The Commission regularly uses evaluation in assessing their performance against their outcomes framework.⁹ They use evaluation in some of their output indicators. They do this because their diverse and qualitative work is not easily captured in fixed quantitative targets, and the impact of what they do may take more than a year to come about.

They use a range of methods – independent expert peer reviews, participant and stakeholders surveys, focus group insights, and other monitoring. They also regularly publish their evaluation results online.

⁹ See pages 11-13 of the Commission's [2020-24 Statement of Intent](#) and pages 4, 8-10, and 14 of their [2020-21 Statement of Performance Expectations](#)

Appendix One – networks and agencies to find other resources and tools to improve your performance reporting

The following provides some useful links to other websites and resources

Office of the Auditor General

The Controller and Auditor-General is an Officer of Parliament. The work of the OAG gives Parliament, public organisations, and the public independent assurance that public organisations are operating, and accounting for their performance, in keeping with Parliament's intentions.

The OAG has a strong interest in improving the performance reporting by departments and Crown entities and publishes advice and reports. In 2019 the OAG released a report on Public Accountability¹⁰ and a follow-up report is planned for release in 2021.

<https://oag.parliament.nz/>

Audit New Zealand

Audit New Zealand carries out annual audits of hundreds of public entities on the Auditor-General's behalf to give taxpayers and ratepayers assurance that public entities are appropriately reporting on how they spend public money and on the services they have provided.

Audit New Zealand has previously provided advice on public sector performance reporting.

<https://auditnz.parliament.nz/good-practice/public-sector-reporting>

Planning and Performance Network (PPN)

The network aims to keep its members engaged and informed, with a focus on collaboration to develop good practice and share knowledge, skills and information in the areas of organisational strategy and planning development and performance management. The network is run by a committee of volunteers. Further information on the PPN, including contact details for joining, is available on their community page on the Public Sector Intranet (PSI).

<https://www.psi.govt.nz/home/communities/planning-and-performance-network/>

¹⁰ <https://oag.parliament.nz/2019/public-accountability>

Te Kawa Mataaho Public Service Commission

The role of Te Kawa Mataaho Public Service Commission is to provide leadership and oversight of the public service and ensure the purpose of the Public Service Act is carried out.

The Public Service Commissioner is the Head of Service and provides leadership of the Public Service, including the performance and integrity of the system.

<https://www.publicservice.govt.nz/>

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	10 February 2021
Subject:	Quality Management
Date:	27 January 2021
Prepared By:	Sharon Walker, Peyman Momenan

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

1. The objective of this agenda item is for the board to CONSIDER and APPROVE the draft Invitation to Comment and NZ Exposure Drafts of:
 - Proposed Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.*
 - Proposed Professional and Ethical Standard 4 *Engagement Quality Reviews*
 - Proposed ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*
 - Proposed *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*

Background

2. The IAASB approved the quality management suite of standards at its September 2020 virtual meeting. These were subsequently approved by the Public Interest Oversight Board and released in late December.
3. At its October 2020 meeting, the NZAuASB received an update on the key changes and issues addressed by the IAASB in finalising the quality management standards; how matters arising from the NZAuASB's submissions were addressed and preliminary thoughts on New Zealand changes that might be needed when adopting the standards.
4. Agenda item 6.2 presents all NZ paragraphs included in extant PES 3 and how they have been addressed in the proposed standards.

Matter for Consideration

NZ Public Sector Paragraphs in extant PES 3

5. Extant PES 3 includes several NZ paragraphs that provide guidance on how to apply PES 3 in the public sector. We seek direction from the Board in how to deal with these paragraphs in the proposed PES 3.

6. Research on the background to the extant public sector paragraphs indicates that in developing PES 3 (Amended) considerations specific to the public sector were carried forward from the preceding PES 3.
7. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including professional and ethical standards, in New Zealand unless there are strong reasons not to. The international standards should be adopted, and should be modified only if there are compelling reasons to do so.
8. The compelling reason test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with:
 - a. The New Zealand regulatory arrangements; or
 - b. Principles and practices that are considered appropriate in New Zealand.
9. The additional New Zealand public sector paragraphs provide guidance on how the Auditor-General would apply extant PES 3 in New Zealand.
10. While we consider that these paragraphs are “nice to have”, we do not believe that they rise to the level of compelling reason changes, and therefore we do not believe they will meet the compelling reason test. We also note that ISQM 1 includes a number of enhanced public sector considerations. On that basis, we recommend that the NZ public sector paragraphs not be included in the proposed PES 3. We consider it is more appropriate for the Auditor-General to address specific application of the proposed PES 3 and interpretations of the standard for the Auditor-General’s purposes.
11. Agenda item 6.2 identifies the extant NZ paragraphs and how we have dealt with them in the proposed PES 3. Does the Board agree with the disposition of extant NZ paragraphs?

Recommendations

12. We recommend the Board APPROVE the Invitation to Comment and the following NZ Exposure Drafts:
 - Proposed Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.*
 - Proposed Professional and Ethical Standard 4 *Engagement Quality Reviews*
 - Proposed ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*
 - Proposed *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda Item 6.2	Disposition of NZ Paragraphs in extant PES 3
Agenda item 6.3	Draft QM Invitation to Comment
Agenda item 6.4	Proposed PES 3
Agenda item 6.5	Proposed PES 4
Agenda Item 6.6	Proposed ISA (NZ) 220 (Revised)
Agenda Item 6.7	Proposed Conforming Amendments

Extant NZ paragraphs and how they are addressed in ED PES 3

Extant PES 3 (Amended)	Comment	ED PES 3
<p>NZ3.1 This standard is not intended to detract from responsibilities which may be imposed by law or regulation.</p>	<p>NZ para no longer required. Included in ED PES 3.</p>	<p>Para 4</p>
<p>NZ4.1 This Professional and Ethical Standard applies to all firms of assurance practitioners in respect of audits and reviews of financial statements, and other assurance engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this Professional and Ethical Standard will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.</p>	<p>With change in XRB mandate, the wording for mandate is now the same as the IAASB. Because the term Related Services in XRB terminology does not equate to that of the IAASB we have added footnote 3 to clarify what we mean by related services, i.e., is as defined in XRB Au1</p>	<p>Para 5, f/n 3</p>
<p>NZ10.1 Systems of quality control in compliance with this Professional and Ethical Standard are required to be established for application from 1 January 2014. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. NZ10.2 This Standard supersedes PES 3 Quality Control issued in 2011.</p>	<p>It is intended that the effective date will be the same as for the international standards. NZ paragraph added to address superseding of extant PES 3.</p>	<p>NZ13.1</p>
<p>[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).</p>	<p>With change in the XRB mandate, this definition is no longer needed in ED PES 3</p>	<p>n/a</p>
<p>[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.</p>	<p>PES 1 and PES 3 use “assurance practitioner” in place of the “professional accountant” used in the IESBA Code and ISQM1 due to the XRB’s mandate.</p>	<p>NZ16.1</p>
<p>[NZ12.3] Engagement – In the context of this Professional and Ethical Standard, an assurance engagement.</p>	<p>With the change in the XRB mandate, this definition is no longer needed to be included.</p>	<p>n/a</p>

<p>(c) Engagement partner3 – The partner or other person in the firm who is responsible for the assurance 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.</p>		n/a
<p>[NZ] Considerations Specific to the Public Sector Where a statutory officer (such as the Auditor-General) appoints an employee or other suitably qualified person (appointed auditor) to perform audits or other assurance services on that officer's behalf, for the purposes of this Professional and Ethical Standard it is the appointed auditor who effectively discharges the obligations of the engagement partner</p>	<p>See agenda item 6.1 for disposition of extant public sector paragraphs.</p>	n/a
<p>[NZ12.4] Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgements the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, and those other assurance engagements, if any, for which the firm has determined an engagement quality control review is required.</p>	<p>Revised definition of engagement quality review does not require tailoring for NZ.</p>	n/a
<p>[NZ 12 g] (after definition of firm) [NZ] Considerations Specific to the Public Sector Where a statutory officer (such as the Auditor-General) appoints an employee or other suitably qualified person (appointed auditor) to perform audits or other assurance services on that officer's behalf, for the purposes of this Professional and Ethical Standard the term "firm" refers to the combination of the statutory officer, the appointed auditor, and, if applicable, the firm of which the appointed auditor is a partner, member or employee.</p>	<p>See agenda item 6.1 for disposition of extant public sector paragraphs.</p>	n/a
<p>[NZ12.5] FMC reporting entity considered to have a higher level of public accountability – A FMC Reporting Entity</p>	<p>ISQM 1 refers to "listed entities" which is a term that is not used in the NZAuASB standards. ED PES 3</p>	NZ16.2

<p>or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:</p> <ul style="list-style-type: none"> • Under section 461K of the Financial Markets Conduct Act 2013; or • By notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013. 	<p>replaces references to “listed entities” with “FMC Reporting entities with HLPAs...” and the definition of “listed entities” is replaced with the definition of “FMC Reporting entities with HLPAs...”</p>	
<p>[NZ12.6] Public entity – Has the meaning as defined in section 5 (1) of the Public Audit Act 2001.</p>	<p>The term “Public entity” is not used in ED PES 3, therefore no definition needed. See agenda item 6.1 for disposition of extant public sector paragraphs.</p>	n/a
<p>[NZ12.7] Public interest entity – An entity that meets the Tier 1 criteria in accordance with XRB A14 and is not eligible to report in accordance with the accounting requirements of another tier</p>	<p>The term public interest entity is not used in ISQM 1, therefore definition not required. “public interest entities” is used only once in ISQM 1 in an example (see para A133)</p>	n/a
<p>[NZ12.8] Public sector auditor – The Auditor-General or an auditor appointed by the Auditor General to perform audits or other assurance services for public entities.</p>	<p>ED PES 3 is sector neutral, i.e., applies to all sectors. See agenda item 6.1 for disposition of extant public sector paragraphs.</p>	n/a
<p>[NZ12.9] Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking audits or reviews of financial statements, or other assurance engagements, which ordinarily comprise the provisions of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand), and other applicable law or regulation.</p>	<p>ISQM1 includes a definition of relevant ethical requirements. Contextual amendments for applicability in NZ are made to the definition</p>	16(t)
<p>[NZ31.1] The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, capabilities, and time to: (a) Perform engagements in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports</p>	<p>ISQM1 now specifically addresses “Resources” that covers the requirements raised in NZ31.1. See para 32 of ED PES 3</p>	n/a

<p>that are appropriate in the circumstances. (Ref: Para. A31)</p>		
<p>[NZ34.1] The reasons alternative courses of action from consultations were undertaken are documented. (Ref: Para. A36-A40)</p>	<p>This paragraph was added to extant PES 3 to align more closely with ASQC 1.</p> <p>ISQM 1 requires the firm to establish quality objectives that address the performance of quality engagements: (d) consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. ISA 220, para 35, deals with consultation on the engagement: (d) determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted, and (e) determine that conclusions have been implemented.</p> <p>We do not consider that there is a compelling reason to change the international standard to include this paragraph.</p>	<p>n/a</p>
<p>NZ35.1 The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:</p> <p>(a) Require an 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>(b) Set out criteria against which all other audits and reviews of historical financial information and other assurance engagements shall be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41)</p> <p>(c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b).</p>	<p>ISQM 1 refers to “listed entities” which is a term not used in the NZAuASB standards. In adopting ISQM1, ED PES 3 amends references to “listed entities” with “FMC Reporting entities with HLPAs...”</p>	<p>NZ34(f)(1)</p>

<p>NZ38.1 For audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:</p> <ul style="list-style-type: none"> (a) The engagement team’s evaluation of the firm’s independence in relation to the specific engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether documentation selected for review reflects the work performed in relation to the significant judgements and supports the conclusions reached. (Ref: Para. A45-A46) 	<p>ED PES 4 addresses the procedures to be performed by the engagement quality reviewer. Such procedures are required to be performed for all engagement quality reviews. See ED PES 4 para 25</p>	<p>n/a</p>
<p>Elements of a System of Quality Control (Ref: Para. 17)</p> <p>A2. In general, communication of quality control policies and procedures to firm personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging firm personnel to communicate their views or concerns on quality control matters recognises the importance of obtaining feedback on the firm’s system of quality control.</p> <p>[NZA2.1] The form and content of communication should be explicit to provide firm personnel with a ready source of information concerning those policies and procedures applicable to them.</p>	<p>Not required to be included in ED PES 3. Not included in ISQM 1 which takes a different construct to ISQC 1.</p> <p>We do not consider that there is a compelling reason to change the international standard to include this paragraph.</p>	<p>n/a</p>
<p>Considerations Specific to the Public Sector (Ref: Para. 23, 25)</p> <p>[NZA10.1] In the case of a statutory officer (such as the Auditor-General) who is bound by this Professional and Ethical Standard in their professional capacity as an assurance practitioner, if the officer</p>	<p>See agenda item 6.1 for disposition of extant public sector paragraphs</p>	<p>n/a</p>

<p>does not have the ability to withdraw from, or to decline to accept, an engagement to eliminate a threat to independence of a professional nature, it will be sufficient compliance with this Professional and Ethical Standard for the statutory officer to:</p> <p>(a) Introduce safeguards to reduce the threat to independence to the extent that is reasonably possible in the circumstances; and</p> <p>(b) Disclose the threat to independence to those responsible for governance of the entity and publicly disclose the matter where a report is required.</p>		
<p>A14. [Amended by the NZAuASB. Refer to NZA14.1].</p> <p>[NZA14.1] Professional and Ethical Standard 1 recognises that the familiarity threat is particularly relevant in the context of financial statement audits of public interest entities. For these audits, Professional and Ethical Standard 1 requires the rotation of the key audit partner after a pre-defined period, normally no more than seven years, and provides related standards and guidance .</p>	<p>NZ paragraph relates to contextual change to refer to PES 1.</p>	<p>n/a</p>
<p>[NZA14.2] Shorter rotation requirements may be established for particular audit engagements or classes of audit engagement, for example for audits of entities whose securities are quoted or listed on a recognised stock exchange.</p>	<p>No compelling reason to amend.</p>	<p>n/a</p>
<p>A16. [Amended by the NZAuASB. Refer to NZA16.1].</p> <p>[NZA16.1] There may be other public entities that are not defined as a public interest entity, that are significant due to size, complexity, commercial risk, parliamentary or media interest or public interest aspects, and which consequently have a wide range of stakeholders. There are no fixed objective criteria on which this determination of significance should be based. Such a determination should encompass an evaluation of all factors relevant to the public entity. Therefore, there may be instances when a firm determines, based on its quality control</p>	<p>ISQM 1 requires the firm to design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to the quality risks, rather than prescribing specific policies and procedures. No compelling reason identified to make this change.</p>	

<p>policies and procedures, that a public entity is significant for the purposes of expanded quality control procedures. A17. [Amended by the NZAuASB. Refer to NZA17.1].</p>		
<p>[NZA17.1] In the public sector, legislation may establish the appointments and terms of office of the auditor with engagement partner responsibility. Nonetheless, for public entities considered significant, as noted in paragraph A16, it may be in the public interest for public sector auditors to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility.</p>	<p>ISQM 1 requires the firm to design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to the quality risks, rather than prescribing specific policies and procedures. No compelling reason identified to make this change.</p>	
<p>Criteria for an Engagement Quality Control Review (Ref: Para. 35(b))</p> <p>A41. [Amended by the NZAuASB].</p> <p>NZA41.1 Criteria for determining which engagements other than audits of financial statements of FMC reporting entities considered to have a higher level of public accountability are to be subject to an engagement quality control review may include, for example:</p> <ul style="list-style-type: none"> • The nature of the engagement, including the extent to which it involves a matter of public interest. • The identification of unusual circumstances or risks in an engagement or class of engagements. • Whether laws or regulations require an engagement quality control review. 	<p>The term “listed entity” is not used in NZAuASB standards. Listed entities is changed to FMC HLPAs in paragraph A134 examples</p>	<p>A134 examples</p>
<p>A44. [Amended by the NZAuASB].</p> <p>NZA44.1 The extent of the engagement quality control review may depend, among other things, on the complexity of the engagement, whether the entity is a FMC reporting entity considered to have a higher level of public accountability, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the</p>	<p>NZ paragraph not required as no reference to FMC HLPAs needed. ED PES 4, paragraphs A28-A31 address the nature, timing and extent of procedures to be performed by the EQR.</p>	<p>n/a</p>

responsibilities of the engagement partner.		
<p>Engagement Quality Control Review of a FMC reporting Entity Considered to have a Higher Level of Public Accountability (Ref: Para. 38) A45. [Amended by the NZAuASB].</p> <p>NZA45.1 Other matters relevant to evaluating the significant judgements made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a FMC reporting entity considered to have a higher level of public accountability include:</p> <ul style="list-style-type: none"> • Significant risks identified during the engagement and the responses to those risks. • Judgements made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. <p>These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and other assurance engagements.</p>	NZ paragraph not required as no reference to FMC HLPAs needed.	n/a
<p>Considerations Specific to the Public Sector A46. [Amended by the NZAuASB].</p> <p>NZA46.1 Although not referred to as FMC reporting entities considered to have a higher level of public accountability, as described in paragraph A16, certain public entities may be of sufficient significance to warrant performance of an engagement quality control review.</p> <p>NZA46.2 There are no fixed objective criteria on which this determination of</p>	NZ paragraph not required as no reference to FMC HLPAs needed. Para A137 of ED PES 3 addresses public sector considerations when EQR is a response to address one or more quality risks. No compelling reason for further NZ changes has been identified.	n/a

<p>significance should be based. However, such a determination should encompass an evaluation of all factors relevant to the public entity. Such factors include size, complexity, commercial risk, parliamentary or media interest and the number and range of stakeholders affected.</p>		
<p>Criteria for the Eligibility of Engagement Quality Control Reviewers Sufficient and Appropriate Technical Expertise, Experience and Authority (Ref: Para. 39(a)) A47. [Amended by the NZAuASB] NZA47.1 What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of a FMC reporting entity considered to have a higher level of public accountability is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of FMC reporting entities considered to have a higher level of public accountability.</p>	<p>NZ paragraph not required as no reference to FMC HLPAs needed ED PES 4 deals with eligibility criteria for the engagement quality reviewer.</p>	<p>n/a</p>
<p>[NZA67.1] In the public sector, the Office of the Auditor-General performs quality reviews on appointed auditors on a cyclical basis. A quality review by the Office of the Auditor-General would contribute towards the firm's compliance with the monitoring requirements of this standard.</p>	<p>See agenda item 6.1 for disposition of extant public sector paragraphs</p>	
<p>[NZA70.1] Complaints and allegations may also be received from relevant professional bodies.</p>	<p>No compelling reason to make this change. ED PES 3 is clear, complaints and allegations may be made by others external to the firm. – this would include relevant professional bodies.</p>	<p>n/a</p>
<p>[NZA75.1] The policies are often simply embedded in the firm's engagements templates in the form of standard communications, questionnaires, checklists, memoranda, and forms.</p>	<p>No compelling reason to make this change.</p>	<p>n/a</p>



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

EXPOSURE DRAFT NZAUASB 2021-2 QUALITY MANAGEMENT

Invitation to Comment

February 2021

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Information for respondents

Invitation to Comment

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

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

Comments should be submitted electronically using our 'Open for Comment' page at

[Insert link](#)

The closing date for submission is 31 May 2021.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz) unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or full. The Privacy Act 1993 also applies.

If you have any objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g., that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
ISA (NZ)	International Standard on Auditing (New Zealand)
ISQM	International Standard on Quality Management
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
PES	Professional and Ethical Standard
XRB	External Reporting Board

Questions for respondents

The NZAuASB is interested in hearing from constituents as to whether they agree with the proposed amendments to the international standards. Respondents are asked to consider the following specific questions and to respond to the NZAuASB by 31 May 2021:

1. Do you consider that the proposed standard is scalable for all entities? If not, please explain why not and what alternative you propose.
2. Do you agree with the addition of the New Zealand paragraphs in the proposed standards, labelled as NZ paragraphs, which differ from the international standards? If not, please provide details of the specific provisions and reasons why you disagree with the addition.
3. Do you consider there are any weaknesses or gaps in the proposals that need to be addressed in the New Zealand context?
4. Do you consider the proposed effective date appropriate? If not, please explain why not, and what alternative do you propose?
5. Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposals? If so, please provide details.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of the Invitation to Comment (ITC) is to seek feedback from stakeholders on Exposure Draft (ED) NZAuASB 2021-2. This ED includes the following proposed standards:
 - Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
 - Professional and Ethical Standard 4 *Engagement Quality Reviews*;
 - ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*; and
 - *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Project*.

1.2 Background

2. In December 2020, the IAASB released its suite of quality management standards. The suite includes:
 - 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*;
 - International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*;
 - International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*; and
 - *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Project*.
3. These standards promote a robust, proactive, scalable and effective approach to quality management and are a significant evolution of the existing quality control standards.
4. ISQM 1 deals with the firm's responsibility to establish policies or procedures addressing quality management at the firm level, including policies and procedures addressing engagements that are required to be subject to engagement quality reviews. ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
5. 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 responsibility of the engagement partner.
6. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including the professional and ethical standards, in New Zealand. 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.

7. The NZAuASB has identified compelling reason modifications to the international standards as described in section 2.

1.3 Timeline and next steps

8. Submissions on ED NZAuASB 2021-2 are due by 31 May 2021. Information on how to make a submission is provided on page 4 of this ITC.
9. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the New Zealand quality management standards following the NZAuASB's September 2021 meeting.

2. Overview of ED NZAuASB 2021-2

2.1 Scalability

10. Among the public interest issues identified by the IAASB at the outset of the quality management project were the need for proactive management of quality and keeping the standard fit for purpose. The IAASB also identified scalability as a key issue, so that the standard can be applied by a variety of firms of different size and complexity. To address these issues, the IAASB proposed that the standard adopt a new approach to managing quality, termed "quality management", focused on proactively identifying and responding to risks to quality.
11. The new focus on quality management encapsulates an integrated approach to quality management that reflects upon the system of quality management (SOQM) as a whole, focuses on risk, and requires a firm to customise the design, implementation and operation of its SOQM based on the nature and circumstances of the firm and the engagements it performs.
12. Key concerns for stakeholders, including New Zealand stakeholders, and of the NZAuASB in response to the IAASB's exposure draft of ISQM 1, was the scalability of the proposals, 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 SMPs (including sole practitioners).
13. The IAASB has taken a number of actions to address the key concerns, as outlined in the [IAASB's basis for conclusions](#). However, implementing the revised requirements is likely to be challenging, both from a scalability, and cost and time perspective, especially to SMPs in New Zealand.
14. While acknowledging that the standards would be challenging to implement the NZAuASB is of the view that it is in the public interest to adopt the standards in New Zealand without amendment, except as discussed below. The IAASB has committed to perform activities to support awareness, understanding and effective implementation

of ISQM 1, including a “First Time Implementation Guide” which is expected to be available early in 2021.

2.2 New Zealand Specific Content

2.2.1 Scope and Application

15. ISQM 1 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. Related services under the IAASB framework includes compilation engagements.
16. During 2019, the NZAuASB’s legal mandate was extended to include related services, however, in the NZAuASB context, related services does not include compilation engagements. Rather it extends only to agreed-upon procedures engagements.
17. Extant PES 3 (Amended)² deals only with a firm’s responsibilities for its system of quality control for audit and reviews of financial statements, and other assurance engagements and does not extend to related services engagements.
18. There remains a compelling reason to continue to amend the scope of the standard to limit application in line with the NZAuASB’s mandate, albeit with a broader application than extant PES 3 (Amended).
19. The scope of the proposed PES 3 is extended to include related services engagements, as defined in XRB Au1.
20. To clarify the scope of application of the proposed PES 3 we have included the following definition of related services in paragraph 16 of proposed ISQM 1
NZ 16.1 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.
21. The NZ definitions of “assurance engagement”, “assurance practitioner” and “engagement” in extant PES 3 (Amended) are no longer considered necessary, given the broader mandate of the NZAuASB.

2.2.2 References to Listed Entities

22. The NZAuASB does not refer to “listed entities” in its standards.
23. The NZAuASB previously considered the scope of the engagement quality control review engagements in 2014 when it deliberated on the Legislative Update Changes contained in the Financial Reporting Bill 2012 together with the auditor reporting changes. The NZAuASB considered the application of the term *FMC reporting entity considered to have a higher level of public accountability* (as opposed to FMC reporting entity) versus the international use of the term listed entities.

² Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

24. The Financial Markets Authority has the power to designate FMC reporting entities considered to have a higher level of public accountability. The scope of the engagement quality control review 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 New Zealand exposure of the auditor reporting standards. At that 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 communications with those charged with governance in ISA (NZ) 260³.
25. In New Zealand, the FMA's regulations currently require an engagement quality review for all FMC entities, i.e., this is broader than the extant PES 3 (Amended) requirement.
26. Changing "listed entities" to "FMC reporting entity considered to have a higher level of public accountability (FMC with HLPAs)" retains the extant NZAuASB compelling reason approach to amending terminology in the ISAs (NZ). The FMA's regulations which is broader than the extant PES 3 (Amended) will be captured by the requirement in proposed PES -3 paragraph 34(f), which requires an engagement quality review for audits or other engagements where required by law or regulation.
27. Accordingly, in the proposed ISQM 1 and ISQM 2 reference to "listed entities" is amended to "FMC reporting entities considered to have a higher level of public accountability".

2.3 Extant NZ Public Sector Paragraphs

28. Extant PES 3 (Amended) includes several paragraphs that provide guidance on how to apply PES 3 in the public sector. These paragraphs were carried forward from the preceding PES 3.
29. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including professional and ethical standards, in New Zealand unless there are strong reasons not to do so. The international standards should be adopted, and should be modified only if there are compelling reasons to do so.
30. The compelling reason test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with:
 - a. The New Zealand regulatory arrangements; or
 - b. Principles and practices that are considered appropriate in New Zealand.
31. The additional New Zealand public sector paragraphs provide guidance on how the Auditor-General would apply extant PES 3 (Amended) in New Zealand. While these paragraphs are considered "nice to have", the NZAuASB does not believe they meet the compelling reason test.

³ ISA (NZ) 260 (Revised) *Communication with Those Charged with Governance*

32. The new international standard includes a number of enhanced public sector considerations. The NZAuASB considers that it is more appropriate for the Auditor-General to deal with the application of the proposed PES 3 and interpretations of the standard for the Auditor-General's purposes
33. On that basis, the NZAuASB has determined not to include additional public sector considerations in proposed PES 3.

2.4 Effective Date

34. The proposed effective date for the three standards is 15 December 2022. The proposed wording of the effective date paragraphs is included in each of the proposed standards. This will allow for an implementation period of approximately 15 months from the expected approval date of the finalised standards by the NZAuASB and will align with the effective date of the international standards.
35. Early adoption is permitted; however, all three standards would need to be early adopted as a package due to the linkages between them and the incompatibility with extant standards that would result from selective early adoption of only one or two of the new standards.

**PROPOSED PROFESSIONAL AND ETHICAL STANDARD 3
QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR
REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE
OR RELATED SERVICES ENGAGEMENTS**

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Proposed Professional and Ethical Standard (PES) 3, *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 External Reporting Board Standard Au 1 *Application of Auditing and Assurance Standards*

Commented [A1]: XRB Au1 is the closest document we have to the IAASB's *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*

Introduction

Scope of this Professional and Ethical Standard

1. This Professional and Ethical Standard (PES) 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**.
2. Engagement quality reviews form part of the firm's system of quality management and:
 - (a) This PES deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
 - (b) [Proposed] PES 4¹ deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
3. Other pronouncements of the New Zealand Auditing and Assurance Standards Board (NZAuASB):
 - (a) Are premised on the basis that the firm is subject to **PES 3 and PES 4** or to national requirements that are at least as demanding;² and
 - (b) Include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, ISA (NZ) 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 responsibilities of the engagement partner. (Ref: Para. A1)
4. This PES 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 PES. (Ref: Para. A2)
5. This PES applies to all firms performing audits or reviews of financial statements, or other assurance or related services³ engagements (i.e., if the firm performs any of these engagements, this PES applies and the system of quality management that is established in accordance with the requirements of this PES enables the consistent performance by the firm of all such engagements).

Commented [A2]: ISQM 1 refers to *ISQMs*. We separately distinguish PES 3 and PES 4 rather than referring to *PESs* as the Code of Ethics is also a PES.

The Firm's System of Quality Management

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 PES, a system of quality management addresses the following eight components: (Ref: Para. A3)
 - (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;

¹ [Proposed] Professional and Ethical Standard 4, *Engagement Quality Reviews*

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

³ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*

- (f) Resources;
 - (g) Information and communication; and
 - (h) The monitoring and remediation process.
7. This PES 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)
8. The risk-based approach is embedded in the requirements of this PES through:
- (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 establish the quality objectives specified by this PES and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
 - (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.
 - (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 are responsive to the reasons for the assessments given to the quality risks.
9. This PES requires that, at least annually, the individual(s) 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)

Scalability

10. In applying a risk-based approach, the firm is required to take into account:
- (a) The nature and circumstances of the firm; and
 - (b) The nature and circumstances of the engagements performed by the firm.

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 variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalised system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.

Commented [A3]: In this example we have intentionally left references to listed entities and compilation engagements.

Networks and Service Providers

11. This PES addresses the firm's responsibilities when the firm:
- (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.

Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.

Authority of this Professional and Ethical Standard

- 12. Paragraph 14 contains the objective of the firm in following this PES. This PES contains: (Ref: Para. A6)
 - (a) Requirements designed to enable the firm to meet the objective in paragraph 14; (Ref: Para. A7)
 - (b) Related guidance in the form of application and other explanatory material; (Ref: Para. A8)
 - (c) Introductory material that provides context relevant to a proper understanding of this PES; and
 - (d) Definitions. (Ref: Para. A9)

Effective Date

- 13. Systems of quality management in compliance with this PES are required to be designed and implemented by 15 December 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of this PES is required to be performed within one year following 15 December 2022.

NZ13.1 This Standard supersedes PES 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued in 2013.

Objective

- 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:
 - (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 standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.
- 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 judgement and, when applicable to the type of engagement, exercising professional scepticism.

Definitions

16. For purposes of this PES, the following terms have the meanings attributed below:

NZ16.1 Assurance practitioner – a person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services.

- (a) Deficiency in the firm's system of quality management (referred to as "deficiency" in this PES) – This exists when: (Ref: Para. A10, A159–A160)
 - (i) A quality objective required to achieve the objective of the system of quality management is not established;
 - (ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11)
 - (iii) A response, or combination of responses, does not 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
 - (iv) Any other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this PES has not been addressed. (Ref: Para. A12)
- (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "work papers" are sometimes used).
- (c) Engagement partner⁴ – 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 judgements 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 external individual, appointed by the firm to perform the engagement quality review.
- (f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert⁵ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13)
- (g) External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm's system of quality management or engagements performed by the firm. (Ref: Para. A14)
- (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)

⁴ "Engagement partner" and "partner" is to be read as referring to their public sector equivalents where relevant.

⁵ ISA (NZ) 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."

- (i) Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent. (Ref: Para. A18)
- (j) Listed entity – [Deleted by the NZAuASB]

NZ16.2 FMC reporting entity considered to have a higher level of public accountability – A FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- under section 461K of the Financial Markets Conduct Act 2013; or
- by notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013

- (k) Network firm – A firm or entity that belongs to the firm’s network.
- (l) Network – A larger structure: (Ref: Para. A19)
 - (i) That is aimed at cooperation; and
 - (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.
- (m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (n) Personnel – Partners and staff in the firm. (Ref: Para. A20–A21)
- (o) Professional judgement – 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) [Amended by the NZAuASB. Refer to NZ16.2]

NZ16.3 Professional standards – The standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

- (q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.
- (r) Quality risk – A risk that has a reasonable possibility of:
 - (i) Occurring; and
 - (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.
- (s) Reasonable assurance – In the context of the PES 3 and PES 4, a high, but not absolute, level of assurance.
- (t) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to assurance practitioners 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 Professional and Ethical Standard 1⁶ related to audits or reviews of financial statements, or other assurance or related

Commented [A4]: NZ definition of professional standards, consistent with EG Au4

Commented [A5]: ISQMs changed to PES 3 and PES 4

⁶ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

services engagements, together with national requirements that are more restrictive. (Ref: Para. A22–A24, A62)

- (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. A25–A27, A50)
 - (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.
- (v) Service provider (in the context of this PES) – An individual or organisation 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 organisations in the network. (Ref: Para. A28, A105)
- (w) Staff – Professionals, other than partners, including any experts the firm employs.
- (x) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:
 - (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
 - (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Requirements

Applying, and Complying with, Relevant Requirements

- 17. The firm shall comply with each requirement of this PES unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)
- 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 shall have an understanding of this PES, including the application and other explanatory material, to understand the objective of this PES and to apply its requirements properly.

System of Quality Management

- 19. The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgement, 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)

Responsibilities

- 20. The firm shall assign: (Ref: Para. A32–A35)
 - (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);
 - (b) Operational responsibility for the system of quality management;

- (c) Operational responsibility for specific aspects of the system of quality management, including:
 - (i) Compliance with independence requirements; and (Ref: Para. A36)
 - (ii) The monitoring and remediation process.
- 21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (Ref: Para. A37)
 - (a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A38)
 - (b) Understands their assigned roles and that they are accountable for fulfilling them.
- 22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, 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.

The Firm's Risk Assessment Process

- 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)
- 24. The firm shall establish the quality objectives specified by this PES and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A42–A44)
- 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:
 - (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)
 - (i) With respect to the nature and circumstances of the firm, those relating to:
 - a. The complexity and operating characteristics of the firm;
 - b. The strategic and operational decisions and actions, business processes and business model of the firm;
 - c. The characteristics and management style of leadership;
 - d. The resources of the firm, including the resources provided by service providers;
 - e. Law, regulation, professional standards and the environment in which the firm operates; and
 - 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.
 - (ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:
 - a. The types of engagements performed by the firm and the reports to be issued; and
 - b. The types of entities for which such engagements are undertaken.

- (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)
- 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)
- 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)
 - (a) Establish additional quality objectives or modify additional quality objectives already established by the firm; (Ref: Para. A54)
 - (b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or
 - (c) Design and implement additional responses, or modify the responses.

Governance and Leadership

- 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:
 - (a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognises and reinforces: (Ref: Para. A55–A56)
 - (i) The firm's role in serving the public interest by consistently performing quality engagements;
 - (ii) The importance of professional ethics, values and attitudes;
 - (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behaviour; and
 - (iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.
 - (b) Leadership is responsible and accountable for quality. (Ref: Para. A57)
 - (c) Leadership demonstrates a commitment to quality through their actions and behaviours. (Ref: Para. A58)
 - (d) The organisational 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)
 - (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)

Relevant Ethical Requirements

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)

- (a) The firm and its personnel:
 - (i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and (Ref: Para. A22, A24)
 - (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.
- (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:
 - (i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A22, A24, A65)
 - (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.

Acceptance and Continuance of Client Relationships and Specific Engagements

30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:

- (a) Judgements by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:
 - (i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgements; and (Ref: Para. A67–A71)
 - (ii) The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A72)
- (b) The financial and operational priorities of the firm do not lead to inappropriate judgements about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A73–A74)

Engagement Performance

31. The firm shall establish the following quality objectives that address the performance of quality engagements:

- (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)
- (b) The nature, timing and extent of direction and supervision of engagement teams and review of the 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)

- (c) Engagement teams exercise appropriate professional judgement and, when applicable to the type of engagement, professional scepticism. (Ref: Para. A78)
- (d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A79–A81)
- (e) Differences of opinion within the engagement team, or between the 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)
- (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 professional standards. (Ref: Para. A83–A85)

Resources

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)

Human Resources

- (a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)
 - (i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or
 - (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.
- (b) Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognised through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)
- (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)
- (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)
- (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.

Technological Resources

- (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)

Intellectual Resources

- (g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality 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)

Service Providers

- (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)

Information and Communication

- 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)
 - (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)
 - (b) The culture of the firm recognises and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112)
 - (c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including: (Ref: Para. A112)
 - (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; and
 - (ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
 - (d) Relevant and reliable information is communicated to external parties, including:
 - (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; and (Ref: Para. A113)
 - (ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management. (Ref: Para. A114–A115)

Specified Responses

34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)

- (a) The firm establishes policies or procedures for:
 - (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)
 - (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)
- (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.
- (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 PES. (Ref: Para. A120–A121)
- (d) The firm establishes policies or procedures that address circumstances when:
 - (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)
 - (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)
- (e) [Amended by the NZAuASB]

NZ34(e)(1) The firm establishes policies or procedures that: (Ref: Para. A124–A126)

- (i) Require communication with those charged with governance when performing an audit of financial statements of FMC reporting entities considered to have a higher level of public accountability about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129)
 - (ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A130)
 - (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. A131–A132)
- (f) [Amended by the NZAuASB]

NZ34(f)(1) The firm establishes policies or procedures that address engagement quality reviews in accordance with PES 4, and require an engagement quality review for:

- (i) Audits of financial statements of FMC reporting entities considered to have a higher level of public accountability;

- (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)
- (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)

Monitoring and Remediation Process

35. The firm shall establish a monitoring and remediation process to: (Ref: Para. A138)
- (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
 - (b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Designing and Performing Monitoring Activities

36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies.
37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)
- (a) The reasons for the assessments given to the quality risks;
 - (b) The design of the responses;
 - (c) The design of the firm's risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144)
 - (d) Changes in the system of quality management; (Ref: Para. A145)
 - (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)
 - (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 PES, information from external inspections and information from service providers. (Ref: Para. A148–A150)
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)
- (a) Take into account the matters in paragraph 37;
 - (b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; and
 - (c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

39. The firm shall establish policies or procedures that:
- (a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
 - (b) Address the objectivity of the individuals performing the monitoring activities. 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)

Evaluating Findings and Identifying Deficiencies

40. The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A157–A162)

Evaluating Identified Deficiencies

41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by: (Ref: Para. A161, A163–A164)
- (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. A165–A169)
 - (b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

Responding to Identified Deficiencies

42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A170–A172)
43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:
- (a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and
 - (b) Implemented to address previously identified deficiencies are effective.
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.

Findings About a Particular Engagement

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. A173)
- (a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and
 - (b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.

Ongoing Communication Related to Monitoring and Remediation

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: (Ref: Para. A174)
- (a) A description of the monitoring activities performed;
 - (b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and
 - (c) The remedial actions to address the identified deficiencies.
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.

Network Requirements or Network Services

48. When the firm belongs to a network, the firm shall understand, when applicable: (Ref: Para. A19, A175)
- (a) The requirements established by the network regarding the firm's system 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);
 - (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
 - (c) The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A176)

The firm remains responsible for its system of quality management, including professional judgements made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network requirements or use of network services to contravene the requirements of this PES. (Ref: Para. A177)

49. Based on the understanding obtained in paragraph 48, the firm shall:
- (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. A178)
 - (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. A179–A180)

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management

50. In circumstances when the network performs monitoring activities relating to the firm's system of quality management, the firm shall:
- (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;

- (b) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and
- (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. A181)

Monitoring Activities Undertaken by the Network Across the Network Firms

51. The firm shall:

- (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;
- (b) At least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and: (Ref: Para. A182–A184)
 - (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
 - (ii) Consider the effect of the information on the firm's system of quality management.

Deficiencies in Network Requirements or Network Services Identified by the Firm

52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A185)

- (a) Communicate to the network relevant information about the identified deficiency; and
- (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. A186)

Evaluating the System of Quality Management

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. A187–A189)

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. A190, A195)

- (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. A191)
- (b) 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; or (Ref: Para. A192)
- (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. A192–A194)

55. If 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 firm shall: (Ref: Para. A196)
- (a) Take prompt and appropriate action; and
 - (b) Communicate to:
 - (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. A197)
 - (ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e). (Ref: Para. A198)
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. In doing so, the firm shall take into account the evaluation of the system of quality management. (Ref: Para. A199–A201)

Documentation

57. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A202–A204)
- (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 the performance of engagements;
 - (b) Support the consistent implementation and operation of the responses; and
 - (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.
58. In preparing documentation, the firm shall include:
- (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;
 - (b) The firm's quality objectives and quality risks; (Ref: Para. A205)
 - (c) A description of the responses and how the firm's responses address the quality risks;
 - (d) Regarding the monitoring and remediation process:
 - (i) Evidence of the monitoring activities performed;
 - (ii) The evaluation of findings, and identified deficiencies and their related root cause(s);
 - (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and
 - (iv) Communications about monitoring and remediation; and
 - (e) The basis for the conclusion reached pursuant to paragraph 54.

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. A206)
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 period if required by law or regulation.

Application and Other Explanatory Material

Scope of this Professional and Ethical Standard (Ref: Para. 3–4)

- A1. Other pronouncements of the NZAuASB, including ISRE (NZ) 2400 (Revised)⁷ and ISAE (NZ) 3000 (Revised),⁸ also establish requirements for the engagement partner for the management of quality at the engagement level.
- A2. Professional and Ethical Standard 1 contains requirements and application material for assurance practitioners that enable assurance practitioners to meet their responsibility to act in the public interest. As indicated in paragraph 15, in the context of engagement performance as described in this PES, the consistent performance of quality engagements forms part of the assurance practitioner's responsibility to act in the public interest.

The Firm's System of Quality Management (Ref: Para. 6–9)

- A3. The firm may use different terminology or frameworks to describe the components of its system of quality management.
- A4. Examples of the interconnected nature of the components include the following:
- 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 relationships between specific matters, for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
- 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 assurance is not an absolute level of assurance, because there are inherent limitations of a system

⁷ International Standard on Review Engagements (ISRE) (NZ) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁸ International Standard on Assurance Engagements (ISAE) (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

of quality management. Such limitations include that human judgement 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 behaviour or failures in information technology (IT) applications.

Authority of this Professional and Ethical Standard (Ref: Para. 12)

- A6. The objective of this PES provides the context in which the requirements of this PES are set, establishes the desired outcome of this PES and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.
- A7. The requirements of this PES are expressed using "shall."
- 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:
- Explain more precisely what a requirement means or is intended to cover; and
 - Include examples that illustrate how the requirements might be applied.

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 PES. Where appropriate, additional considerations specific to public sector audit organisations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this PES. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this PES.

- A9. This PES includes, under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of this PES. These definitions are provided to assist in the consistent application and interpretation of this PES, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Explanatory Guide (EG) Au4 *Glossary of Terms* issued by the NZAuASB includes the terms defined in this PES. EG Au4 also includes descriptions of other terms found in the PES 3 and PES 4 to assist in common and consistent interpretation and translation.

Commented [A6]: Change ISQMs to PES 3 and PES 4

Definitions

Deficiency (Ref: Para. 16(a))

- A10. The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.
- 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.
- A12. The other aspects of the system of quality management consist of the requirements in this PES addressing:
- 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.

Examples of deficiencies related to other aspects of the system of quality management

- 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:
 - 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.

Engagement Team (Ref: Para. 16(f))

A13. ISA (NZ) 220 (Revised)⁹ provides guidance in applying the definition of engagement team in the context of an audit of financial statements.

External Inspections (Ref: Para. 16(g))

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.

Findings (Ref: Para. 16(h))

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 A158 explains how other observations may be used by the firm in the system of quality management.

A16. Paragraph A148 provides examples of information from other relevant sources.

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.

Firm (Ref: Para. 16(i))

A18. The definition of "firm" in relevant ethical requirements may differ from the definition set out in this PES.

Network (Ref: Para. 16(l), 48)

⁹ ISA (NZ) 220 (Revised), paragraphs A15–A25

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:

- 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 organisations within the network may establish requirements for the firm related to its system of quality management, or provide services.

For the purposes of this PES, any network requirements or network services that are obtained from the network, another firm within the network or another structure or organisation in the network are considered "network requirements or network services."

Personnel (Ref: Para. 16(n))

A20. 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 centre 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).

A21. Personnel also includes partners and staff in other structures of the firm, such as a service delivery centre in the firm.

Relevant Ethical Requirements (Ref: Para. 16(t), 29)

A22. 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 "assurance practitioner" may be defined in relevant ethical requirements. For example, the PES 1 defines the term "assurance practitioner" and further explains the scope of provisions in the PES 1 that apply to individual assurance practitioners in public practice and their firms.

A23. PES 1 addresses circumstances when law or regulation precludes the assurance practitioner from complying with certain parts of the PES 1. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the PES 1 and that assurance practitioners in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.

A24. Various provisions of the relevant ethical requirements may apply only to individuals in the context of the performance of engagements and not the firm itself. For example:

- Part 2 of PES 1 applies to individuals who are assurance practitioners in public practice when they are 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 the performance of engagements.
- Certain requirements in Parts 3 and 4 of PES 1 also apply to individuals who are assurance practitioners in public practice when they are performing professional activities for clients.

Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm's system of quality management.

Example of relevant ethical requirements that are applicable only to individuals and not the firm, and which relate to the performance of engagements

Part 2 of PES 1 addresses pressure to breach the fundamental principles, and includes requirements that an individual shall not:

- 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.

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.

Response (Ref: Para. 16(u))

- A25. 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.
- A26. Procedures may be mandated, through formal documentation or other communications, or may result from behaviours 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.
- A27. 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. ISA (NZ) 220 (Revised)¹⁰ 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.

Service Provider (Ref: Para. 16(v))

- A28. Service providers include component auditors from other firms not within the firm's network.

Applying, and Complying with, Relevant Requirements (Ref: Para. 17)

A29. *Examples of when a requirement of this PES may not be relevant to the firm*

- The firm is a sole practitioner. For example, the requirements addressing the organisational 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 related services engagements, the

¹⁰ ISA (NZ) 220 (Revised), paragraphs A23–A25

requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

System of Quality Management

Design, Implement and Operate a System of Quality Management (Ref: Para. 19)

- 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.
- A31. The quality of professional judgements exercised by the firm is likely to be enhanced when individuals making such judgements demonstrate an attitude that includes an inquiring mind, which involves:
- 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.

Responsibilities (Ref: Para. 20–21, 28(d))

- A32. The governance and leadership component includes a quality objective that the firm has an organisational 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.
- 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 assigns the evaluation of the system of quality management and conclusion thereon to the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the firm is responsible for the evaluation and conclusion.
- 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 required by paragraph 21. However, based on the legal structure of the firm, there may be circumstances 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.
- 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.

Scalability example to demonstrate how assigning roles and responsibilities may be undertaken

- 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, 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 organisational 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.

- 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 independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.
- A37. Law, regulation or professional standards may establish additional 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.
- A38. The appropriate experience and knowledge for the individual(s) assigned operational responsibility for the system of quality management ordinarily includes an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.

The Firm's Risk Assessment Process (Ref: Para. 23)

- 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 organised.

Scalability examples to demonstrate how the firm's risk assessment process may differ

- In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management 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 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 centralised (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralised (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.

A40. The process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is iterative, and the requirements of this PES are not intended to be addressed in a linear manner. For example:

- 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.

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:

- The results of the firm's monitoring and remediation process (see paragraphs 42 and A171).
- Information from the network or service providers, including:
 - 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).

Other information, both internal or external, may also be relevant to the firm's risk assessment process, such as:

- 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 established in accordance with this PES.
- 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.

Establish Quality Objectives (Ref: Para. 24)

A42. Law, regulation or professional standards may establish requirements that give rise to additional quality objectives. For example, a firm may be required by law or regulation to appoint non-executive individuals to the firm's governance structure and the firm considers it necessary to establish additional quality objectives to address the requirements.

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.

A44. The firm may establish sub-objectives to enhance the firm's identification and assessment of quality risks, and design and implementation of responses.

Identify and Assess Quality Risks (Ref: Para. 25)

A45. There may be other conditions, events, circumstances, actions or inactions not described in paragraph 25(a) that may adversely affect the achievement of a quality objective.

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 judgement 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.

<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>	<i>Examples of quality risks that may arise</i>
<ul style="list-style-type: none"> 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 PES. 	<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 prioritises the services not within the scope of this PES and may negatively affect the quality of engagements within the scope of this PES. Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in the performance of engagements within the scope of this PES.
<ul style="list-style-type: none"> The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority. 	<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"> Leadership's responsibilities and accountability for quality are not clearly defined and assigned. The actions and behaviours of leadership that do not promote quality are not questioned.
<ul style="list-style-type: none"> The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm. 	<p>In the context of resources, this may give rise to a number of quality risks including:</p> <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.
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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 technological resource) to address a quality risk, and quality risks may arise from the use of such resource.

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, actions or inactions giving rise to the risk, taking into account, for example:

- 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.

The assessment of quality risks need not comprise formal ratings or scores, although firms are not precluded from using them.

Design and Implement Responses to Address the Quality Risks (Ref: Para. 16(u), 26)

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.

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.

Example of a response designed and implemented by the firm that operates at both the firm and engagement level

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.¹¹

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.

Changes in the Nature and Circumstances of the Firm or its Engagements (Ref: Para. 27)

¹¹ ISA 220 (Revised), paragraphs 35

A52. *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*

- 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.

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.

A54. The firm may have established quality objectives in addition to those specified by this PES. 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.

Governance and Leadership

Commitment to Quality (Ref: Para. 28(a))

A55. The firm's culture is an important factor in influencing the behaviour of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this PES. Professional values and attitudes may include:

- 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.

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 specialisation 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 behaviours that demonstrate a commitment to quality.

Leadership (Ref: Para. 28(b) and 28(c))

- 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.
- A58. Although leadership establishes the tone at the top through their actions and behaviours, 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.

Organisational Structure (Ref: Para. 28(d))

- A59. The organisational 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 centralise processes or activities in a service delivery centre, and engagement teams may include personnel from the firm's service delivery centre who perform specific tasks that are repetitive or specialised in nature.

Resources (Ref: Para. 28(e))

- A60. The individual(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management 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.
- 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.

Relevant Ethical Requirements (Ref: Para. 16(t), 29)

- A62. PES 1 sets out the fundamental principles of ethics that establish the standards of behaviour expected of an assurance practitioner and establishes the International Independence Standards (New Zealand). The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. PES 1 also specifies the approach that an assurance practitioner is required to apply to comply with the fundamental principles and, when applicable, the International Independence Standards (New Zealand). In addition, PES 1 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.
- 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.

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

- 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.

A64. Other components may affect or relate to the relevant ethical requirements component.

Examples of relationships between the relevant ethical requirements component and other components

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including:
 - The firm communicating the independence requirements to all personnel and others subject to independence requirements.
 - Personnel and engagement teams 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 the resources component, the firm may:
 - 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.

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 the performance of engagements.

Examples of relevant ethical requirements that apply to others

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, PES 1 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 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.
- 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.

Public Sector Considerations

A66. In achieving the quality objectives in this PES related to independence, public sector auditors may address independence in the context of the public sector mandate and statutory measures.

Acceptance and Continuance of Client Relationships and Specific Engagements

The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client (Ref: Para. 30(a)(i))

A67. The information obtained about the nature and circumstances of the engagement may include:

- 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, organisational 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:
 - The underlying subject matter may include social, environmental or health and safety information; and
 - The applicable criteria may be performance measures established by a recognised body of experts.

A68. The information obtained to support the firm's judgements 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.

Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client

- 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.

A69. The firm may obtain the information from a variety of internal and external sources, including:

- 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.
- 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.

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 (NZ) 220 (Revised)¹² requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.

A71. Professional standards or applicable 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 (NZ) 300¹³ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. PES 1 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.

The Firm's Ability to Perform the Engagement (Ref: Para. 30(a)(ii))

A72. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by:

- 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.

Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement

- 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:
 - Individuals to take overall responsibility for directing and supervising the engagement;
 - 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 on the financial information of 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 PES 4.

¹² ISA (NZ) 220 (Revised), paragraph 23

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

- 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.

The Firm's Financial and Operational Priorities (Ref: Para. 30(b))

- A73. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of 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 specialisation 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).
- 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. PES 1 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.

Engagement Performance

Responsibilities of the Engagement Team and Direction, Supervision and Review (Ref: Para. 31(a) and 31(b))

- A75. Professional standards or applicable legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, ISA (NZ) 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 having responsibility for appropriate direction and supervision of the engagement team and review of their work.

A76. *Examples of direction, supervision and review*

- Direction and supervision of the engagement team may include:
 - Tracking the progress of the engagement;
 - Considering the following with respect to members of the engagement team:
 - 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.
- A review of work performed may include considering whether:

- 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.

A77. In some circumstances, the firm may use personnel from a service delivery centre in the firm or individuals from a service delivery centre 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:

- What aspects of the engagement may be assigned to individuals in the service delivery centre;
- How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by individuals in the service delivery centre; and
- The protocols for communication between the engagement team and individuals in the service delivery centre.

Professional Judgement and Professional Scepticism (Ref: Para. 31(c))

A78. Professional scepticism supports the quality of judgements made on an assurance engagement and, through these judgements, the overall effectiveness of the engagement team in performing the assurance engagement. Other pronouncements of the NZAuASB may address the exercise of professional judgement or professional scepticism at the engagement level. For example, ISA (NZ) 220 (Revised)¹⁴ provides examples of impediments to the exercise of professional scepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional scepticism, and possible actions that the engagement team may take to mitigate such impediments.

Consultation (Ref: Para. 31(d))

A79. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialised 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.

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 are to be agreed and implemented.

¹⁴ ISA (NZ) 220 (Revised), paragraphs A34–A36

A81. ISA (NZ) 220 (Revised)¹⁵ includes requirements for the engagement partner related to consultation.

Differences of Opinion (Ref: Para. 31(e))

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 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.

Engagement Documentation (Ref: Para. 31(f))

A83. Law, regulation or professional standards 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 engagements conducted under the ISAs (NZ), ISAEs (NZ) or SAEs, 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.

Commented [A7]: Expanded to refer to NZ domestic standards

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 authorisation to do so, or if it is permanently lost or damaged.

A85. Law, regulation or 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 (NZ), ISAEs (NZ) or SAEs, 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.

Commented [A8]: As above

Resources (Ref: Para. 32)

A86. Resources for the purposes of the resources component include:

- Human resources.
- Technological resources, for example, IT applications.
- Intellectual resources, for example, written policies or procedures, a methodology or guides.

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.

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

¹⁵ ISA (NZ) 220 (Revised), paragraph 35

system of quality management, or in the performance of 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.

Human Resources

Hiring, Developing and Retaining Personnel and Personnel Competence and Capabilities (Ref: Para. 32(a), 32(d))

- 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.
- A89. Law, regulation or professional standards 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.

A90. *Examples of policies or procedures relating to hiring, developing and retaining personnel*

The policies or procedures designed and implemented by the firm relating to hiring, developing and retaining personnel may address:

- 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 competency areas and other performance measures.
- 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.

Personnel's Commitment to Quality and Accountability and Recognition for Commitment to Quality (Ref: Para. 32(b))

- 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.
- A92. Positive actions or behaviours demonstrated by personnel may be recognised 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.
- A93. The manner in which the firm holds personnel accountable for actions or behaviours 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 behaviour, including its severity and frequency of occurrence. Actions the firm

may take when personnel demonstrate actions or behaviours that negatively affect quality may include:

- 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.

Individuals Obtained from External Sources (Ref: Para. 32(c))

A94. Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, ISA (NZ) 220 (Revised)¹⁶ addresses the 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.

Engagement Team Members Assigned to Each Engagement (Ref: Para. 32(d))

A95. Engagement team members may be assigned to engagements by:

- The firm, including assigning personnel from a service delivery centre 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 centre 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).

A96. ISA (NZ) 220 (Revised)¹⁷ 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 (NZ) 600¹⁸ expands on how ISA (NZ) 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:

- 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 ISA (NZ) 220 (Revised), paragraph 25

¹⁷ ISA 220 (NZ) (Revised), paragraph 26

¹⁸ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 19

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 A179).

Technological Resources (Ref: Para. 32(f))

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:

- 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.

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 PES are:

- 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 the performance of engagements; 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.

Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this PES may differ

- 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 authorising 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:
 - Multiple IT applications, including custom developed applications or applications developed by the firm’s network, such as:
 - 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.

A100. The firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application:

- 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 specialised skills to utilise the IT application effectively, including the training of individuals who will use the IT application; and
- The need to develop procedures that set out how the IT application operates.

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 (NZ) 220 (Revised)¹⁹ addresses the engagement partner's responsibilities for engagement resources.

Intellectual Resources (Ref: Para. 32(g))

A102. Intellectual resources include the information the firm uses to enable the operation of the system of quality management and promote consistency in the performance of engagements.

Examples of intellectual resources

Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardised 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 the performance of engagements).

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.

Use of Technological and Intellectual Resources (Ref: Para. 32(f)–32(g))

¹⁹ ISA 220 (Revised), paragraphs 25–28

A104. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in the performance 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 analyses data, given that specialised 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 used by the firm to assist the engagement team in obtaining audit evidence.

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 conditions, events, circumstances, actions or inactions 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.

A107. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or in the performance of 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:

- 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 customisation 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.

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.

Information and Communication (Ref: Para. 33)

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.

The Firm's Information System (Ref: Para. 33(a))

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.

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.

Scalability example to demonstrate how the information system may be designed in a less complex firm

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.

Communication Within the Firm (Ref: Para. 33(b), 33(c))

A112. The firm may recognise 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.

Examples of communication among the firm, personnel and engagement teams

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.
- 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 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:
 - 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.

Communication with External Parties

Communication to or within the Firm's Network and to Service Providers (Ref: Para. 33(d)(i))

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, a network firm or a service provider that supports the firm in the design, implementation and operation of its system of quality management.

Example of information obtained by the firm from within the firm's network

The firm obtains information from the network or other network firms about clients of other network firms, where there are independence requirements that affect the firm.

Communication with Others External to the Firm (Ref: Para. 33(d)(ii))

A114. *Examples of when law, regulation or professional standards may require the firm to communicate information to external parties*

- 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.

A115. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally.

Examples of when the firm may be precluded from communicating information externally

- Privacy or secrecy law or regulation prohibits disclosure of certain information.
- Law, regulation or relevant ethical requirements include provisions addressing the duty of confidentiality.

Specified Responses (Ref: Para. 34)

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.

Relevant Ethical Requirements (Ref: Para. 34(a))

A117. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be addressed. For example, PES 1 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.

A118. Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, PES 1 sets out requirements for the firm in the event of a breach of PES 1 and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties.

A119. Matters the firm may address relating to breaches of the relevant ethical requirements include:

- The communication of breaches of the relevant ethical requirements to appropriate personnel;
- 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;

- 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.

Complaints and Allegations (Ref: Para. 34(c))

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:

- 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.

A121. Complaints and allegations may be made by personnel, or others external to the firm (e.g., clients, component auditors or individuals within the firm's network).

Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement (Ref: Para. 34(d))

A122. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:

- 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.

Examples of matters addressed in the firm's policies or procedures for circumstances when information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm's decision to accept or continue a client relationship or specific engagement

- 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:
 - 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.

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.

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

- 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.
- The firm determines that an engagement quality review should be performed.

Communication with External Parties (Ref. Para: 34(e))

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.

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.

Examples of external parties who may use information about the firm's system of quality management

- 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.

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:

- The nature and circumstances of the firm, such as the organisational structure, business model, strategy and operating environment.
- 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 and the conclusion thereon, including the basis for the judgements made in undertaking the evaluation and concluding.
- 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.

Communication with Those Charged with Governance (Ref. Para: 34(e)(i))

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.

A128. [Amended by the NZAuASB]

NZA128.1 ISA (NZ) 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 communicate²⁰ and the communication process.²¹ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than FMC reporting entities considered to have a higher level of public accountability (or when performing other engagements), for example, entities that may have public interest or public accountability characteristics, such as:

- 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.

²⁰ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

²¹ ISA 260 (Revised), paragraphs 18–22

- 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.

Public sector considerations

A129. 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 its stakeholders, the nature of the services it provides, and the role and responsibilities of those charged with governance.

Determining When it is Otherwise Appropriate to Communicate with External Parties (Ref. Para: 34(e)(ii))

A130. 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 judgement and may be influenced by matters such as:

- The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken.
- 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))

A131. 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 minimise the potential that such information becomes overly standardised 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).

A132. [Amended by the NZAuASB]

NZA132.1 The firm uses professional judgement 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 FMC reporting entities considered to have a higher level of public accountability, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of form of communication to external parties

- 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 (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))

A133. Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:

- 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).

Engagement Quality Review as a Response to Address One or More Quality Risk(s) (Ref: Para. 34(f)(iii))

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.

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

Those relating to the types of engagements performed by the firm and reports to be issued:

- Engagements that involve a high level of complexity or judgement, such as:
 - 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 specialised skills and knowledge in measuring 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).
- 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 judgement, such as pro forma financial information to be included in a prospectus.

Those relating to the types of entities for which engagements are undertaken:

- 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 FMC reporting entities considered to have a higher level of public accountability that may have public interest or public accountability characteristics, for example:
 - 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.

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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 judgements, by personnel who have specialised technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

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).

Public sector considerations

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.

Monitoring and Remediation Process (Ref: Para. 35–47)

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:

- 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.
- 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.

Designing and Performing Monitoring Activities (Ref: Para. 37–38)

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.

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).

A141. The nature, timing and extent of the monitoring activities may also be affected by other matters, including:

- The size, structure and organisation 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.

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.

The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 37(c))

A143. How the firm's risk assessment process is designed (e.g., a centralised or decentralised 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.

A144. How the firm's monitoring and remediation process is designed (i.e., the nature, timing and extent of the monitoring and remediation activities, taking into account the nature and circumstances of the firm) 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.

Scalability example to demonstrate the monitoring activities for the monitoring and remediation process

- 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 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.
- 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.

Changes in the System of Quality Management (Ref: Para. 37(d))

A145. Changes in the system of quality management may include:

- 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.

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.

Previous Monitoring Activities (Ref: Para. 37(e))

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.

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.

Other Relevant Information (Ref: Para. 37(f))

A148. In addition to the sources of information indicated in paragraph 37(f), other relevant information may include:

- 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).

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.

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.

Engagement Inspections (Ref: Para. 38)

A151. *Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection*

- In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks:
 - 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:
 - Entities that are FMC reporting entities considered to have a higher level of public accountability.
 - Entities operating in emerging industries.
 - Entities operating in industries associated with a high level of complexity or judgement.
 - Entities operating in an industry that is new to the firm.

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- 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:
 - 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.

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:

- 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.

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.

Example of how a firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner

The firm may establish policies or procedures addressing the inspection of completed engagements that:

- 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:
 - The firm may select engagement partners more frequently than the standard period set out in the firm's policy when:

- 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 judgement.
- 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.
- The firm may defer the selection of the engagement partner (e.g., deferring for a year beyond the standard period set out in the firm's policy) when:
 - Engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in the firm's policy; and
 - The results of the other monitoring activities provide sufficient information about the engagement partner (i.e., performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner).

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.

Individuals Performing the Monitoring Activities (Ref: Para. 39(b))

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:

- An inspection of an engagement was:
 - 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.

A156. In some circumstances, for example, in the case of a less complex firm, there may not be personnel 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.

Evaluating Findings and Identifying Deficiencies (Ref: Para. 16(a), 40–41)

A157. The firm accumulates findings from the performance of monitoring activities, external inspections and other relevant sources.

A158. 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:

- Actions, behaviours 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).

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.

A159. The firm exercises professional judgement 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 judgement, 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 quality management to which they relate. The firm's judgements 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.

A160. *Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency*

Quality Risks and Responses

- 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 Findings and Their Pervasiveness

- The nature of the findings. For example, findings related to leadership actions and behaviours 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 Monitoring Activity and Extent of Findings

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections.
- 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.

A161. 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.

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

- 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.

A162. 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.

Evaluating Identified Deficiencies (Ref: Para. 41)

A163. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:

- 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.

A164. 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.

Root Cause of the Identified Deficiencies (Ref: Para. 41(a))

A165. 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:

- Evaluate the severity and pervasiveness of the identified deficiency; and
- Appropriately remediate the identified deficiency.

Performing a root cause analysis involves those performing the assessment exercising professional judgement based on the evidence available.

A166. 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:

- 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 centralises 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 FMC reporting entity considered to have a higher level of public accountability was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviours 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.

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- 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 formalised procedures for identifying root cause(s).

A167. 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 deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.

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

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.

A168. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies.

Example of identifying a root cause(s) that is appropriately specific

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 scepticism, 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.

A169. 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.

Responding to Identified Deficiencies (Ref: Para. 42)

A170. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:

- The root cause(s).
- 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.

A171. 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.

A172. 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:

- Consider whether to continue using the resource provided by the service provider.
- Communicate the matter to the service provider.

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 recurring 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.

Findings About a Particular Engagement (Ref: Para. 45)

A173. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:

- 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.

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.

Ongoing Communication Related to the Monitoring and Remediation (Ref: Para. 46)

A174. 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:

- 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.

The information also provides a basis for the evaluation of the system of quality management, and conclusion thereon, as required by paragraphs 53–54.

Network Requirements or Network Services (Ref: Para. 48)

A175. 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.

Examples of network requirements

- 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 the performance of engagements 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.

Examples of network services

- Services or resources that are optional for the firm to use in its system of quality management or in the performance of engagements, such as voluntary training programs, use of component auditors or experts from within the network, or use of a service delivery centre established at the network level, or by another network firm or group of network firms.

A176. The network may establish responsibilities for the firm in implementing the network requirements or network services.

Examples of responsibilities for the firm in implementing network requirements or network services

- 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.
- The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology.

A177. 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:

- 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.

Network Requirements or Network Services in the Firm's System of Quality Management (Ref: Para. 49)

A178. The characteristics of the network requirements or network services are a condition, event, circumstance, action or inaction in identifying and assessing quality risks.

Example of a network requirement or network service that gives rise to a quality risk

The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardised 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.

A179. The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the network firms. The firm may be expected by the network to implement the network requirements, however, the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and its engagements.

Examples of how the network requirements or networks services may need to be adapted or supplemented

Network Requirement or Network Service	How the Firm Adapts or Supplements the Network Requirement or Network Service
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>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>
The network requires that the firm design and implement certain responses.	<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).
The firm uses individuals from other network firms as component auditors.	The firm establishes policies or procedures that require the engagement team to confirm with the component

<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>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>
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A180. 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.

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management (Ref: Para. 50(c))

A181. The results of the network's monitoring activities of the firm's system of quality management may include information such as:

- 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.

Monitoring Activities Undertaken by the Network Across the Network Firms (Ref: Para. 51(b))

A182. 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 A181, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:

- Be used by the firm:
 - 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).

A183. 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 prevent the network from sharing information with other network firms or may restrict the specificity of such information.

A184. 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:

- Discussing the matter with the network; and
- Determining the effect on the firm's engagements, and communicating the effect to engagement teams.

Deficiencies in Network Requirements or Network Services Identified by the Firm (Ref: Para. 52)

A185. 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 PES regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.

Example of when a network requirement or network service is monitored by both the network and the firm

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.

A186. 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:

- 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:
 - The network has not taken appropriate remedial actions; or
 - The network's remedial actions will take time to effectively address the identified deficiency.

Evaluating the System of Quality Management (Ref: Para. 53)

A187. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may be assisted by other individuals in performing the evaluation. Nevertheless, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible and accountable for the evaluation.

A188. 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.

A189. 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.

Scalability examples to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained

- 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, summarise and communicate the information needed to evaluate the system of quality management.

Concluding on the System of Quality Management (Ref: Para. 54)

A190. In the context of this PES, 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 concluding on the system of quality management, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may, in using the results of the monitoring and remediation process, consider the following:

- 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.

A191. 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 of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

A192. An identified deficiency may have a pervasive effect on the design, implementation and operation of the system of quality management when, for example:

- 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.

Example of an identified deficiency that may be considered severe but not pervasive

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 behaviour 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:

- 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.

A193. 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.

Example of an identified deficiency that may be considered severe and pervasive

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 behaviour 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:

- 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.

A194. 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.

A195. This PES does not require the firm to obtain an independent assurance report on its system of quality management, or preclude the firm from doing so.

Taking Prompt and Appropriate Action and Further Communication (Ref: Para. 55)

A196. 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:

- 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.

A197. 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.

A198. 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

- 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.

Performance Evaluations (Ref: Para. 56)

A199. Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take into account:

- 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.
- 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.

Scalability examples to demonstrate how the firm may undertake the performance evaluations

- 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.

A200. 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.

Public Sector Considerations

A201. 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.

Documentation (Ref: Para. 57–59)

A202. Documentation provides evidence that the firm complies with this PES, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organisational 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 judgement made, about its system of quality management. Furthermore, compliance with this PES 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.

A203. 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 judgements about the form, content and extent of documentation, including how often documentation is updated, may include:

- The complexity of the firm and the number of offices;
- The nature and complexity of the firm's practice and organisation;
- 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 judgements relating to the matter; and
- The frequency and extent of changes in the system of quality management.

In a less complex firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, a less complex firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

A204. 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, PES 1 requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.

A205. 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 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.

A206. The documentation may be provided by the network, other network firms, or other structures or organisations within the network.

**PROPOSED PROFESSIONAL AND ETHICAL STANDARD 4
ENGAGEMENT QUALITY REVIEWS
CONTENTS**

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Professional and Ethical Standard (PES) 4, *Engagement Quality Reviews*, should be read in conjunction with Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

Introduction

Scope of this Professional and Ethical Standard

1. This Professional and Ethical Standard (PES) deals with:
 - (a) The appointment and eligibility of the engagement quality reviewer; and
 - (b) The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.
2. This PES applies to all engagements for which an engagement quality review is required to be performed in accordance with Professional and Ethical Standard 3¹ This PES is premised on the basis that the firm is subject to PES 3 or to national requirements that are at least as demanding. This PES is to be read in conjunction with relevant ethical requirements.
3. An engagement quality review performed in accordance with this PES is a specified response that is designed and implemented by the firm in accordance with PES 3² The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

Scalability

4. The nature, timing and extent of the engagement quality reviewer's procedures required by this PES vary depending on the nature and circumstances of the engagement or the entity. For example, the engagement quality reviewer's procedures would likely be less extensive for engagements involving fewer significant judgements made by the engagement team.

The Firm's System of Quality Management and Role of Engagement Quality Reviews

5. PES 3 establishes the firm's responsibilities for its system of quality management and requires the firm to 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.³ The specified responses in PES 3 include establishing policies or procedures addressing engagement quality reviews in accordance with this PES.
6. The firm is responsible for designing, implementing and operating the system of quality management. Under PES 3, 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:
 - (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 standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.⁴

¹ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 34(f)

² PES 3, paragraph 34(f)

³ PES 3, paragraph 26

⁴ PES 3, paragraph 14

7. As explained in PES 3,⁵ the public interest is served by the consistent performance of quality engagements. 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 judgement and, when applicable to the type of engagement, exercising professional scepticism.
8. An engagement quality review is an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgements is performed in the context of professional standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures.
9. The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement, or for the direction and supervision of the members of the engagement team and the review of their work. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence in responding to matters raised during the engagement quality review.

Authority of this Professional and Ethical Standard

10. This PES contains the objective for the firm in following this PES, and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, this PES contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this PES, and definitions. PES 3⁶ explains the terms objective, requirements, application and other explanatory material, introductory material, and definitions.

Effective Date

11. This PES is effective for:
 - (a) Audits and reviews of financial statements for periods beginning on or after 15 December 2022 and
 - (b) Other assurance and related services engagements beginning on or after 15 December 2022.

Objective

12. The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon.

Definitions

13. For purposes of this PES, the following terms have the meanings attributed below:

⁵ PES 3, paragraph 15

⁶ PES 3, paragraphs 12 and A6–A9

- (a) Engagement quality review – An objective evaluation of the significant judgements 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.
- (b) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (c) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to an assurance practitioner when undertaking the engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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. A12–A15)

Requirements

Applying, and Complying with, Relevant Requirements

- 14. The firm and the engagement quality reviewer shall have an understanding of this PES, including the application and other explanatory material, to understand the objective of this PES and to properly apply the requirements relevant to them.
- 15. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this PES, unless the requirement is not relevant in the circumstances of the engagement.
- 16. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, shall take further actions to achieve the objective.

Appointment and Eligibility of Engagement Quality Reviewers

- 17. The firm shall establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfill the responsibility. Those policies or procedures shall require such individual(s) to appoint the engagement quality reviewer. (Ref: Para. A1–A3)
- 18. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4)
 - (a) Has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A5–A11)
 - (b) Complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and (Ref: Para. A12–A15)
 - (c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)
- 19. The firm's policies or procedures established in accordance with paragraph 18(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer

after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17–A18)

20. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:
 - (a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: Para. A19)
 - (b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: Para. A20–A21)
21. The firm shall establish policies or procedures that:
 - (a) Require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review; and
 - (b) Address the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work. (Ref: Para. A22)

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review

22. The firm shall establish policies or procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: Para. A23)
23. When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility, the engagement quality reviewer shall notify the appropriate individual(s) in the firm, and: (Ref: Para. A24)
 - (a) If the engagement quality review has not commenced, decline the appointment to perform the engagement quality review; or
 - (b) If the engagement quality review has commenced, discontinue the performance of the engagement quality review.

Performance of the Engagement Quality Review

24. The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:
 - (a) The engagement quality reviewer's responsibilities to perform procedures in accordance with paragraphs 25–26 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon;
 - (b) The responsibilities of the engagement partner in relation to the engagement quality review, including that the engagement partner is precluded from dating the engagement report until notification has been received from the engagement quality reviewer in accordance with paragraph 27 that the engagement quality review is complete; and (Ref: Para. A25–A26)

- (c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgement give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A27)
25. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A28–A33)
- (a) Read, and obtain an understanding of, information communicated by: (Ref: Para. A34)
 - (i) The engagement team regarding the nature and circumstances of the engagement and the entity; and
 - (ii) The firm related to the firm's monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgements made by the engagement team.
 - (b) Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgements made in planning, performing and reporting on the engagement. (Ref: Para. A35–A38)
 - (c) Based on the information obtained in (a) and (b), review selected engagement documentation relating to the significant judgements made by the engagement team and evaluate: (Ref: Para. A39–A43)
 - (i) The basis for making those significant judgements, including, when applicable to the type of engagement, the exercise of professional scepticism by the engagement team;
 - (ii) Whether the engagement documentation supports the conclusions reached; and
 - (iii) Whether the conclusions reached are appropriate.
 - (d) For audits of financial statements, evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence have been fulfilled. (Ref: Para. A44)
 - (e) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: Para. A45)
 - (f) For audits of financial statements, evaluate the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A46)

(g) Review:

- (i) For audits of financial statements, the financial statements and the auditor's report thereon, including, if applicable, the description of the key audit matters; (Ref: Para. A47)
- (ii) For review engagements, the financial statements or financial information and the engagement report thereon; or (Ref: Para. A47)
- (iii) For other assurance and related services engagements, the engagement report, and when applicable, the subject matter information. (Ref: Para. A48)

26. The engagement quality reviewer shall notify the engagement partner if the engagement quality reviewer has concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed. (Ref: Para. A49)

Completion of the Engagement Quality Review

27. The engagement quality reviewer shall determine whether the requirements in this PES with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete. If so, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete.

Documentation

28. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: Para. A50)

29. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 30, and that such documentation be included with the engagement documentation.

30. The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review. The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes: (Ref: Para. A51–A53)

- (a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
- (b) An identification of the engagement documentation reviewed;
- (c) The basis for the engagement quality reviewer's determination in accordance with paragraph 27;
- (d) The notifications required in accordance with paragraphs 26 and 27; and
- (e) The date of completion of the engagement quality review.

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 17)

- A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:
- The responsibilities of an engagement quality reviewer;
 - The criteria in paragraphs 18 and 19 regarding the eligibility of engagement quality reviewers; and
 - The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team.
- A2. The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g., in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.
- A3. [Amended by the NZAuASB]
- NZA3.1. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of FMC reporting entities considered to have a higher level of public accountability than for audits of non-FMC reporting entities considered to have a higher level of public accountability entities or other engagements, with different individuals responsible for each process.

Commented [SW1]: Replaced "listed entity" with "FMC HPLA"/ non listed with non FMC HPLA.

Eligibility of the Engagement Quality Reviewer (Ref: Para. 18)

- A4. In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual in the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may contract with, or obtain the services of, individuals external to the firm to perform the engagement quality review. An individual external to the firm may be a partner or an employee of a network firm, a structure or an organisation within the firm's network, or a service provider. When using such an individual, the provisions in PES 3 addressing network requirements or network services or service providers apply.

Eligibility Criteria for the Engagement Quality Reviewer

Competence and Capabilities, Including Sufficient Time (Ref: Para. 18(a))

- A5. PES 3 describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values and attitudes.⁷ Matters that the firm may consider in determining that an individual has the necessary competence to perform an engagement quality review include, for example:
- An understanding of professional standards and applicable legal and regulatory requirements and of the firm's policies or procedures relevant to the engagement;
 - Knowledge of the entity's industry;

⁷ PES 3, paragraph A88

- An understanding of, and experience relevant to, engagements of a similar nature and complexity; and
- An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm.

A6. The conditions, events, circumstances, actions or inactions considered by the firm in determining that an engagement quality review is an appropriate response to address one or more quality risk(s)⁸ may be an important consideration in the firm's determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other considerations that the firm may take into account in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgements made by the engagement team and the conclusions reached thereon include, for example:

- The nature of the entity.
- The specialisation and complexity of the industry or regulatory environment in which the entity operates.
- The extent to which the engagement relates to matters requiring specialised expertise (e.g., with respect to information technology (IT) or specialised areas of accounting or auditing), or scientific and engineering expertise, such as may be needed for certain assurance engagements. Also see paragraph A19.

A7. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm's monitoring activities (e.g., findings from the inspection of engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.

A8. A lack of appropriate competence or capabilities affects the ability of the engagement quality reviewer to exercise appropriate professional judgement in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, where appropriate, challenge significant judgements made, and the exercise of professional scepticism, by the engagement team on a complex, industry-specific accounting or auditing matter.

Appropriate Authority (Ref: Para. 18(a))

A9. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, by creating a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the firm's policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

A10. The authority of the engagement quality reviewer may be diminished when:

- The culture within the firm promotes respect for authority only of personnel at a higher level of hierarchy within the firm.

⁸ PES 3, paragraph A134

- The engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

Public Sector Considerations

A11. In the public sector, an auditor (e.g., an Auditor General, or other suitably qualified individual appointed on behalf of the Auditor General) may act in a role equivalent to that of the engagement partner with overall responsibility for public sector audits. In such circumstances, the selection of the engagement quality reviewer may include consideration of the need for independence and the ability of the engagement quality reviewer to provide an objective evaluation.

Relevant Ethical Requirements (Ref: Para. 13(c), 18(b))

A12. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply only to individual assurance practitioners, such as an engagement quality reviewer, and not the firm itself.

A13. Relevant ethical requirements may include specific independence requirements that would apply to individual assurance practitioners, such as an engagement quality reviewer. Relevant ethical requirements may also include provisions that address threats to independence created by long association with an audit or assurance client. The application of any such provisions dealing with long association is distinct from, but may need to be taken into consideration in applying, the required cooling-off period in accordance with paragraph 19.

Threats to the objectivity of the engagement quality reviewer

A14. Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. For example:

- A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgements made by the engagement team, in particular as the engagement partner or other engagement team member.
- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.
- An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).

A15. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, PES 1 provides specific guidance, including examples of:

- Circumstances where threats to objectivity may be created when an assurance practitioner is appointed as an engagement quality reviewer;
- Factors that are relevant in evaluating the level of such threats; and
- Actions, including safeguards, that might address such threats.

Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer (Ref: Para. 18(c))

A16. Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, in some jurisdictions, the engagement quality reviewer may need to possess certain qualifications or be licensed to be able to perform the engagement quality review.

Cooling-Off Period for an Individual After Previously Serving as the Engagement Partner (Ref: Para. 19)

A17. In recurring engagements, the matters on which significant judgements are made often do not vary. Therefore, significant judgements made in prior periods may continue to affect judgements of the engagement team in subsequent periods. The ability of an engagement quality reviewer to perform an objective evaluation of significant judgements is therefore affected when the individual was previously involved with those judgements as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular the self-review threat, to an acceptable level. Accordingly, this PES requires the firm to establish policies or procedures that specify a cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.

A18. The firm's policies or procedures also may address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgements made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgements affecting the group audit engagement.

Circumstances When the Engagement Quality Reviewer Uses Assistants (Ref: Para. 20–21)

A19. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals with the relevant expertise. For example, highly specialised knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgements made by the engagement team related to those transactions.

A20. The guidance in paragraph A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.

A21. When the engagement quality reviewer is assisted by an individual external to the firm, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.

A22. The firm's policies or procedures may include responsibilities of the engagement quality reviewer to:

- Consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review; and
- Address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: Para. 22–23)

A23. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include:

- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review;
- Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review; or
- Notification from the engagement quality reviewer in accordance with paragraph 23.

A24. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this PES with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances.

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

A25. ISA (NZ) 220 (Revised)⁹ establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including:

- Determining that an engagement quality reviewer has been appointed;
- Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so;
- Discussing significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
- Not dating the auditor's report until the completion of the engagement quality review.

A26. ISAE (NZ) 3000 (Revised)¹⁰ also establishes requirements for the engagement partner in relation to the engagement quality review.

Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: Para. 24(c))

A27. Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgement. The firm's policies or procedures may set out the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making

⁹ International Standard on Auditing (New Zealand) (ISA (NZ)) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 36

¹⁰ International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 36

decisions on behalf of the engagement team. For example, in these circumstances the firm may require consultation about such significant judgements with other relevant personnel in accordance with the firm's consultation policies or procedures.

Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 25–27)

- A28. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgement in performing the review.
- A29. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, performing and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review also may reinforce the exercise of professional judgement and, when applicable to the type of engagement, professional scepticism, by the engagement team in planning and performing the engagement.

A30. [Amended by the NZAuASB]

NZA30.1 The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:

- The reasons for the assessments given to quality risks,¹¹ for example, engagements performed for entities in emerging industries or with complex transactions.
- Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process, and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
- The complexity of the engagement.
- The nature and size of the entity, including whether the entity is a FMC reporting entity considered to have a higher level of public accountability.
- Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
- Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
- For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the

¹¹ PES 3, paragraph A49

engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.

- A31. The nature, timing and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

Group Audit Considerations

- A32. The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. Paragraph 21(a) requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgements with key members of the engagement team other than the group engagement team (e.g., those responsible for performing audit procedures on the financial information of a component). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 20. The guidance in paragraph A22 may be helpful when the engagement quality reviewer for the group audit is using assistants.
- A33. In some cases, an engagement quality reviewer may be appointed for an audit of an entity or business unit that is part of a group, for example, when such an audit is required by law, regulation or other reasons. In these circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the audit of that entity or business unit may help the group engagement quality reviewer in fulfilling the responsibilities in accordance with paragraph 21(a). For example, this may be the case when the entity or business unit has been identified as a component for purposes of the group audit and significant judgements related to the group audit have been made at the component level.

Information Communicated by the Engagement Team and the Firm (Ref: Para. 25(a))

- A34. Obtaining an understanding of information communicated by the engagement team and the firm in accordance with paragraph 25(a) may assist the engagement quality reviewer in understanding the significant judgements that may be expected for the engagement. Such an understanding may also provide the engagement quality reviewer with a basis for discussions with the engagement team about the significant matters and significant judgements made in planning, performing and reporting on the engagement. For example, a deficiency identified by the firm may relate to significant judgements made by other engagement teams for certain accounting estimates for a particular industry. When this is the case, such information may be relevant to the significant judgements made on the engagement with respect to those accounting estimates, and therefore may provide the engagement quality reviewer with a basis for discussions with the engagement team in accordance with paragraph 25(b).

Significant Matters and Significant Judgements (Ref: Para. 25(b)–25(c))

- A35. For audits of financial statements, ISA 220 (NZ) (Revised)¹² requires the engagement partner to review audit documentation relating to significant matters¹³ and significant judgements, including

¹² ISA (NZ) 220 (Revised), paragraph 31

¹³ ISA (NZ) 230, *Audit Documentation*, paragraph 8(c)

those relating to difficult or contentious matters identified during the engagement, and the conclusions reached.

- A36. For audits of financial statements, ISA 220 (NZ) (Revised)¹⁴ provides examples of significant judgements that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.
- A37. For engagements other than audits of financial statements, the significant judgements made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an assurance engagement performed in accordance with ISAE (NZ) 3000 (Revised), the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgement.
- A38. In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgements would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.
- A39. The information obtained in accordance with paragraphs 25(a) and 25(b), and the review of selected engagement documentation, assists the engagement quality reviewer in evaluating the engagement team's basis for making the significant judgements. Other considerations that may be relevant to the engagement quality reviewer's evaluation include, for example:
- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgements made by the engagement team;
 - Applying an unbiased view in evaluating responses from the engagement team; and
 - Following up on inconsistencies identified in reviewing engagement documentation, or inconsistent responses by the engagement team to questions relating to the significant judgements made.
- A40. The firm's policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgement in selecting additional engagement documentation to be reviewed relating to significant judgements made by the engagement team.
- A41. Discussions about significant judgements with the engagement partner, and if applicable, other members of the engagement team, together with the engagement team's documentation, may assist the engagement quality reviewer in evaluating the exercise of professional scepticism, when applicable to the engagement, by the engagement team in relation to those significant judgements.
- A42. For audits of financial statements, ISA (NZ) 220 (Revised)¹⁵ provides examples of the impediments to the exercise of professional scepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional scepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level.

¹⁴ ISA (NZ) 220 (Revised), paragraph A92

¹⁵ ISA (NZ) 220 (Revised), paragraphs A34-A36

A43. For audits of financial statements, the requirements and relevant application material in ISA (NZ) 315 (Revised 2019),¹⁶ ISA (NZ) 540 (Revised)¹⁷ and other ISAs (NZ) also provide examples of areas in an audit where the auditor exercises professional scepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional scepticism. Such guidance may also assist the engagement quality reviewer in evaluating the exercise of professional scepticism by the engagement team.

Whether Relevant Ethical Requirements Relating to Independence Have Been Fulfilled (Ref: Para. 25(d))

A44. ISA (NZ) 220 (Revised)¹⁸ requires the engagement partner, prior to dating the auditor's report, to take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: Para. 25(e))

A45. PES 3¹⁹ addresses consultation on difficult or contentious matters and differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management.

Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: Para. 25(f))

A46. ISA (NZ) 220 (Revised)²⁰ requires the engagement partner to determine, prior to dating the auditor's report, that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. ISA (NZ) 220 (Revised)²¹ also indicates that the documentation of the involvement of the engagement partner may be accomplished in different ways. Discussions with the engagement team, and review of such engagement documentation, may assist the engagement quality reviewer's evaluation of the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate.

Review of Financial Statements and Engagement Reports (Ref: Para. 25(g))

A47. For audits of financial statements, the engagement quality reviewer's review of the financial statements and auditor's report thereon may include consideration of whether the presentation and disclosure of matters relating to the significant judgements made by the engagement team are consistent with the engagement quality reviewer's understanding of those matters based on the review of selected engagement documentation, and discussions with the engagement team. In reviewing the financial statements, the engagement quality reviewer may also become aware of other areas where significant judgements would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures or conclusions. The guidance in this paragraph also applies to review engagements, and the related

¹⁶ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph A238

¹⁷ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

¹⁸ ISA (NZ) 220 (Revised), paragraph 21

¹⁹ PES 3, paragraphs 31(d), 31(e) and A79-A82

²⁰ ISA (NZ) 220 (Revised), paragraph 40(a)

²¹ ISA (NZ) 220 (Revised), paragraph A118

engagement report.

- A48. For other assurance and related services engagements, the engagement quality reviewer's review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in paragraph A47 (e.g., whether the presentation or description of matters relating to the significant judgements made by the engagement team are consistent with the engagement quality reviewer's understanding based on the procedures performed in connection with the review).

Unresolved Concerns of the Engagement Quality Reviewer (Ref: Para. 26)

- A49. The firm's policies or procedures may specify the individual(s) in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individual(s) may include the individual assigned the responsibility for the appointment of engagement quality reviewers. With respect to such unresolved concerns, the firm's policies or procedures may also require consultation within or outside the firm (e.g., a professional or regulatory body).

Documentation (Ref: Para. 28–30)

- A50. Paragraphs 57 to 60 of PES 3 address the firm's documentation of its system of quality management. An engagement quality review performed in accordance with this PES is therefore subject to the documentation requirements in PES 3.
- A51. The form, content and extent of the documentation of the engagement quality review may depend on factors such as:
- The nature and complexity of the engagement;
 - The nature of the entity;
 - The nature and complexity of the matters subject to the engagement quality review; and
 - The extent of the engagement documentation reviewed.
- A52. The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented in other ways, for example, in the minutes of the engagement team's discussions where the engagement quality reviewer was present.
- A53. Paragraph 24(b) requires that the firm's policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be finalised after the date of the engagement report, but before the assembly of the final engagement file. However, firm policies or procedures may specify that the documentation of the engagement quality review needs to be finalised on or before the date of the engagement report.

**PROPOSED INTERNATIONAL STANDARD ON AUDITING
(NEW ZEALAND) 220
QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL
STATEMENTS**

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ISA (NZ) 220 (Revised)

International Standard on Auditing (ISA) (NZ) 220, *Quality Management for an Audit of Financial Statements*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. This ISA (NZ) is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1, A38)

The Firm's System of Quality Management and Role of Engagement Teams

2. Under [proposed] Professional and Ethical Standard 3¹, 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: (Ref: Para. A13–A14)
 - (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 standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.²
3. This ISA (NZ) is premised on the basis that the firm is subject to PES 3 and PES 4³ or to national requirements that are at least as demanding. (Ref: Para. A2–A3)
4. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ISA (NZ), for: (Ref: Para. A4–A11)
 - (a) Implementing the firm's responses to quality risks (i.e., the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm;
 - (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures; and
 - (c) Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation and operation of the firm's system of quality management.
5. Complying with the requirements in other ISAs (NZ) may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)
6. The public interest is served by the consistent performance of quality audit engagements through achieving the objective of this standard and other ISAs (NZ) for each engagement. A quality audit engagement is achieved through planning and performing the engagement and reporting on it in accordance with professional standards and applicable legal and regulatory requirements. Achieving

Commented [SW1]: Reference to ISQMs is replaced with PES 3 and PES 4

¹ [Proposed] Professional and Ethical Standard (PES) 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² PES 3, paragraph 14

³ [Proposed] Professional and Ethical Standard (PES) 4 *Engagement Quality Reviews*

the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and exercising professional scepticism.

7. In accordance with ISA (NZ) 200,⁴ the engagement team is required to plan and perform an audit with professional scepticism and to exercise professional judgement. Professional judgement is exercised in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional scepticism, such as unconscious bias or resource constraints. (Ref: Para. A33–A36)

Scalability

8. The requirements of this ISA (NZ) are intended to be applied in the context of the nature and circumstances of each audit. For example:
 - (a) When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this ISA (NZ) are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: Para. A13–A14)
 - (b) When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks or actions to other members of the engagement team.

The Engagement Partner's Responsibilities

9. The engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA (NZ). The term “the engagement partner shall take responsibility for...” is used for those requirements that the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For other requirements, this ISA (NZ) expressly intends that the requirement or responsibility be fulfilled by the engagement partner and the engagement partner may obtain information from the firm or other members of the engagement team. (Ref: Para. A22–A25)

Effective Date

10. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 15 December 2022.

Objective

11. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:

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

- (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances.

Definitions

12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

- (a) Engagement partner⁵ – The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (b) Engagement quality review – An objective evaluation of the significant judgements 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.
- (c) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert⁶ and internal auditors who provide direct assistance on an engagement.⁷ (Ref: Para. A15–A25)
- (e) Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent. (Ref: Para. A26)
- (f) Network firm – A firm or entity that belongs to the firm's network. (Ref: Para. A27)
- (g) Network – A larger structure: (Ref: Para. A27)
 - (i) That is aimed at cooperation, and
 - (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.
- (h) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (i) Personnel – Partners and staff in the firm.
- (j) Professional standards [*Amended by the NZAuASB*]

NZ12.1 Professional standards – The standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board

⁵ "Engagement partner," "partner," and "firm" is to be read as referring to their public sector equivalents where relevant.

⁶ ISA (NZ) 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."

⁷ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

- (k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* related to audits of financial statements, together with national requirements that are more restrictive.
- (l) 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):
 - (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.
- (m) Staff – Professionals, other than partners, including any experts the firm employs.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

13. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm's culture and expected behaviour of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A28–A37)
14. In creating the environment described in paragraph 13, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members, including emphasising: (Ref: Para. A30–A34)
 - (a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
 - (b) The importance of professional ethics, values and attitudes to the members of the engagement team;
 - (c) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
 - (d) The importance of each engagement team member exercising professional scepticism throughout the audit engagement.
15. If the engagement partner assigns the design or performance of procedures, tasks or actions related to a requirement of this ISA (NZ) to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA (NZ), the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. 9, A37)

Relevant Ethical Requirements, Including Those Related to Independence

16. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A38–A42, A48)
17. The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A23–A25, A40–A44)
 - (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
 - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
 - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.⁸
18. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A43–A44)
19. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A45)
20. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A46)
21. Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A38 and A47)

Acceptance and Continuance of Client Relationships and Audit Engagements

22. The engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: Para. A49–A52, A58)
23. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs (NZ) and complying with the requirements of this ISA (NZ). (Ref: Para. A53–A56)
24. If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that

⁸ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A57)

Engagement Resources

25. The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A59–A70, A73–A74, A79)
26. The engagement partner shall 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 audit engagement. (Ref: Para. A62, A71–A74)
27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A75–A78)
28. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A63–A69)

Engagement Performance

Direction, Supervision and Review

29. The engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A80)
30. The engagement partner shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A81–A89, A94–A97)
 - (a) Planned⁹ and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and
 - (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.
31. The engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A90–A93)
 - (a) Significant matters;¹⁰
 - (b) Significant judgements, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
 - (c) Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities.

⁹ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 11

¹⁰ ISA (NZ) 230, *Audit Documentation*, paragraph 8(c)

32. On or before the date of the auditor's report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A90–A94)
33. Prior to dating the auditor's report, the engagement partner shall review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters¹¹ and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹²
34. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A98)

Consultation

35. The engagement partner shall: (Ref: Para. A99–A102)
 - (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and
 - (ii) Other matters that, in the engagement partner's professional judgement, require consultation;
 - (b) Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
 - (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
 - (d) Determine that conclusions agreed have been implemented.

Engagement Quality Review

36. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A103)
 - (a) Determine that an engagement quality reviewer has been appointed;
 - (b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;
 - (c) Discuss significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
 - (d) Not date the auditor's report until the completion of the engagement quality review. (Ref: Para. A104–A106)

¹¹ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹² ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* or ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Differences of Opinion

37. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving such differences of opinion. (Ref: Para. A107–A108)
38. The engagement partner shall:
- (a) Take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures;
 - (b) Determine that conclusions reached are documented and implemented; and
 - (c) Not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

39. The engagement partner shall take responsibility for: (Ref: Para. A109–A112)
- (a) Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
 - (b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
 - (c) Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

Taking Overall Responsibility for Managing and Achieving Quality

40. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A113–A116)
- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
 - (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ISA (NZ).

Documentation

41. In applying ISA (NZ) 230,¹³ the auditor shall include in the audit documentation: (Ref: Para. A117–A120)
- (a) Matters identified, relevant discussions with personnel, and conclusions reached with respect to:

¹³ ISA (NZ) 230, paragraphs 8–11 and A6

- (i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.
 - (ii) The acceptance and continuance of the client relationship and audit engagement.
- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented.
- (c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

* * *

Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1)

A1. This ISA (NZ) applies to all audits of financial statements, including audits of group financial statements. ISA (NZ) 600¹⁴ deals with special considerations that apply to an audit of group financial statements and when component auditors are involved. ISA (NZ) 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ISA (NZ) 600 may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2–9)

- A2. PES 3 deals with a firm's responsibilities for designing, implementing and operating its system of quality management.
- A3. Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management. National requirements that deal with the firm's responsibilities to design, implement and operate a system of quality management are at least as demanding as PES 3 when they address the requirements of PES 3 and impose obligations on the firm to achieve the objective of PES 3.

The Engagement Team's Responsibilities Relating to the Firm's System of Quality Management (Ref: Para. 4)

- A4. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with PES 3, the firm is responsible for communicating information enables the engagement team to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake consultations with designated individuals in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).
- A5. Firm-level responses may include policies or procedures established by a network, or by other firms, structures or organisations within the same network (network requirements or network services are

¹⁴ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

described further in PES 3 within the “Network Requirements or Network Services” section).¹⁵ The requirements of this ISA (NZ) are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use an audit methodology developed for use by a network firm). Under PES 3, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm’s system of quality management.¹⁶

- A6. Some firm-level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ISA (NZ). For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this ISA (NZ) include:
- Personnel recruitment and professional training processes;
 - The information technology (IT) applications that support the firm’s monitoring of independence;
 - The development of IT applications that support the acceptance and continuance of client relationships and audit engagements; and
 - The development of audit methodologies and related implementation tools and guidance.
- A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises professional judgement in determining whether to design and implement responses, beyond those set forth in the firm’s policies or procedures, at the engagement level to meet the objective of this ISA (NZ).¹⁷
- A8. The engagement team’s determination of whether engagement level responses are necessary (and, if so, what those responses are) is influenced by the requirements of this ISA (NZ), the engagement team’s understanding of the nature and circumstances of the engagement and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available.
- A9. The relative balance of the engagement team’s efforts to comply with the requirements of this ISA (NZ) (i.e., between implementing the firm’s responses and designing and implementing engagement specific responses beyond those set forth in the firm’s policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement team’s actions in complying with the engagement performance requirements of this ISA (NZ) may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm’s audit programs).

¹⁵ PES 3, paragraph 49(b)

¹⁶ PES 3, paragraph 49(a)

¹⁷ ISA (NZ) 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this ISA (NZ), unless:

- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
- Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the firm's monitoring activities, external inspections or other relevant sources, indicates that the firm's policies or procedures are not operating effectively).

A11. If the engagement partner becomes aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 39(c) as such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program. See also paragraph A70 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 6)

A12. Complying with the requirements in other ISAs (NZ) may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ISA (NZ) 315 (Revised 2019)¹⁸ provides information that may be relevant to complying with the requirements of this ISA (NZ). Such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;
- The nature, timing and extent of review of the work performed by members of the team based on the assessed risks of material misstatement; or
- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

Scalability (Ref: Para. 2, 8)

A13. In a smaller firm, the firm's policies or procedures may designate an engagement partner, on behalf of the firm, to design many of the responses to the firm's quality risks, as doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management. Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that

¹⁸ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

there is no need to establish a firm-wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.

- A14. The requirements relating to direction, supervision and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

Definitions

Engagement Team (Ref: Para. 12(d))

- A15. The engagement team may be organised in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organised in groups by the activity they are performing. Regardless of how the engagement team is organised, any individual who performs audit procedures¹⁹ on the audit engagement is a member of the engagement team.
- A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.²⁰ Audit procedures comprise risk assessment procedures²¹ and further audit procedures.²² As explained in ISA (NZ) 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.²³ Other ISAs (NZ) may also include specific procedures to obtain audit evidence, for example, ISA (NZ) 520.²⁴
- A17. Engagement teams include personnel and may also include other individuals who perform audit procedures who are from:
- (a) A network firm; or
 - (b) A firm that is not a network firm, or another service provider.²⁵
- For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.
- A18. Engagement teams may also include individuals from service delivery centres who perform audit procedures. For example, it may be determined that specific tasks that are repetitive or specialised in nature will be performed by a group of appropriately skilled personnel and the engagement team therefore includes such individuals. Service delivery centres may be established by the firm, the network, or by other firms, structures or organisations within the same network. For example, a centralised function may be used to facilitate external confirmation procedures.

¹⁹ ISA (NZ) 500, *Audit Evidence*, paragraph A10

²⁰ ISA (NZ) 200, paragraph A30

²¹ ISA (NZ) 315 (Revised 2019) provides requirements related to risk assessment procedures.

²² ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

²³ ISA (NZ) 500, paragraphs A14–A25

²⁴ ISA (NZ) 520, *Analytical Procedures*

²⁵ PES 3, paragraph 16(v)

- A19. Engagement teams may include individuals with expertise in a specialised area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A99–A102.
- A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.
- A21. An internal auditor providing direct assistance and an auditor's external expert whose work is used in the engagement are not members of the engagement team.²⁶ ISA (NZ) 610 (Revised) 2013 and ISA (NZ) 620 provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert, respectively. Compliance with these ISAs (NZ) requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance and perform audit procedures on the work of an auditor's expert.

The Engagement Partner's Responsibilities (Ref: Para. 9, 12(d))

- A22. When this ISA (NZ) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the engagement partner may need to obtain information from the firm or other members of the engagement team to fulfil the requirement (e.g., information to make the required decision or judgement). For example, the engagement partner is required to determine that members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement. To make a judgement on whether the competence and capabilities of the engagement team is appropriate, the engagement partner may need to use information compiled by the engagement team or from the firm's system of quality management.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 9, 12(d),17)

- A23. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. As engagement team members from another firm are neither partners nor staff of the engagement partner's firm, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement partner's firm. For example, policies or procedures regarding direction, supervision and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement partner's firm. Accordingly, if the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures in respect of the work of those individuals.
- A24. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm:

²⁶ See ISA (NZ) 620, paragraphs 12–13 and ISA (NZ) 610 (Revised 2013), paragraphs 21–25.

- Has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes and therefore the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs 19 and A38 of ISA (NZ) 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm's training in respect of the firm's policies or procedures for relevant ethical requirements. The firm's policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., consultation on a particular matter), it may be necessary for the firm's related policies or procedures to be communicated to individuals who are not personnel. Such individuals are then able to alert the engagement partner if the circumstance arises, and this enables the engagement partner to comply with the firm's policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation²⁷ under the group auditor's policies or procedures, the component auditor is able to alert the group engagement team about the matter.

Firm (Ref: Para. 12(e))

A26. The definition of "firm" in relevant ethical requirements may differ from the definition set out in this ISA (NZ).

"Network" and "Network Firm" (Ref: Para. 12(f)–12(g))

A27. The definitions of "network" or "network firm" in relevant ethical requirements may differ from those set out in this ISA (NZ). Professional and Ethical Standard 1 also provides guidance in relation to the terms "network" and "network firm." Networks and the other network firms may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ISA (NZ) in relation to networks also apply to any structures or organisations that do not form part of the firm, but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A28. PES 3 requires the firm to establish quality objectives that address the firm's governance and leadership that supports the design, implementation and operation of the system of quality

²⁷ See paragraph 35.

management. The engagement partner's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this ISA (NZ), the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (e.g., leading by example). A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement.

Scalability

A29. The nature and extent of the actions of the engagement partner to demonstrate the firm's commitment to quality may depend on a variety of factors including the size, structure, geographical dispersion and complexity of the firm and the engagement team, and the nature and circumstances of the audit engagement. With a smaller engagement team with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A30. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including:

- Taking responsibility for the nature, timing and extent of the direction and supervision of the members of the engagement team, and the review of their work in complying with the requirements of this ISA (NZ); and
- Varying the nature, timing and extent of such direction, supervision and review in the context of the nature and circumstances of the engagement.

Communication

A31. Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this ISA (NZ), thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team, or with:

- (a) The firm, (e.g., individuals performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management);
- (b) Others involved in the audit (e.g., internal auditors who provide direct assistance²⁸ or an auditor's external expert²⁹); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance or regulatory authorities).

A32. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the appropriate means of effective communication with the members of the

²⁸ See ISA (NZ) 610 (Revised 2013), paragraph A41.

²⁹ See ISA (NZ) 620, paragraphs 11(c) and A30.

engagement team. For example, to support appropriate direction, supervision and review, the firm may use IT applications to facilitate the communication between the members of the engagement team when they are performing work across different geographical locations.

Professional Scepticism (Ref: Para. 7)

A33. The engagement partner is responsible for emphasising the importance of each engagement team member exercising professional scepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with ISA (NZ) 300, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

A34. Impediments to the exercise of professional scepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities where technical expertise or specialised skills are needed for effective understanding, assessment of and responses to risks and informed questioning of management.
- Tight deadlines, which may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review. For example, external time pressures may create restrictions to analysing complex information effectively.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.

A35. Unconscious or conscious auditor biases may affect the engagement team's professional judgements, including for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional scepticism, and therefore the reasonableness of the professional judgements made by the engagement team in complying with the requirements of this ISA (NZ), may include:

- 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 to think or make decisions as a group that discourages creativity or individual responsibility.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- 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.

A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement.
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgement) and emphasising the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with.
- Involving members of the engagement team with specialised skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit.
- Modifying the nature, timing and extent of direction, supervision or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers for:
 - Complex or subjective areas of the audit;
 - Areas that pose risks to achieving quality on the audit engagement;
 - Areas with a fraud risk; and
 - Identified or suspected non-compliance with laws or regulations.
- Setting expectations for:
 - Less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner; and
 - More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance.

- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom audit evidence may be sought.

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: Para. 15)

A37. Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
- Direction and supervision of the assignees.
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)

Relevant Ethical Requirements (Ref: Para. 1, 16–21)

NZ A38. ISA (NZ) 200³⁰ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of **listed entities**. ISA (NZ) 600 includes additional requirements and guidance to those in this ISA (NZ) regarding communications about relevant ethical requirements with component auditors.

Commented [SW2]: Intentionally left *listed entities* in the example.

A39. Based on the nature and circumstances of the audit engagement, certain law, regulation or aspects of relevant ethical requirements, such as those pertaining to non-compliance with laws or regulations, may be relevant to the engagement, for example laws or regulations dealing with money laundering, corruption, or bribery.

A40. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may:

- Communicate the independence requirements to engagement teams.
- Provide training for engagement teams on relevant ethical requirements.
- Establish manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements.
- Assign personnel to manage and monitor compliance with relevant ethical requirements (e.g., PES 3 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical

³⁰ ISA (NZ) 200, paragraphs 14 and A16–A19

requirements to be independent) or provide consultation on matters related to relevant ethical requirements.

- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to:
 - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
 - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
 - Promptly communicate any breaches of the relevant ethical requirements, including those related to independence.

A41. The engagement partner may take into account the information, communication, and resources described in paragraph A40 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.

A42. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
- Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements (Ref: Para. 17–18)

A43. In accordance with PES 3, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

A44. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, Professional and Ethical Standard 1 explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.³¹

Breaches of Relevant Ethical Requirements (Ref: Para. 19)

A45. In accordance with PES 3, the firm is required to establish policies or procedures for identifying, communicating, evaluating and reporting of any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.

³¹ PES 1, paragraph 330.3 A2

Taking Appropriate Action (Ref: Para. 20)

A46. Appropriate actions may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor's Report (Ref: Para. 21)

A47. ISA (NZ) 700 (Revised) requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.³² Performing the procedures required by paragraphs 16–21 of this ISA (NZ) provides the basis for these statements in the auditor's report.

Considerations Specific to Public Sector Entities

A48. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 16. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 22–24)

A49. PES 3 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

A50. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
- Whether sufficient and appropriate resources are available to perform the engagement;
- Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;

³² ISA (NZ) 700 (Revised), paragraph 28(c)

- Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement; and
 - Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.
- A51. Under PES 3, for acceptance and continuance decisions, the firm is required to make judgements about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.
- A52. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
- A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA (NZ) and making informed decisions about appropriate courses of action. Such information may include:
- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
 - The entity's timetable for reporting, such as at interim and final stages;
 - In relation to group audits, the nature of the control relationships between the parent and its components; and
 - Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.
- A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs (NZ), as well as this ISA (NZ), for example with respect to:
- Establishing an understanding of the terms of the audit engagement, as required by ISA (NZ) 210;³³
 - Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA (NZ) 315 (Revised 2019) and ISA (NZ) 240;³⁴
 - Understanding the group, its components and their environments, in the case of an audit of group financial statements in accordance with ISA (NZ) 600, and directing, supervising and reviewing the work of component auditors;

³³ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 9

³⁴ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- Determining whether, and how, to involve an auditor's expert in accordance with ISA (NZ) 620; and
- The entity's governance structure in accordance with ISA (NZ) 260 (Revised)³⁵ and ISA (NZ) 265.³⁶

A55. Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, Professional and Ethical Standard 1 requires that the predecessor auditor, on request by a proposed successor auditor, provide all relevant facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

A56. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

A57. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (e.g., the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

Considerations Specific to Public Sector Entities (Ref: Para. 22–24)

A58. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 22–24 and A49–A57 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 25–28)

A59. Under PES 3, the resources assigned or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

³⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

³⁶ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

- A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.³⁷ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.
- A61. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

- A62. Human resources include members of the engagement team (see also paragraphs A5, A15–A21) and, where applicable, an auditor's external expert and individuals from within the entity's internal audit function who provide direct assistance on the audit.

Technological Resources

- A63. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological tools may allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional scepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.
- A64. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools to perform audit procedures and may require the involvement of individuals with specialised skills or expertise in evaluating or analysing the output.
- A65. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team's instructions.
- A66. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example by requiring:

³⁷ ISA (NZ) 600, paragraph 3

- The engagement team to have appropriate competence and capabilities to use the IT application.
- Testing the operation and security of the IT application.
- Specific documentation to be included in the audit file.

A67. The engagement partner may exercise professional judgement in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:

- Use and security of the IT application complies with the firm's policies or procedures.
- The IT application operates as intended.
- Personnel have the competence and capabilities required to use the IT application.

Intellectual Resources

A68. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists or forms.

A69. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 25)

A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform audit procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A71. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Expertise in specialised areas of accounting or auditing.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.

- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional scepticism and professional judgement.
- Understanding of the firm's policies or procedures.

A72. Internal auditors and an auditor's external expert are not members of the engagement team. ISA (NZ) 610 (Revised 2013)³⁸ and ISA (NZ) 620³⁹ include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external expert, respectively.

Project Management

A73. In situations where there are many engagement team members, for example in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialised skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A74. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to exercise professional scepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional scepticism;
- Facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,⁴⁰ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- Facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 27)

A75. PES 3 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognises and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. PES 3 also addresses the firm's responsibilities for planning for resource needs, and obtaining, allocating or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate

³⁸ ISA (NZ) 610 (Revised 2013), paragraph 15

³⁹ ISA (NZ) 620, paragraph 9

⁴⁰ See ISA (NZ) 300, paragraph 9.

to perform the audit engagement.

- A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.
- A77. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgement and is influenced by the requirements of this ISA (NZ) and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39(c). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.
- A78. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:
- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A94).
 - Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
 - Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
 - Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities (Ref: Para. 25–28)

- A79. In the public sector, specialised skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

Scalability (Ref: Para. 29)

- A80. When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the

audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

Direction, Supervision and Review (Ref: Para. 30)

- A81. Under PES 3, the firm is required to establish a quality objective that addresses the nature, timing and extent of the direction and supervision of engagement teams and review of their work. PES 3 also requires that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.
- A82. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement specific responses.
- A83. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this ISA (NZ), and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.
- A84. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision and review in accordance with paragraph 30.

Direction

- A85. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:
- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
 - Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional scepticism when gathering and evaluating audit evidence (see paragraph A35).
 - Fulfilling relevant ethical requirements.
 - The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.
 - The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

Supervision

A86. Supervision may include matters such as:

- Tracking the progress of the audit engagement, which includes monitoring:
 - The progress against the audit plan;
 - Whether the objective of work performed has been achieved; and
 - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A87. Review of the engagement team's work provides support for the conclusion that the requirements of this ISA (NZ) have been addressed.

A88. Review of the engagement team's work consists of consideration of whether, for example:

- 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 taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
- The objectives of the audit procedures have been achieved.

A89. The firm's policies or procedures may contain specific requirements regarding:

- The nature, timing and extent of review of audit documentation;
- Different types of review that may be appropriate in different situations (e.g., review of each individual working paper or selected working papers); and
- Which members of the engagement team are required to perform the different types of review.

The Engagement Partner's Review (Ref: Para. 30–34)

A90. As required by ISA (NZ) 230, the engagement partner documents the date and extent of the review.⁴¹

A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation.

A92. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgements. Significant judgements in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
 - Personnel using expertise in a specialised area of accounting or auditing;
 - The use of personnel from service delivery centres.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team.
- The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
 - The proposed overall group audit strategy and group audit plan;

⁴¹ ISA (NZ) 230, paragraph 9(c)

- Decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
- The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

A93. The engagement partner exercises professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.
- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

Nature, Timing and Extent

A94. The nature, timing and extent of the direction, supervision and review are required to be planned and performed in accordance with the firm's policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm's policies or procedures may include that:

- Work planned to be performed at an interim date is to be directed, supervised and reviewed at the same time as the performance of the procedures rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

Scalability

A95. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the area to be audited. For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
- The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater and the review of the related working papers may be more detailed.

- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.
- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centres and the review of their work may:
 - Be more formalised and structured than when members of the engagement team are all situated in the same location; or
 - Use IT to facilitate the communication between the members of the engagement team.

A96. Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review. For example, if the assessed risk of material misstatement at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

A97. In accordance with paragraph 30(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged with Governance, or Regulatory Authorities
(Ref: Para. 34)

A98. The engagement partner uses professional judgement in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: Para. 35)

A99. PES 3 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example for:

- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;

- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- Limitations imposed by management; and
- Non-compliance with laws or regulations.

A100. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm may be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

A101. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies or commercial organisations that provide relevant quality control services.

A102. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.⁴²

Engagement Quality Review (Ref: Para. 36)

A103. PES 3 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with PES 4, and requiring an engagement quality review for certain types of engagements.⁴³ PES 4 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: Para. 36(d))

A104. ISA (NZ) 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.⁴⁴ If applicable to the audit engagement, PES 4 and this ISA (NZ) require that the engagement partner be precluded from dating the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgements made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.⁴⁵

A105. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

A106. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality

⁴² ISA (NZ) 701, paragraphs 9 and A14

⁴³ PES 3, paragraph 34(f)

⁴⁴ ISA (NZ) 700 (Revised), paragraph 49

⁴⁵ PES 4, paragraph 26

review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

Differences of Opinion (Ref: Para. 37–38)

A107. PES 3 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management. PES 3 also requires that differences of opinion are brought to the attention of the firm and resolved.

A108. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:

- Seeking legal advice; or
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Monitoring and Remediation (Ref: Para. 39)

A109. PES 3 sets out requirements for the firm's monitoring and remediation process. PES 3 requires the firm to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities.⁴⁶ Further, information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgement and professional scepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

A110. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office or inspection results of previous audits of the entity.

A111. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

⁴⁶ PES 3, paragraph 47

A112. An identified deficiency in the firm's system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate in the circumstances.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 40)

A113. PES 3 requires the firm to establish a quality objective addressing the engagement team's understanding and fulfillment of their responsibilities in connection with the engagement. PES 3 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

A114. Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this ISA (NZ), given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner's involvement throughout the audit engagement, as described in paragraph A118.

A115. Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example:

- Lack of timely review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and the design of those responses to those risks.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work.

A116. If the engagement partner's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Updating and changing the audit plan;
- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 41)

A117. In accordance with ISA (NZ) 230,⁴⁷ audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the

⁴⁷ ISA (NZ) 230, paragraph A7

auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A118. Documentation of the performance of the requirements of this ISA (NZ), including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement partner's communications and other actions in respect of culture and expected behaviours that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement partner and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A119. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional scepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

A120. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

CONFORMING AMENDMENTS TO NEW ZEALAND INTERNATIONAL STANDARDS ON AUDITING (ISA) (NZ) AND RELATED MATERIAL ARISING FROM THE QUALITY MANAGEMENT PROJECTS

ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Introduction

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Requirements

Ethical Requirements Relating to an Audit of Financial Statements

14. The auditor shall comply with relevant ethical requirements, including those ~~pertainin~~related to independence, relating to financial statement audit engagements. (Ref: Para. A16–A19)

...

Application and Other Explanatory Material

Ethical Requirements Relating to an Audit of Financial Statements (Ref: Para. 14)

- A19. Professional and Ethical Standard 3,¹ or national requirements that are at least as demanding,² deal with the firm's responsibilities to ~~establish design, implement and maintain its~~operate a system of quality control for audit engagements. PES 3 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel ~~comply~~ fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those ~~pertainin~~related to independence.³ ISA (NZ) 220 (Revised) sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence.⁴ These include remaining alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have breached relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.⁵ ISA (NZ) 220 recognises that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control

¹ Professional and Ethical Standard 3, *Quality Control/Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements*

² ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraph 23

³ Professional and Ethical Standard 3, paragraphs 20–25~~29~~

⁴ ISA (NZ) 220 (Revised), paragraphs 16–21

⁵ ISA (NZ) 220, paragraphs 9–12

~~procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise. ISA (NZ) 220 (Revised) also describes when the engagement team may depend on the firm's policies or procedures in managing and achieving quality at the engagement level.~~⁶

...

Professional Judgement (Ref: Para. 16)

A27. The exercise of professional judgement in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by ISA (NZ) 220 (Revised),⁷ assist the auditor in making informed and reasonable judgements.

...

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

Sufficiency and Appropriateness of Audit Evidence

A30. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit⁸) ~~or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement firm's quality control procedures for client acceptance or continuance.~~ In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

ISA (NZ) 210, Agreeing the Terms of Audit Engagements

Introduction

Scope of this ISA (NZ)

1. This New Zealand International Standard on Auditing (ISA) (NZ) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with

⁶ ISA (NZ) 220 (Revised), paragraph A10

⁷ ISA (NZ) 220 (Revised), paragraph 4835

⁸ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 916

governance, are present. ISA (NZ) 220 (Revised)⁹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1)

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Requirements

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Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1)

A1. ~~Professional and Ethical Standard 3¹⁰ deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. Assurance engagements, which include audit engagements, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.¹⁴ The auditor's responsibilities in respect of relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and in so far insofar as they are within the control of the auditor are dealt with in ISA (NZ) 220 (Revised).¹² This ISA (NZ) deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.~~

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ISA 230 (NZ), Audit Documentation

Introduction

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Nature and Purposes of Audit Documentation

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3. Audit documentation serves a number of additional purposes, including the following:
 - Assisting the engagement team to plan and perform the audit.
 - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA (NZ) 220 (Revised).¹³
 - Enabling the engagement team to be accountable for its work.
 - Retaining a record of matters of continuing significance to future audits.
 - Enabling the conduct of engagement quality control reviews,¹⁴ other types of engagement

⁹ ISA (NZ) 220 (Revised), *Quality Control Management for an Audit of Financial Statements*

¹⁰ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 30

¹⁴ *International Framework for Assurance Engagements*, paragraph 17

¹² ISA (NZ) 220 (Revised), paragraphs 9–11, 16–21

¹³ ISA (NZ) 220 (Revised), *Quality Control Management for an Audit of Financial Statements*, paragraphs 15–17, 29–34

¹⁴ [Proposed] Professional and Ethical Standard 4, *Engagement Quality Reviews*

~~reviews¹⁵ and monitoring activities under the firm's system of quality management inspections in accordance with PES 3¹⁶ or national requirements that are at least as demanding.¹⁷~~

- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

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Requirements

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Application and Other Explanatory Material

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

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Form, Content and Extent of Audit Documentation (Ref: Para. 8)

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Documentation of Compliance with ISAs (NZ) (Ref: Para. 8(a))

...

A7. Audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management or, where appropriate, those charged with governance.
- An auditor's report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the ISAs (NZ).
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - For example, there may be no single way in which the auditor's professional scepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism in accordance with the ISAs (NZ). For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that

¹⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph A135

¹⁶ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 32–33, 35–38, and 48

¹⁷ ISA (NZ) 220, paragraph 2

both corroborates and contradicts management's assertions, documenting how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained.

- Similarly, that the engagement partner has taken responsibility for the direction, and supervision and performance of the audit in compliance with engagement team and the ISA review of their work¹⁸ may be evidenced in a number of ways within the audit documentation. This may include documentation ~~of that evidences~~ the engagement partner's timely sufficient and appropriate involvement in aspects of the audit, such as participation in the engagement team discussions required by ISA (NZ) 315 (Revised 2019).¹⁹

...

A13. ISA (NZ) 220 (Revised) ~~contains requirements and guidance on the~~ requires the auditor to review the audit work performed through review of the audit documentation.²⁰ The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

...

Matters Arising after the Date of the Auditor's Report (Ref: Para. 13)

A20. Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report.²¹ The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ISA (NZ) 220 (Revised),²² ~~with the engagement partner taking final responsibility for the changes.~~

Assembly of the Final Audit File (Ref: Para. 14–16)

A21. Professional and Ethical Standard 3 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement reports policies and procedures for the timely completion of the assembly of audit files.²³ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.²⁴

...

A23. Professional and Ethical Standard 3 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective to address the appropriate

¹⁸ ISA (NZ) 220 (Revised), paragraph 29

¹⁹ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 17

²⁰ ISA (NZ) 220 (Revised), paragraphs 47–29–34

²¹ ISA (NZ) 560, *Subsequent Events*, paragraph 14

²² ISA (NZ) 220 (Revised), paragraphs 46–29–34

²³ Professional and Ethical Standard 3, paragraph 45–31(f)

²⁴ Professional and Ethical Standard 3, paragraph A54–A83

maintenance and policies and procedures for the retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards.²⁵ The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the ~~group~~ auditor's report on the group financial statements, when applicable.²⁶

A24. An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal activities or external parties~~ inspections.

Appendix (Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs (NZ)

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

- ISA (NZ) 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- ISA (NZ) 220 (Revised), *Quality ~~Control~~ Management for an Audit of Financial Statements* – paragraphs 24–41

ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Introduction

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Requirements

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Application and Other Explanatory Material

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Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 22)

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A25. In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial statements. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other

²⁵ Professional and Ethical Standard 3, paragraph 4731(f)

²⁶ Professional and Ethical Standard 3, paragraph A64A85

responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph A9A55 of ISA (NZ) 220 (Revised)²⁷ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

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

Introduction

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Requirements

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Application and Other Explanatory Material

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Matters to Be Communicated

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Significant Findings from the Audit (Ref: Para. 16)

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Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality ~~control~~ reviewer, if one has been appointed, ~~in accordance with ISA (NZ) 220.~~²⁸

Auditor Independence (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those ~~pertainin~~g ~~related~~ to independence, relating to financial statement audit engagements.²⁹

Appendix 1

(Ref: Para. 3)

Specific Requirements in PES 3 and Other ISAs (NZ) that Refer to Communications with Those Charged With Governance

²⁷ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

²⁸ See paragraphs 19–22 and A23–A33 of ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*.

²⁹ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

This appendix identifies paragraphs in Professional and Ethical Standard 3³⁰ and other ISAs (New Zealand) that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- PES 3, *Quality ~~Control~~Management for Firms that Perform Audits ~~and/or~~ Reviews of Financial Statements, ~~and/or~~ Other Assurance ~~and/or~~ Related Services Engagements* – paragraph ~~30(a)~~34(e)

...

ISA (NZ) 300, *Planning an Audit of Financial Statements*

Introduction

Scope of this ISA (NZ)

1. This New Zealand International Standard on Auditing (ISA) (NZ) deals with the auditor's responsibility to plan an audit of financial statements. This ISA (NZ) is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

~~The Role and Timing of Planning~~

2. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate Quality management at the engagement level in accordance with ISA (NZ) 220 (Revised), in conjunction with adequate planning in accordance with this ISA (NZ), benefits the audit of financial statements in several ways, including the following: (Ref: Para. ~~A1A0~~A3)
 - Helping the auditor to devote appropriate attention to important areas of the audit.
 - Helping the auditor identify and resolve potential problems on a timely basis.
 - Helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
 - Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
 - Facilitating the direction and supervision of engagement team members and the review of their work.
 - Assisting, where applicable, in coordination of work done by auditors of components and experts.

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Requirements

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Preliminary Engagement Activities

6. The auditor shall undertake the following activities at the beginning of the current audit engagement:
 - (a) Performing procedures required by ISA (NZ) 220 (Revised) regarding the acceptance and

³⁰ Professional and Ethical Standard 3, *Quality ~~Control~~Management for Firms that Perform Audits ~~and/or~~ Reviews of Financial Statements, ~~and/or~~ Other Assurance ~~and/or~~ Related Services Engagements*

continuance of the client relationship and ~~the specific~~ audit engagement;³¹

- (b) Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with ISA (NZ) 220 (Revised)³² and
- (c) Establishing an understanding of the terms of the engagement, as required by ISA (NZ) 210.³³ (Ref: Para. A5–A7)

Planning Activities

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8. In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ISA (NZ) 220 (Revised) and:

- (a) Identify the characteristics of the engagement that define its scope;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.³⁴ (Ref: Para. A8–A11)

9. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)
- ~~(ab)~~ The nature, timing and extent of planned risk assessment procedures, as determined under ISA (NZ) 315 (Revised 2019).³⁵
- ~~(bc)~~ The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA (NZ) 330.³⁶
- ~~(cd)~~ Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs (NZ). (Ref: Para. A12-A14)

...

~~11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)~~

Documentation

³¹ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 42–43/22–24

³² ISA (NZ) 220 (Revised), paragraphs 9–11/16–21

³³ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraphs 9–13

³⁴ ISA (NZ) 220 (Revised), paragraph 25

³⁵ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³⁶ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

12. The auditor shall include in the audit documentation:³⁷
- (a) The overall audit strategy;
 - (b) The audit plan; and
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work,³⁸ and the reasons for such changes. (Ref: Para. A18–A21)

Additional Considerations in Initial Audit Engagements

13. The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by ISA (NZ) 220 (Revised) regarding the acceptance of the client relationships and the specific audit engagements,³⁹ and
 - (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)

...

Application and Other Explanatory Material

A0. ISA (NZ) 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 responsibilities of the engagement partner. Information obtained from complying with the requirements of ISA (NZ) 220 (Revised) is relevant to this ISA (NZ). For example, in accordance with ISA (NZ) 220 (Revised), the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, given taking into account the nature and circumstances of the audit engagement. Such a determination is directly relevant when ascertaining the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ISA (NZ).

The Role and Timing of Planning (Ref: Para. 2)

A1. The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ISA (NZ) 220 (Revised)⁴⁰ describes how such techniques and tools may support the engagement team in managing the quality of the engagement.

...

A3. The auditor may decide to discuss elements of planning with the entity's management to ~~facilitate the conduct and management of the audit engagement~~ help the auditor manage and achieve quality at the engagement level (for example, to coordinate some of the planned audit procedures with the work

³⁷ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, and A6

³⁸ ISA (NZ) 220 (Revised), paragraphs 30 and A91–A92

³⁹ ISA (NZ) 220 (Revised), paragraphs ~~12–13~~22–24

⁴⁰ ISA (NZ) 220 (Revised), paragraphs A73–A74

of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

...

Preliminary Engagement Activities (Ref: Para. 6)

- A5. Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~ manage and achieve quality at the engagement level in accordance with ISA (NZ) 220 (Revised).
- A6. Performing these preliminary engagement activities enables the auditor to plan an audit engagement ~~for which~~ in order to, for example:
- ~~The auditor maintains~~ Maintain the necessary independence and ability to perform the engagement.
 - ~~There~~ Determine that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
 - ~~There~~ Determine that there is no misunderstanding with the client as to the terms of the engagement.
- A7. ~~The auditor's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the audit engagement as conditions and changes in circumstances occur.~~ Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

Planning Activities

The Overall Audit Strategy (Ref: Para. 7–8)

- A8. The process of establishing the overall audit strategy ~~assists the auditor to determine~~, subject to the completion of the auditor's risk assessment procedures, may include such matters as:
- The nature of resources (human, technological or intellectual) to deploy ~~be deployed~~ for specific audit areas, ~~such as~~. For example, the use ~~deployment of~~ appropriately ~~experienced~~ team members for high risk areas, or the ~~involvement~~ assignment of experts ~~onto~~ to address complex matters;
 - The amount of resources to allocate ~~be allocated~~ to specific audit areas, ~~such as~~. For example, the number of team members assigned to ~~observe~~ attend the physical inventory count at ~~material~~ multiple locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
 - When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and

- How such resources are ~~managed, directed and, supervised, such as~~ used. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), ~~and whether to complete engagement quality reviews.~~

A8A. ISA (NZ) 220 (Revised) contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).

...

Direction, Supervision and Review (Ref: Para. 11)

A16. ~~ISA (NZ) 220 (Revised) deals with establishes requirements and provides guidance on the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work.⁴¹ The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:~~

- ~~The size and complexity of the entity.~~
- ~~The area of the audit.~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).~~
- ~~The capabilities and competence of the individual team members performing the audit work.~~

~~ISA (NZ) 220 contains further guidance on the direction, supervision and review of audit work.⁴²~~

Considerations Specific to Smaller Entities

A17. ~~If an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Forming an objective view on the appropriateness of the judgements made in the course of the audit can present practical problems when the same individual also performs the entire audit. If particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably experienced auditors or the auditor's professional body.~~

Documentation (Ref: Para. 12)

A18. The documentation of the overall audit strategy is a record of the key decisions ~~considered necessary to properly plan the audit and in~~ managing quality at the engagement level and a means to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

...

⁴¹ ISA (NZ) 220 (Revised), paragraphs 29–31

⁴² ISA (NZ) 220, paragraphs 15–17

A20A. Documentation of the direction and supervision of engagement team members and the review of their work in accordance with ISA (NZ) 220 (Revised) may also provide a record of significant changes to the planned nature, timing and extent of the direction, supervision and review.

...

Additional Considerations in Initial Audit Engagements (Ref: Para. 13)

A22. The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.⁴³
- ~~Other procedures required~~responses designed and implemented by the firm's system of quality control~~firm~~ for initial audit engagements (for example, e.g., the firm's system of quality control management may include responses that require the involvement of another partner or senior individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

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

Nature, Timing and Extent of Resources

- The ~~selection~~human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).

⁴³ ISA (NZ) 510, *Initial Audit Engagements—Opening Balances*

- Engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.

...

ISA (NZ) 315 (Revised 2019)

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

...

Other Relevant Sources

Information from Other Sources

A38. Other relevant sources of information include:

- The auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement in accordance with ISA (NZ) 220 (Revised), including the conclusions reached thereon.⁴⁴

...

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–37)

...

Industry, Regulatory and Other External Factors (Ref: Para. 19(a)(ii))

Industry Factors

...

A69. The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.

Example:

In the construction industry, long-term contracts may involve significant estimates of revenues and expenses that give rise to risks of material misstatement. In such cases, it is important that the engagement team include members with ~~sufficient relevant knowledge and experience~~ the appropriate competence and capabilities.⁴⁵

⁴⁴ ISA (NZ) 220, *Quality Control Management for an Audit of Financial Statements*, paragraphs 1222–24

⁴⁵ ISA (NZ) 220 (Revised), paragraphs 1425–28

Assessing Risks of Material Misstatement at the Assertion Level

Significant Risks (Ref: Para. 32)

Why significant risks are determined and the implications for the audit

A218. The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:

- ...
- Timely review of audit documentation by the engagement partner at the appropriate stages during the audit allows significant matters, including significant risks, to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report.⁴⁶

...

ISA (NZ) 500, *Audit Evidence*

...

Application and Other Explanatory Material

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

...

A5. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has evaluated whether such information remains relevant and reliable as audit evidence for the current audit⁴⁷) or ~~a firm's quality control procedures for client acceptance and continuance~~through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are important sources of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

...

Information to Be Used as Audit Evidence

Relevance and Reliability (Ref: Para. 7)

A30. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources ~~such as, for example, previous audits, in certain circumstances, a firm's quality control procedures for client~~

⁴⁶ ISA (NZ) 220 (Revised), paragraphs 47~~32~~ and A49~~A87–A89~~

⁴⁷ ISA (NZ) 315 (Revised 2019), paragraph 16

~~acceptance and continuance and~~through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

...

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

Introduction

...

Requirements

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

Specialised Skills or Knowledge (Ref: Para. 15)

A61. Matters that may affect the auditor's determination of whether the engagement team requires specialised skills or knowledge, include, for example:⁴⁸

- The nature of the accounting estimates for a particular business or industry (for example, mineral deposits, agricultural assets, complex financial instruments, insurance contract liabilities).

...

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

Introduction

Scope of this ISA (NZ)

...

4. In accordance with ISA (NZ) 220 (Revised),⁴⁹ the group engagement partner is required to ~~determine~~~~be satisfied~~ that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, including sufficient time. The group engagement partner is also responsible for the direction ~~and~~, supervision ~~of members of the group engagement team~~ and ~~performance of the group audit engagement~~review of their work.⁵⁰

⁴⁸ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 14–25–26 and ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

⁴⁹ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 14–15–25–26

⁵⁰ ISA (NZ) 220 (Revised), paragraphs 29–31

5. The group engagement partner applies the requirements of ISA (NZ) 220 (Revised) regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. This ISA assists the group engagement partner to meet the requirements of ISA (NZ) 220 (Revised) where component auditors perform work on the financial information of components.

...

Requirements

12. In applying ISA (NZ) 220 (Revised), the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10–A12)

...

ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*

...

Requirements

...

Using Internal Auditors to Provide Direct Assistance

...

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA (NZ) 220 (Revised).⁵¹ In so doing:
- (a) The nature, timing and extent of direction, supervision, and review shall recognise that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
 - (b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor ~~to determine to be satisfied~~ that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

Application and Other Explanatory Material

⁵¹ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

...

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

Evaluating the Internal Audit Function

...

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

...

A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, ~~such as these policies and procedures~~ PES 3⁵² that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

ISA (NZ) 620, Using the Work of an Auditor's Expert

Introduction

Scope of this ISA (NZ)

...

2. This ISA (NZ) does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA (NZ) 220 (Revised),⁵³ or
- (b) The auditor's use of the work of an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in ISA (NZ) 500.⁵⁴

...

Requirements

...

⁵² PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁵³ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs A11, A21–A23, A19

⁵⁴ ISA (NZ) 500, *Audit Evidence*, paragraphs A45–A59

Nature, Timing and Extent of Audit Procedures

8. The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
- (a) The nature of the matter to which that expert's work relates;
 - (b) The risks of material misstatement in the matter to which that expert's work relates;
 - (c) The significance of that expert's work in the context of the audit;
 - (d) The auditor's knowledge of and experience with previous work performed by that expert; and
 - (e) Whether that expert is subject to the auditor's firm's system of quality control policies and procedures management. (Ref: Para. A11–A13)

...

Application and Other Explanatory Material

Determining the Need for an Auditor's Expert (Ref: Para. 7)

...

- A6. If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required to determine ~~be satisfied~~ that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.⁵⁵ Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.⁵⁶ The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.
- A7. An auditor who is not an expert in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor's expert. This understanding may be obtained through, for example:

...

- Education or professional development in the particular field. This may include formal courses, or discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own capacity to deal with matters in that field. Such discussion differs from consultation with an auditor's expert regarding a specific set of circumstances encountered on the engagement where that expert is given all the relevant facts that will enable the expert to provide informed advice about the particular matter.⁵⁷

...

⁵⁵ ISA (NZ) 220 (Revised), paragraph 4425–28

⁵⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

⁵⁷ ISA (NZ) 220, paragraph A22A99–A102

Nature, Timing and Extent of Audit Procedures (Ref: Para. 8)

A10. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgements.
- The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.
- The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality control policies and procedures management.

The Auditor's Firm's System of Quality Control Policies and Procedures Management (Ref: Para. 8(e))

A11. An auditor's internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the auditor's firm, and therefore subject to the system of quality control policies and procedures management of that firm in accordance with Professional and Ethical Standard 3⁵⁸ or national requirements that are at least as demanding.⁵⁹ ~~Alternatively, an~~ An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, and is subject to the firm's policies or procedures for network requirements and network services in accordance with PES 3. In some instances, the auditor's internal expert of a network firm may be subject to which may share common quality control management policies and/or procedures as the auditor's firm, given that they are part of the same network.

A12. PES 3 requires the firm to address the use of resources from a service provider, which includes the use of an external expert.⁶⁰ An auditor's external expert is not a member of the engagement team and ~~is may not be subject to quality control policies and procedures in accordance with PES 3.~~⁶⁴ In some jurisdictions, however, the firm's policies or procedures under its system of quality management.⁶² Furthermore, the firm's policies or procedures for relevant ethical requirements may include policies or procedures that apply to the auditor's external expert.⁶³ In some cases, relevant ethical requirements or law or regulation may require that an auditor's external expert be:

- Treated as a member of the engagement team (i.e., the external expert may therefore be subject to relevant ethical requirements, including those pertaining related to independence); or
- Subject to other professional requirements, as determined by that law or regulation.

⁵⁸ Professional and Ethical Standard 3, *Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements*, paragraph 12.16(w)

⁵⁹ ISA (NZ) 220 (Revised), paragraph 23

⁶⁰ PES 3, paragraph 32

⁶¹ PES 3, paragraph 12(f)

⁶² PES 3, paragraph 16(f)

⁶³ PES 3, paragraph 29(b)

A13. ~~Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.~~⁶⁴ ~~The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as~~As described in ISA (NZ) 220 (Revised), quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement.⁶⁵ ~~For example, the auditor may be able to depend on the firm's related policies or procedures in respect of:~~

- Competence and capabilities, through recruitment and training programs.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those ~~pertainin~~relating to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. ~~Reliance on such training and other firm processes, such as protocols for scoping the work of auditor's internal experts, may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.~~
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the auditor's expert.

~~Such reliance~~Matters that the auditor may take into account when determining whether to depend on the firm's policies or procedures are described in ISA (NZ) 220 (Revised).⁶⁶ ~~Depending on the firm's policies or procedures~~ does not reduce the auditor's responsibility to meet the requirements of this ISA (NZ).

The Competence, Capabilities and Objectivity of the Auditor's Expert (Ref: Para. 9)

...

A15. Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other auditors or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The auditor's firm's ~~system of quality control policies and procedures~~management (see paragraphs A11–A13).

...

⁶⁴ ISA (NZ) 220, paragraph 4

⁶⁵ ISA (NZ) 220 (Revised), paragraph A4

⁶⁶ ISA (NZ) 220 (Revised), paragraphs 4(b) and A10

Agreement with the Auditor's Expert (Ref: Para. 11)

...

A26. When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit program.
- The policies ~~and/or~~ procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the ~~established policies and procedures to which that expert is subject~~ firm's system of quality management may include ~~particular~~ policies ~~and/or~~ procedures ~~in relation~~ relating to ~~that~~ the expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies ~~and/or~~ procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

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

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para. 20)

...

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

...

Relevant Ethical Requirements

A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those ~~pertain~~ related to independence, that applied to the audit of the financial statements.

Name of the Engagement Partner (Ref: Para. 46)

A61. ~~PES 3⁶⁷ requires that~~ The objective of the firm ~~establish policies~~ in PES 3⁶⁸ is to design, implement and ~~procedures to provide~~ operate a system of quality management that provides the firm with reasonable assurance that ~~engagements are performed:~~

- 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

⁶⁷ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 32

⁶⁸ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 14

- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding ~~these~~ the objective of PES 3 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

...

Application and Other Explanatory Material

...

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

...

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

...

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

- ISA (NZ) 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.⁶⁹ The ISAs (NZ) acknowledge potential difficulties in relation to, for example:
 - Related party transactions,⁷⁰ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
 - Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.⁷¹
- ISA (NZ) 220 (Revised) establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,⁷² and other matters that in the engagement partner's professional judgement, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgements arising during the audit engagement with the engagement quality ~~control~~⁷³ reviewer.

⁶⁹ ISA (NZ) 260 (Revised), paragraphs 16(b) and A21

⁷⁰ ISA (NZ) 550, *Related Parties*, paragraph A42

⁷¹ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

⁷² ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraph 4835

⁷³ ISA (NZ) 220 (Revised), paragraph 4936

...

Communication with Those Charged with Governance

...

A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality control reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

ISA (NZ) 720 (Revised), The Auditor's Responsibilities Relating to Other Information

...

Application and Other Explanatory Material

...

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

...

A24. In accordance with ISA (NZ) 220 (Revised),⁷⁴ the engagement partner is required to take responsibility for the ~~direction, supervision and performance of the audit engagement~~ direction and supervision of the members of the engagement team and the review of their work,⁷⁵ and determine that the nature, timing and extent of direction, supervision and review is planned and performed in compliance accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements.⁷⁶ In the context of this ISA (NZ), factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

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

⁷⁴ ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

⁷⁵ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 29–30

⁷⁶ ISA (NZ) 220 (Revised), *Quality Control for an Audit of Financial Statements*, paragraph 4530(a)

ISA (NZ) 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

...

Application and Other Explanatory Material

...

Considerations When Accepting the Engagement

Application of ISAs (Ref: Para. 7)

- A5. ISA (NZ) 200 requires the auditor to comply with (a) relevant ethical requirements, including those ~~pertaining~~^{related} to independence, relating to financial statement audit engagements, and (b) all ISAs (NZ) relevant to the audit. It also requires the auditor to comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit, the entire ISA (NZ) is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA (NZ) by performing alternative audit procedures to achieve the aim of that requirement.

IAPN (NZ) 1000, *Special Considerations in Auditing Financial Instruments*

Contents

International Auditing Practice Note (IAPN) (New Zealand) 1000, *Special Considerations in Auditing Financial Instruments*, should be read in conjunction with the *Preface to the International Quality Control Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*. IAPNs (NZ) do not impose additional requirements on auditors beyond those included in the New Zealand International Standards on Auditing (ISAs) (NZ), nor do they change the auditor's responsibility to comply with all ISAs (NZ) relevant to the audit. IAPNs (NZ) provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.

...

Section II—Audit Considerations Relating to Financial Instruments

Planning Considerations⁷⁷

*Using Those with Specialized Skills and Knowledge in the Audit*⁷⁸

⁷⁷ ISA (NZ) 300, *Planning an Audit of Financial Statements*, deals with the auditor's responsibility to plan an audit of financial statements

⁷⁸ When such a person's expertise is in auditing and accounting, regardless of whether the person is from within or external to the firm, this person is considered to be part of the engagement team and is subject to the requirements of ISA (NZ) 220 (Revised), *Quality Control Management for an Audit of Financial Statements*. When such a person's expertise is in a field other than accounting or auditing, such person is considered to be an auditor's expert, and the provisions of ISA (NZ) 620, *Using the Work of an Auditor's Expert*, apply. ISA (NZ) 620 explains that distinguishing between specialised areas of accounting or auditing, and expertise in another field, will be a matter of professional judgement, but notes the distinction may be made between expertise in methods of accounting for financial instruments (accounting and auditing expertise) and expertise in complex valuation techniques for financial instruments (expertise in a field other than accounting or auditing).

78. A key consideration in audits involving financial instruments, particularly complex financial instruments, is the competence of the auditor. ISA (NZ) 220 (Revised)⁷⁹ requires the engagement partner to ~~determine~~^{be satisfied} that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the ~~appropriate~~ competence and capabilities, including sufficient time, to perform the audit engagement ~~in accordance with professional standards and applicable legal and regulatory requirements and to enable an auditor's report that is appropriate in the circumstances to be issued~~.⁸⁰ Further, relevant ethical requirements⁸⁰ require the auditor to determine whether acceptance of the engagement would create any threats to compliance with the fundamental principles, including the professional competence and due care. Paragraph 79 below provides examples of the types of matters that may be relevant to the auditor's considerations in the context of financial instruments.

...

80. The nature and use of particular types of financial instruments, the complexities associated with accounting requirements, and market conditions may lead to a need for the engagement team to consult⁸¹ with other accounting and audit professionals, from within or outside the firm, with relevant technical accounting or auditing expertise and experience, taking into account factors such as:

- The capabilities and competence of the engagement team, including the experience of the members of the engagement team.
- The attributes of the financial instruments used by the entity.
- The identification of unusual circumstances or risks in the engagement, as well as the need for professional judgement, particularly with respect to materiality and significant risks.
- Market conditions.

⁷⁹ ISA (NZ) 220 (Revised), paragraph 1426

⁸⁰ ~~Professional and Ethical Standard 1 (PES 1) paragraphs 320.1-320.10-A1~~

⁸¹ ISA (NZ) 220 (Revised), paragraph 18(b)35, requires the engagement partner to ~~be satisfied~~^{determine} that members of the engagement team have undertaken appropriate consultation during the ~~course of the~~^{audit} engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.1
Meeting date: 10 February 2020
Subject: IESBA – Objectivity
Date: 22 January 2021
Prepared By: Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To update the Board on revisions to the IESBA Code to address objectivity of the engagement quality reviewer.

Background

2. At its September 2020 meeting, the IESBA approved a new section to the Code of Ethics providing guidance to firms on addressing the objectivity of an engagement quality reviewer based on the conceptual framework. The new section is intended to apply more broadly than engagement quality reviews, as was initially proposed, noting that the guidance might apply in circumstances where a professional accountant appoints an appropriate reviewer, as described in the Code, to review work performed as a safeguard to address identified threats.
3. This project was closely coordinated with the International Auditing and Assurance Standards Board in the context of its project to develop International Standard on Quality Management 2, *Engagement Quality Reviews*, which the IAASB also finalised at its September meeting.
4. The [final pronouncement](#) was issued in early January and will be effective for audits of financial statements for periods beginning on or after 15 December 2022.
5. The issues paper at agenda item 7.2 provides an overview of the main comments, including those of the NZAuASB, received by the IESBA in response to the consultation and how the IESBA addressed those comments.
6. No compelling reasons to amend the international standard have been identified by staff, therefore we propose to adopt the standard as issued by the IESBA subject to the required New Zealand contextual changes.
7. We expect to present a final standard to the Board for approval following the consultation on the quality management standards.

Action requested

8. The Board is asked to note the update.

Material Presented

Agenda item 7.1
Agenda item 7.2

Board Meeting Summary Paper
Issues Paper

IESBA objectivity issues paper

1. This issues paper:
 - Provides an overview of the key changes and issues addressed by the IESBA in finalising the proposed new section to the Code providing guidance to firms on addressing the objectivity of an engagement quality reviewer.
 - Highlights if, and how, matters arising from the NZAuASB's submission have been addressed.

Section 1: Key matters raised in response to IESBA's ED and how the IESBA has responded.

2. The objective of the project is to develop provisions for the Code addressing threats that might be created when an individual who was previously involved in an audit or other assurance engagement (whether as the engagement partner or another member of the engagement team) is appointed as the engagement quality reviewer on the same engagement.
3. There was strong support for both the proposed guidance and the location in the IESBA Code addressing engagement quality reviewer objectivity.
4. A significant majority of respondents supported a cooling-off requirement as an action to address threats to the objectivity of the engagement quality reviewer, specifically for an individual being considered for appointment to the role after previously serving as the engagement partner. Some respondents, however, were opposed to a cooling-off requirement as they viewed it as too strict a rule that did not sufficiently allow for other considerations, with the potential for unintended consequences.

A. Location of the Proposed Guidance in the Code Addressing Engagement Quality Reviewer Objectivity

5. A substantial proportion of respondents supported the location of the proposed guidance in the Code addressing the topic of engagement quality reviewer objectivity, noting that this guidance would not be appropriate in the independence standards.
6. Some respondents (including the NZAuASB) disagreed with the placement of the proposed guidance in section 120¹, as section 120 sets out the conceptual framework which is applicable to all professional accountants. The NZAuASB view is that the material should be placed within section 540², noting that professional accountants may logically turn to section 540 for any cooling-off requirements. Others believed the examples of threats and safeguards should be integrated into section 300³.
7. A respondent noted that the proposed location in section 120 emphasises the fundamental principle of objectivity while lessening the importance of the other fundamental principles. The application material focuses on the narrow circumstance where professional accountants undertake the role of

¹ Section 120, *The Conceptual Framework*

² Section 540, *Long Association of Personnel (including Partner Rotation) with an Audit Client*

³ Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

engagement quality reviewer and lessens the importance of objectivity for other roles the professional accountant may undertake in an assurance engagement.

8. The task force dismissed the view that the guidance should be included in Section 540. Rather, the task force proposed moving the guidance to a new section 325.

B. Cooling-off Requirement and Location for Such Requirement

9. The IESBA considered whether the Code should prescribe a cooling-off period specifically to address the situation where an individual is appointed to an engagement quality review role after having served on the engagement. The IESBA view is that a strict prohibition on an individual serving in the engagement quality review role in that situation, unless the individual has served a cooling off period, may not be proportional in certain circumstances. Rather, any prohibition or limitation should result from the application of the conceptual framework to the specific facts and circumstances, and that the Code should remain principles-based.
10. The IESBA view is that it is more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in ISQM 2 for the following reasons:
 - Under ISQM 1, an engagement quality review may be performed for a variety of engagements. The IESBA considers it would be more appropriate for the scope of any cooling-off requirement to be specified in the standard that establishes the requirement for appointment and eligibility of an engagement quality reviewer.
 - If the Code were to establish a cooling-off requirement, a breach of such a requirement would trigger a breach of the Code, which may call into question the firm's compliance with relevant ethical requirements.

Cooling-off requirement

11. A significant proportion of respondents supported the establishment of a cooling-off requirement as they viewed a cooling-off period as fundamental in addressing the self-review threat when an individual is appointed to an engagement quality role after serving as the engagement partner on the engagement. Some were of the view that such a cooling-off period should be located in the Code, consistent with the partner rotation requirements in Section 540. The NZAuASB supported the cooling-off requirement, in principle, but considered it needed to be considered in association with the long association provisions.
12. Many respondents did not support an absolute cooling-off requirement. They argued that it would increase the complexity of the Code and potentially confuse stakeholders with the long association requirements. Compounding such a cooling-off requirement with the long association requirements in the Code will make it unmanageable for firms, especially small and medium sized practices.

Location of cooling-off requirement

13. Of the respondents who supported a cooling-off period, a little more than half agreed that the requirement would be more appropriate in ISQM 2.

14. Respondents who supported locating the requirement in ISQM 2 agreed with the board's view that the Code should not be prescriptive, that it should remain principles-based, and that it would be appropriate for the IAASB to determine a cooling off requirement. Some of these respondents suggested that the board ensure that the long association provisions in Section 540 dealing with service in a combination of roles do not present any inconsistency with the provisions of ISQM 2 once finalised.
15. The NZAuASB did not agree with placement of the cooling-off requirement in ISQM 2. Rather, the NZAuASB encouraged the IESBA to fully deliberate the issue and, if necessary, include a requirement in the Code along with the other partner rotation requirements. Deliberation should include consideration of whether it would be appropriate to apply a cooling-off requirement to all entities for which an engagement quality review is required under ISQM 1.
16. One respondent noted that for audit clients that are Public Interest Entities, the time-on period in paragraph R540.5 allows an individual to act in a combination of engagement partner and engagement quality reviewer roles for a period of not more than seven cumulative years. Section 540 does not prescribe a requirement to serve a cooling-off period in switching between the engagement partner and the engagement quality reviewer roles.
17. The IAASB has extensively deliberated the issue and believes that a mandatory cooling-off period is in the public interest and the most appropriate approach to drive consistency in practice.
18. The IESBA maintained its position that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in ISQM 2, following the guidance set out in the Code, and the circumstances in which the requirement should apply, to whom it should apply, and what the minimum cooling-off period should be.

C. Appropriate Reviewer

19. Following discussions with the ISQM 2 task force, the IESBA considered that the proposed guidance in the Code should address the issue of objectivity for any individual assigned a reviewer role, whether for quality or other purposes, and not just in relation to the appointment of an individual to an engagement quality review role in an audit or assurance engagement. Broadening the scope of the guidance would better complement the various review roles that may be determined appropriate under ISQM 1.
20. The guidance for appropriate reviewers has been placed in a new standalone section of the Code, Section 325. An appropriate reviewer might be appointed for different purposes, including to apply a safeguard, to meet a quality management objective under ISQM 1 or for more experienced staff members to review the work performed by less experienced team members. As long as the individual meets the description of an appropriate reviewer, the guidance in section 325 will apply in relation to the objectivity of that individual.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	10 February 2021
Subject:	Actual vs Planned update – Strategic Implementation Plan 2020/21
Date:	29 January 2021
Prepared By:	Sylvia van Dyk

Action Required

For Information Purposes Only

Agenda Item Objectives

For the Board to:

- NOTE the update on specific actions undertaken on the NZAuASB's Strategic Action Plan, as noted in the 2020/21 Implementation Plan for the period 1 July 2020 to 31 December 2020.

Background

1. At the July 2020 meeting the Board approved the "annual cut" of the NZAuASB Strategic Action Implementation Plan (SAIP) for 2020/2021 identifying the specific actions that will be undertaken in this year; and the updated NZAuASB Strategic Action Plan document for the five-year period 1 July 2020 to 30 June 2025 (SAP).
2. The Board will recall that there were only minor tweaks to the previous approved NZAuASB SAP 2019-24 in developing the NZAuASB SAP for the five-year period 1 July 2020 to 30 June 2025, in line with the "holding position" strategy of the XRB Board at that time.
3. The XRB Board is in the process of developing the strategic direction of the organisation for the next 5 years. The NZAuASB's work plan will be reviewed in detail once the XRB Board has approved the new strategy. The CE will provide an update on the strategy discussions at the joint meeting to be held with the NZASB on 11 February.
4. We have now updated the specific actions undertaken against the planned actions for the 2020/21 Implementation Plan to show the progress against the 2020/21 SAIP for the 6 months to December 2020. This is available at agenda item 8.2.

Recommendations

1. We recommend that the Board

- NOTE the progress against the NZAuASB Strategic Action Plan, as noted in the 2020/21 Implementation Plan, for the period 1 July 2020 to 31 Dec 2020.

Material Presented

Agenda item 8.1
Agenda item 8.2

Board Meeting Summary Paper
NZAuASB Strategic Action Plan 2020/21 Update

NZAuASB Proposed 20_21 Implementation Work Plan

Specific Strategy 1: Standards are Fit-for-Purpose

PART A: Business as Usual

<p>Key: Green – ongoing activity and on track Orange – action is work in progress and on track Red – no action taken</p>			
<p>NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process</p>	<p>Timing</p>	<p>2020/21 Planned Actions</p>	<p>2020/21 Actual Actions</p>
<p><i>The NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>			
<p>a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Issue newsletters when international documents issued • Organise consultation events as appropriate, with a focus on "why" the change • Promote awareness on social media 	<p>Newsletters have been issued for all international documents issued. 7 newsletters issued to date.</p> <p>Consultation events organised:</p> <ul style="list-style-type: none"> • Roundtable ISA 600 – July 2020 • Webinar on AUP standard – Sept 2020 • Roundtable Fraud and GC – Nov 2020 • XRB research forum – Dec 2020

			Regular linked-in posts as appropriate ongoing.
b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate;		<ul style="list-style-type: none"> • Prepare comment letters • Liaise with AUASB in accordance with established protocol before letters finalised • Liaise with APESB to the extent considered appropriate in each case 	<p>Comment letters produced for all international consultations:</p> <ul style="list-style-type: none"> • IAASB EER CP – July 2020 • ISA 600 Group Audits ED – Nov 2020 • PIR Auditor reports – Dec 2020 • DP Fraud and Going Concern – Feb 2021
c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.		<ul style="list-style-type: none"> • Participate in events in NZ or Australia (or elsewhere on an exceptional basis) 	Board members participated in the AUASB's online roundtable related to Going Concern

NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suite of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, as appropriate, and including working with the AUASB to ensure any changes are appropriately harmonised; and	Ongoing	<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IAASB • Liaise with AUASB in accordance with harmonisation process protocol 	<p>The following standards/guidance have been approved and issued to NZ constituents following due process:</p> <ul style="list-style-type: none"> • AUP standard – in progress. Approved in Dec - harmonisation process protocol complied with. • Quality management standards – in progress. NZ ED (Feb 2021 agenda)

<p>b. Incorporating any ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IESBA • Interact with APESB staff and Chair as appropriate • Observe some APESB meetings to build relationships with staff and the Board • Agree a communications protocol with the APESB • Develop harmonisation process protocol with APESB • Apply APESB harmonisation protocol 	<p>The following standards/guidance have been approved and issued to NZ constituents following due process:</p> <ul style="list-style-type: none"> • PES-1, Part 2. • NAS and Fees NZ ED in progress (compelling reason discussion Feb 2021) <p>Regular meetings with APESB CEO and staff on submissions and issues relating to Code of Ethics.</p> <p>No action to date</p> <p>No action to date</p> <p>No action to date</p> <p>No action to date.</p>
<p>c. Responding as appropriate to any gaps /issues identified with the current suite of standards</p>		<ul style="list-style-type: none"> • Develop an appropriate response where such matters are identified. • Utilisation of research and stakeholder engagement where appropriate. 	<p>Request for guidance on example of compliance framework audit report for small NFPs. To consider.</p>
<p>d. Incorporating any amendments to international auditing and assurance standards to domestic</p>		<ul style="list-style-type: none"> • Amend standards following due process and agreed policy. 	

standards where applicable, including liaising with the AUASB.		<ul style="list-style-type: none"> Consider impact of ISA 315 (Revised), ISA 540 (Revised) on NZ AS 1, and other domestic standards. 	In progress, in conjunction with compilation work
e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised		<ul style="list-style-type: none"> Develop or amend domestic standards following due process and agreed policy. 	Work on Prospective information standard in progress
f. Liaising with the New Zealand Accounting Standards Board (NZASB) during the development stage of new or amending accounting standards and any post-implementation reviews to identify any audit or assurance considerations.		<ul style="list-style-type: none"> Liaise with the NZASB as appropriate NZAuASB staff to attend at least 3 NZASB staff briefing or education sessions during the year to receive and provide update on work plans Invite NZASB Chair and Director to meetings to provide update on NZASB workplan. 	<p>Ongoing. Joint meeting to be held in Febr.</p> <p>Regular staff meetings commencing fortnightly from Feb to provide updates on current work.</p> <p>In progress. Liaison schedule. Next attendance planned for April.</p>
NZAuASB Action 1A.3:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
Monitoring the Assurance Environment			
<p><i>The NZAuASB will monitor the wider assurance environment, liaise with key participants in the financial and non-financial reporting "supply chain", and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			

<p>a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;</p>	<p>Ongoing</p>	<p>Passive monitoring via media, public sources, and relationship contacts, specifically:</p> <ul style="list-style-type: none"> • implementation of new auditor reporting for FMC reporting entities • implementation of auditing of accounting estimates • implementation of the revised and restructured Code of Ethics • auditing of SSPs <p>Monitor modified auditor reports and report half yearly to Board, in Febr and Sept.</p> <p>Monitoring matters regarding COVID-19 including:</p> <ul style="list-style-type: none"> - ongoing meetings with FMA and with assurance leaders about standards re Covid -19. - Director liaising with group of NSS representatives and IAASB staff to discuss possible issues. - Issue guidance as appropriate 	<p>Ongoing – no issues identified to date.</p> <p>Joint report completed with FMA in Nov 2020 on audit reporting in NZ.</p> <p>Ongoing. Report on Feb agenda.</p> <p>Ongoing.</p>
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<p>b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Take action as appropriate as matters arise during the year 	<p>Issued guidance on the impact of Covid-19</p>
<p>c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB and considering the implications for the New Zealand auditing and assurance standards;</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Monitor projects, including: <ul style="list-style-type: none"> - global extended external reporting developments - academic research - use of data analytics and artificial intelligence in auditing; - <u>auditing for SMEs</u> - <u>non-assurance services</u> 	<p>Ongoing.</p>
<p>d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Director continue to participate at FMA Audit Oversight Committee meetings and report as necessary to the Board • Analyse results of QA reviews for standards issues. • Liaise with FMA on reviews conducted. • Report on FMA QA findings considered Dec 2019- matters re journal testing for fraud noted for follow up. 	<p>Ongoing. Director attended all meetings to date. (Aug and Oct)</p> <p>Planned for 1st half of the year.</p> <p>Journal testing being considered by IAASB as part of the fraud project. Noted in submission. No further action at this stage.</p>

<p>e. Assisting the XRB to contribute to government policy work relating to auditing and assurance and other related services standards</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Interact with MBIE and other agencies as requested by them, or as identified as necessary • Follow up with RBNZ regarding auditor reporting. 	<p>Ongoing. Received query and responded to MBIE re the MG reforms in July 2020.</p> <p>No action to date. To consider responding to RBNZ consultation. Refer agenda 2.4.2 Febr meeting.</p>
<p>f. Monitoring the XRB EER project, contributing to the development of guidance as appropriate, and work with others to ensure that any assurance gaps are identified, understood, researched if necessary and addressed.</p>		<ul style="list-style-type: none"> • Monitor developments and consider if any action is required • Collaborate with others in researching innovation in EER assurance engagements 	<p>No action required to date to the XRB EER project. However senior project manager and Director have been providing support to finalise the IAASB EER project.</p>
<p>g. Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group review and major reviews in other jurisdictions, and considering the implications for the New Zealand auditing and assurance standards</p>		<ul style="list-style-type: none"> • Monitor developments and consider if any action is required 	<p>In progress. Have commenced considering the recommendations and an analysis of the new MG public interest framework in more detail to see what the implications are for the NZAuASB.</p>
<p>h. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit impact, and by supporting the targeted review of the accounting standards framework.</p>		<ul style="list-style-type: none"> • Identify projects in collaboration with NZASB staff • Include on agenda when required. 	<p>Discussion on NAS and FEES disclosures in progress. To consider other topics at joint meeting .</p>
<p>i. Monitor issues in respect of the Covid=-19 crises and the implications for assurance in New Zealand, including the implementation of the auditing and assurance standards</p>		<ul style="list-style-type: none"> • Director to continue to liaise with other NSS and the IAASB about emerging issues. • Ongoing meetings with the FMA and assurance 	<p>Discussed at NSS meetings in Nov.</p> <p>Ongoing discussions with FMA and professional bodies - regular scheduled meetings.</p>

		practitioners about emerging issues. <ul style="list-style-type: none"> • Take action as appropriate as matters arise during the year. 	Continue to distribute international guidance developed.
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Specific Strategy 1: Standards are Fit-for-Purpose

Part B: Address Critical Issues

NZAuASB Action 1B.1: Developing an Assurance Standard on the Examination of Prospective financial information	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<i>The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective financial information.</i> This action will comprise:			
Developing the standard in accordance with the due process for domestic standards, ensuring harmonisation with the AUASB standard as appropriate.	Whole year.	<ul style="list-style-type: none"> • Approve updated project plan and continue development of standard in accordance with the agreed project plan • New timeline to establish to complete in 2020/2021. 	In progress. Plan to approve ED in June 2021.

NZAuASB Action 1B.2: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relative assurance products, and develop guidance where identified	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will consider what further guidance is needed in the New Zealand environment. The action will comprise:</i></p>			
<p>Considering what further guidance is needed</p> <p>Developing appropriate guidance.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> • Consider if there is a need for further guidance on the use of the assurance standards. • Liaise with the AUASB staff when they update/develop guidance and consider if equivalent guidance needed in NZ • Develop further guidance in accordance with the approved project plan and in collaboration with the AUASB where applicable • Include guidance on website • Promote the guidance • Guidance on use of Management’s Expert approved for development in NZ, based on Australian 	<ul style="list-style-type: none"> • Ongoing <p>Issued Guidance on use of Management’s Expert in Dec 2020.</p>

		guidance. Note final to be issued in July 2020.	
NZAuASB Action 1B.3: Developing a review standard on service performance information	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will develop a review standard on service performance information for Public Benefit Entities (PBEs)</i></p> <p>The action will comprise:</p>			
<p>Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.</p>	<p>Commence 2nd half 2020-21 and complete 2021-22.</p>	<ul style="list-style-type: none"> • Approve project plan and commence development of the engagement standard in accordance with the agreed project plan. • New timeline to establish to complete in 2021/2022. • New sub-committee to be formed • Update from OAG on status and uptake of NZ AS 1 	<p>Not yet actioned. (Ongoing discussions with OAG to obtain additional feedback on NZ AS 1 to inform development of review standard. Monitoring results of NZASB PIR of T3 and T4 standards)</p>

NZAuASB Action 1B.4: Developing an engagement standard/guidance for smaller NFPs	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</i></p> <p>The action will comprise:</p>			
Developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year. – to complete 2020-21.	<ul style="list-style-type: none"> Commence development of the engagement standard/guidance in accordance with the agreed project plan New timeline to establish to complete in 2020/2021. 	In progress. Update and issues to be discussed in April 2021.
NZAuASB Action 1B.5 Perform a post implementation review of the Compliance Engagement Standard	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will perform a post implementation review of the Compliance Engagement standard jointly with the AUASB to determine if further guidance is needed.</i></p> <p>This action will comprise:</p>			
Performing a post implementation review of the Compliance standard jointly with the AUASB. Considering if further application guidance is needed.	Timeline to establish with	<ul style="list-style-type: none"> Liaise with the AUASB and develop a joint project plan for the post implementation review Perform the post implementation review in 	Currently liaising with AUASB technical director on timeline.

	AUASB staff	<p>accordance with the approved project plan</p> <ul style="list-style-type: none"> Consider the results together with the AUASB and decide whether further application guidance is needed. New timeline to establish to complete in 2020/2021. 	
NZAuASB Action 1B.6	Timing	2020/21 Planned Actions	2020/21 Actual Actions
Perform a review of the compelling reason test and the harmonisation policy jointly with the AUASB			
<p><i>The NZAuASB will perform a review of the compelling reason test, in collaboration with the AUASB, to determine if it remains fit for purpose in the current auditing and assurance environment globally and in the two jurisdictions</i></p> <p>This action will comprise:</p>			
Performing a review of the compelling reason test and the harmonisation policy together with the AUASB about any changes that may be needed	Commence 1st half 2020-21	<ul style="list-style-type: none"> Staff to liaise with AUASB staff and to prepare a joint issues paper for the 2 Boards to consider at concurrent meetings. Both Boards to consider outcome of the respective meetings, and staff to jointly prepare an update for Boards to approve at subsequent joint meeting. 	In progress. Substantially complete.

NZAuASB Action 1B.8	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p>Considering and addressing the implications of the XRB mandate</p> <p>The action will comprise:</p>			
<p>Addressing issues arising as a result of the change to the XRB's legal mandate in relation to related services and any changes to the mandate</p>	<p>Whole year</p>	<p>Consider issues arising as a result of the XRB's legal mandate on the professional and ethical standards and the quality management standards</p>	<p>XRB approved updated XRB Au1 in July 2020</p> <p>EG AU1 approved and issued July 2020</p> <p>Proposed ED PES-3 includes related services.</p>

Specific Strategy 2: Standards are Evidenced-Informed as to User Needs

NZAuASB Action 2.1:	Timing	2019/20 Planned Actions	2019/20 Actual Actions
<p>The NZAuASB will undertake, organised research into needs of the various users of NZAuASB standards as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international standard setting boards.</p> <p>This action will comprise:</p>			
<p>a. Identifying and performing applicable user needs research to undertake where appropriate.</p>	<p>Whole year.</p>	<p>The NZAuASB has identified the following in house research projects:</p> <ul style="list-style-type: none"> Discuss with Commerce Commission experience to date and consider if there is a need to develop guidance on 	<p>Board agreed no further action required.</p>

		<p>KAMs for other assurance reports</p> <ul style="list-style-type: none"> Discuss with assurance practitioners the need for guidance on journal testing. 	<p>This is being addressed by the IAASB fraud and going concern project. Propose no further action at this stage.</p>
<p>b. Considering output of research available (including in liaison with the AUASB) and how this can best contribute to the quality of standard setting work.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> Monitor outputs of research projects conducted on assurance matters Perform search to identify available research on current IAASB, IESBA and NZAuASB projects and consider relevance of research output to the projects 	<p>Ongoing.</p>
<p>NZAuASB Action 2.2:</p> <p>Developing relationships with academia and other “think tanks”</p>	<p>Timing</p>	<p>2020/21 Planned Actions</p>	<p>2020/21 Actual Actions</p>
<p><i>The focus of the NZAuASB specific actions will be to develop relationships with academia and other ‘think tanks’ to direct user needs research to contribute to the standard setting process.</i></p> <p>This action will comprise:</p>			
<p>a. Leveraging collaboration between academic members of the NZAuASB and the AUASB;</p>			
<p>b. Meeting with academic constituent groups on a rolling basis as part of the NZAuASB’s regular meetings;</p>		<p>Invite representatives from academia (lecturers and researchers) to a Board</p>	<p>Not yet actioned. (but may no longer be required, given the XRB’s Academic Research Forum initiative – see below)</p>

		meeting to explore ways to best engage.	
c. Taking opportunities to meet with academics through AFAANZ and in other fora, including at events hosted by them.		<ul style="list-style-type: none"> Present a seminar at least at one university about the audit environment. 	Not actioned. The XRB has formed an Academic Research Forum and held its inaugural meeting in Dec 2020. This will now be an ongoing activity.
NZAuASB Action 2.3: Promoting evidence informed standard setting	Timing	2020/21 Planned Actions	2020/21 Actual Actions
. Through Action 2.2, continuing to encourage opportunities for evidence informed standard setting, including: <ul style="list-style-type: none"> a. identifying areas for research related to auditing and assurance standards and ethical standards; b. developing means by which academics can (individually or in concert) contribute to the NZAuASB's due process for standard setting. 			The XRB has formed an Academic Research Forum and held its inaugural meeting in Dec 2020.

Specific Strategy 3: High Quality Global Standards Applicable in New Zealand

NZAuASB Action 3.1: Building Relationships with the IAASB	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i>			
The Action will comprise:			

<p>a. Attending relevant meetings and events (including National Standard Setters meetings);</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Chair and Director to attend NSS meetings • Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost • Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	<p>Attended virtual meetings in Nov.</p> <p>Ongoing. All meetings attended to date.</p>
<p>b. Taking opportunities to meet with IAASB members and staff;</p>		<ul style="list-style-type: none"> • Interact with key staff and Chair as appropriate • NZAuASB representative and staff to attend the NSS meeting in May 2021. 	<p>Ongoing</p>
<p>c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups;</p>		<ul style="list-style-type: none"> • Support Lyn Provost as IAASB member (see 3,3) and interact regularly with Fiona Campbell at IAASB meetings and on specific topics as required • Work with AUASB at chair and staff level to influence international agenda. 	<p>Ongoing.</p> <p>Note Fiona Campbell is no longer on the IAASB. Ongoing liaison with Roger Simnett</p> <p>Ongoing</p>
<p>d. Hosting IAASB members and staff in visits to New Zealand as appropriate.</p>		<ul style="list-style-type: none"> • Host IAASB members and staff as appropriate 	<p>No visits planned</p>

e. Responding as appropriate to requests for information from the IAASB and any other relevant working groups		<ul style="list-style-type: none"> Respond to requests for information as appropriate 	Ongoing. Responded to all requests received to date
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high quality way.</i></p> <p>The Action will comprise:</p>			
a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB/APESB and/or other NSS on joint projects; and	Ongoing	<ul style="list-style-type: none"> Identify possible topic to present on at NSS in May 2021 	
b. Identifying appropriate, mutually beneficial IAASB and IESBA projects and contributing technical resources in support of those projects.	Ongoing	<ul style="list-style-type: none"> Contribute resources to mutual beneficial projects as opportunities arise Perform information gathering on behalf of IAASB – signing partner survey developed and issued in May 2020 – to complete 31 August 2020. Director to participate as task force member of IAASB auditor reporting implementation working group. Senior project manager on part time 	<p>Ongoing</p> <p>Completed. Output to be further discussed with IAASB staff in February</p> <p>Ongoing.</p> <p>Ongoing</p>

		secondment (until June 2021) to IESBA to assist with project on technology <ul style="list-style-type: none"> • Senior project manager and director supporting finalisation of EER guidance document for approval in March 2021 	Ongoing
NZAuASB Action 3.3:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
Supporting Lyn Provost in her role as IAASB member			
<i>The NZAuASB will provide support to Lyn Provost in her role as IAASB member.</i>			
The Action will comprise:			
a. Inviting Lyn Provost to Board meetings and providing high level support for her role (and monitoring the inputs of the Technical Advisory group)	Ongoing	<ul style="list-style-type: none"> • Invite Lyn Provost to Board meetings • Providing high level support for Lyn's role and monitoring the inputs of the Technical Advisory Group • Arrange high-level discussions between Lyn Provost and the NZAuASB when appropriate 	Ongoing Ongoing Ongoing Lyn attended July and Nov 2020 meetings.
b. The Director Assurance Standards attending IAASB meetings as Technical Advisor (TA) to Lyn Provost.		<ul style="list-style-type: none"> • Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost 	Ongoing.

NZAuASB Action 3.4: Building Relationships with the IESBA	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<i>The NZAuASB will seek to build relationships with IESBA members and staff.</i>			
The Action will comprise:			
a. Attending relevant meetings and events (including NSS meetings);	Ongoing	<ul style="list-style-type: none"> Chair and Director to attend NSS meeting in May 2021. Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	Chair observing IESBA meetings as a PIOB observer.
b. Taking opportunities to meet with IESBA members and staff; and		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	Ongoing. Have good relationships with IESBA staff. Chair has had a number of meetings with the IESBA Chair regarding NSS collaboration.
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	
d. Hosting IESBA members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IESBA members and staff as appropriate 	No visits planned Brian Friedrich, Technology Task Force Chair updated the Board via Teams meeting (Sept 2020)
e. Responding, as appropriate, to requests for information from the IESBA and any other relevant working group.		Respond to requests for information as appropriate	Ongoing. Responded to all requests received to date

NZAuASB Action 3.5: Consider digitisation of the NZAuASB standards The Action will comprise:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
a. Monitor IFAC and AUASB digital publication projects and contribute as needed. b. Consider and assess most appropriate action to recommend to the XRB regarding digitisation of XRB standards c.	Whole year	<ul style="list-style-type: none"> Monitor IFAC and AUASB digital publication project and report back to NZAuASB as appropriate. 	Ongoing. AUASB digital platform completed in Dec 2020. IFAC's project is in progress.
Working with the IESBA to ensure NZ specific provisions can be incorporated into the eCode		<ul style="list-style-type: none"> Senior project manager to continue to assist Working Group and to update Board on progress. 	In progress, but work has been halted as they explore technology enabled solutions for all IFAC's standard setting Boards.
NZAuASB Action 3.6: Collaborating with other NASSs to ensure global standards are fit for purpose at jurisdictional levels. The Action will comprise:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
a. Leading the exploration internationally of how NASSs can work more collaboratively with each other to address issues associated with current and recently released IAASB standards (e.g. the impact of technology on the audit, SMP/LCE audit issues, and the implementation of new or updated standards).		<ul style="list-style-type: none"> Agree Vision with the wider NASS group at the in person NSS meeting in 2020/2021 Have quarterly phone calls with the NASS G4 group, and in-person meetings alongside the IAASB meetings. 	NASS vision has been agreed with the lead group of 4. Will be agreed with the wider NASS group when the next NSS in person meeting is held. Ongoing. Regular phone calls are occurring. Ongoing.

		<ul style="list-style-type: none"> • Establish and maintain a NASS communications network • Continue to share and collaborate on work plans and specific projects identified amongst NASS G4 group to collaborate on. 	<p>In progress</p> <p>Ongoing. Last teleconference was held in Dec to discuss projects to collaborate on, and a follow up call will be held in February.</p>
b. Identifying and exploring opportunities for the IAASB and National Assurance Standard Setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work.		<ul style="list-style-type: none"> • Liaise with the IAASB staff on NSS matters to work collaboratively on. • Contribute to planning NSS meetings. 	<p>The Chairs of the international boards made a strong statement of commitment to working with national standard setters. NSS assisted with information gathering on evidence project and Covid matters.</p>
d. Continuing to develop an understanding of how NASS as a stakeholder group can better inform the implementation of the IAASB's current and future strategies, through global and regional actions that increase the value and perception of the audit.		<ul style="list-style-type: none"> • Participate in NASS meetings • Build relationships with other NASS in the ASIA PACIFIC region. • Develop a database of NASS contacts and invite them to join the NASS communications network. 	<p>Ongoing. Chair and Director participated in the virtual IAASB and IESBA NSS meetings held during October and November.¹ Senior project manager attended the IESBA NSS discussion on Technology as an IESBA staff member. There was also a joint IAASB/IESBA NSS session.</p> <p>Ongoing and in progress. Have contact with Hong Kong and Singapore NSS staff.</p> <p>In progress</p>

		<ul style="list-style-type: none"> Obtain support for a wider participation at annual NASS meetings 	
e. Supporting, where possible, the IAASB and the IESBA in their joint initiatives to foster “quadrilogue” and project specific collaboration between the two boards and their respective NSS groups		<ul style="list-style-type: none"> Continue dialogue with the IAASB and IESBA Chairs and Directors to identify joint projects. Plan and host the joint Boards’ session at the NSS meeting in 2020/2021. Liaise with APESB and the Canadian Ethics Standards Board to establish a communications network for national ethic standard setters. 	Ongoing. Discussions held at the NSS meetings held in May 2020 and Nov 2020.
f. Monitoring the implementation of the Monitoring Group’s reforms, including consideration of the implications of the Group’s new public interest framework for the work of the XRB and the NZAuASB both in New Zealand and internationally.			<p>In progress. The Board considered an analysis of the MG recommendations in Sept 2020.</p> <p>The new PIF has now been incorporated in the updated compelling reason test. Further actions to be determined.</p>

Specific Strategy 4: Standards Developed Collaboratively with Constituency

NZAuASB Action 4.1:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
Enhancing Auditing and Assurance Standards Due Process Consultation			

The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.

The Action will comprise:

<p>a. Identifying and implementing innovative, targeted consultation methods with a focus on “why” the change, that are high value-added but relatively low-effort from the constituents’ point of view; and</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Continue current due process engagement methods • Develop new communications & engagement approach that reflects different target groups and helps to explain “why” changes are needed. 	<p>Ongoing. Different outreach techniques recently tried, include:</p> <p>a. Seeking input from the NZASB, the XRB Board and the XRAP (on the topics of interim reporting and EER)</p> <p>b. Additional webinars and user-friendly alerts to engage with users in response to COVID-19</p> <p>c. Targeted one on one calls (NAS consultation, interviews on KAMs with investors)</p> <p>d. Close collaboration with the regulator</p> <p>e. Online virtual roundtables (AUP standard, EER consultation, Group audits, Fraud and Going Concern)</p>
<p>b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.</p>		<ul style="list-style-type: none"> • Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences • Promote other Topics as arise • Identify and engage with relevant groups about major new exposure drafts and standards. 	<p>Various roundtables held during the year. AUP standard, EER consultation, Group audits, Fraud and Going Concern</p> <p>Additional webinars and user-friendly alerts to engage with users in response to COVID-19</p> <p>Various presentations by staff and Chair at the annual audit conference.</p>

NZAuASB Action 4.2: Undertaking On-Going Dialogue	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i></p> <p>The Action will comprise:</p>			
<p>a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB’s regular meetings;</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Update and include liaison schedule as a standard agenda item • Organise regular meetings with key stakeholders identified on the liaison schedule - 	<p>Ongoing. Standard agenda item for each meeting.</p>
<p>b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Organise seminars & round tables • Attend other fora • Attend mid-tier forum • Participate in Audit Summit meetings arranged by CAANZ and practitioners. • Hold discussions with assurance leaders to discuss assurance matters. 	<p>Various roundtables held during the year.(AUP standard, EER consultation, Group audits, Fraud and Going Concern)</p> <p>Participated in audit summit meetings.</p> <p>Additional webinars and user-friendly alerts to engage with users in response to COVID-19</p> <p>Various presentations by staff and Chair at the annual audit conference.</p>
<p>c. Maintaining strong working relationships at the operational level with key constituent groups.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Built relationships with key groups identified. 	
NZAuASB Action 4.3:	Timing	2020/21 Planned Actions	2020/21 Actual Actions

Promoting understanding of the auditing and assurance standards and engagements			
<p><i>The NZAuASB will undertake activities throughout the life-cycle of developing standards to promote an increased understanding of the auditing and assurance standards</i></p> <p>The Action will comprise:</p>			
<p>a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness of:</p> <ul style="list-style-type: none"> • assurance practitioners about new and revised auditing and assurance standards • users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility 		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Targeted meetings with users • Journal articles • Targeted newsletters • Social media notifications • Joint assurance and accounting update webinar twice annually • CAANZ Audit conference • AUT auditing 3rd year paper guest lecture 	<p>Ongoing</p> <p>Various presentations by staff and Chair at the annual audit conference in Nov 2020.</p> <p>Targeted one on one calls (NAS consultation, interviews on KAMs with investors)</p> <p>Online lectures by Director to students of Massey and AUT.</p> <p>Webinars and user-friendly alerts to engage with users in response to COVID-19.</p> <p>Joint training session with the FMA to IFIAR members held in Dec 2020. Next one planned for March.</p>
<p>b. Promoting awareness of the IAASB and the IESBA implementation support activities.</p>		<ul style="list-style-type: none"> • Targeted newsletters • Social media notifications 	<p>Ongoing. Newsletters and LinkedIn notifications issued to alert stakeholders on all implementation support activities of the International Boards.</p>

NZAuASB Action 4.5: Support the XRB to Promote Understanding of the factors that Affect Audit Quality To consider and implement recommendations as appropriate from the Bryden review and Australian inquiry	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<p><i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i></p> <p>This action will comprise:</p>			
<p>a. <u>Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the Brydon report and the Australian Inquiry.</u></p>		<p>Implement the XRB's strategic direction by:</p> <ul style="list-style-type: none"> • considering issues and developing recommendations and project plans as appropriate. • Implementing the agreed actions in accordance with the approved project plans 	<p>Analysis of UK Brydon review recommendations commenced (Feb/April 2020)</p>

<p>b. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Promote the audit quality framework as opportunities arise • Liaise with IOD and do an awareness raising session as part of the director education series 	<p>No specific action to date</p>
<p>c. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality</p>		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • XRBrief article • Promote guidance developed. 	<p>No specific action to date</p>

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 10 February 2021

Subject: Modified audit reports

Date: 28 January 2021

Prepared by: Peyman Momenan

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

For the Board to note the summary of modified auditor reports received by the XRB between 23 Nov 2019 and 31 December 2020.

Introduction

1. In September 2016, the XRB approved a policy for dealing with modified audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013. The policy requires the NZAuASB to consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
2. In December 2016, the policy was supplemented by an operating procedure (OP) document including specific actions that the XRB and its boards (including the NZAuASB) need to take to operationalise the policy. The OP requires the NZAuASB staff to review the received modified audit reports in order to:
 - Categories of modified audit opinions that affect auditing & assurance standards
 - Identify trends, if any
 - Refer any strategy-related issues to the XRB Board staff team, as appropriate
 - Make appropriate recommendation to NZAuASB, as necessary
3. The OP requires staff to report to the NZAuASB at least every 6 months on matters including:
 - the number of audit reports received
 - the types of modified audit opinions
 - the nature/subject matter of the modified opinions
 - whether the modified audit opinions have implications for any XRB standards and/or XRB strategy/standards frameworks
 - any emerging trends.

4. The Board had previously seen the summary of modified audit reports up to end of November 2019 at the December 2019 meeting. This report is a catch up for the modified audit reports received since. This report is the third report under the XRB modified auditor report policy.

Matters to consider

5. In the period 23 November 2019 to 31 December 2020, we have received 32 modified audit reports. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website and any other reports received from regulators.
6. During the period, we have engaged with the FMA on a regular basis to share information on modified audit reports received to ensure we have a complete set of modified audit reports (as some entities may submit to the regulator and not the XRB even though there is a legal requirement to do so). We are also in contact with the Companies Office.
7. [Appendix A](#) provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.
8. [Appendix B](#) provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from staff. In all cases the proposed action is 'Nil' as we have not identified any modified audit reports that indicate an issue with the auditing standards.
9. As expected COVID-19 circumstances resulted in an increased number of modifications during this period. During the period we received 4 audit reports with a disclaimer of opinion due to the auditor's inability to obtain sufficient and appropriate evidence regarding the appropriateness of the going concern assumption. Auditors' inability to obtain the evidence they needed also resulted in modified opinions (5 auditor reports were modified because auditors were unable to attend the entities' stock take).
10. We have not identified any implications for the auditing and assurance standards and have no recommendations for further action required by the NZAuASB. It is worth mentioning that the accounting staff have also not identified any implications for the accounting standards during the same period. The overall conclusions are due to be presented to the XRB Board in March 2020.

Recommendations

11. It is recommended that the Board **NOTE** the contents of this report.

Material Presented

Agenda item 9.1

Board Meeting Summary Paper

Appendix A — Summary of modified audit reports received in the review period

Modification in relation to:	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Unable to obtain sufficient appropriate audit evidence
Appropriateness of the going concern assumption		7 ¹	
Inventory balances		1	4 ²
Impairment test (and related carrying value of) of PP&E and RoU assets.		1	8 ³
Valuation of investment property			1
Valuation of investments		1	1
Valuation of receivables			1
Valuation of investment in associate			1
Accounting records		4 ⁴	5
Recoverable amount of goodwill and other indefinite life intangible assets			3 ⁵
Sub-total	0	14⁶	24
Total			38 ⁷

¹ In the case of #385, #392, #403 and #404, Covid-19 was a factor (4 out of 7 modifications).

² All the inventory modifications (5 in total) were due to Covid-19.

³ All of these relate to Council Controlled Trading Organisations (for-profit at the group level) who have a PBE subsidiary. The assets of the PBE subsidiary have not been valued on a commercial basis but are consolidated using the carrying value in the PBE subsidiary's accounts. In absence of such valuation, the auditor was unable to ensure that PPE assets are not impaired.

⁴ Out of these 4 disclaimer reasons, 3 relate to three companies that were targets of cyberattacks that affected their IT systems and underlying accounting records. It should be noted that all of these three entities also received a going concern reason for their disclaimer of opinion. This results in 6 counts of disclaimer of opinions while there are 3 audit reports.

⁵ Out of these 3 modifications, 2 relate to the same entity across two years.

⁶ These 14 disclaimer reasons relate to 11 individual opinions (see footnote 4 above).

⁷ During the reported period a total of 31 audit reports were received (Audit report #6 in Appendix B relating to a received modified report later withdrawn is not included in the count). However, some audit reports contained more than one modification resulting in 38 modifications.

Appendix B —Modified Audit Reports received in the review period

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
1.	384 ⁸ Investment software services BD: 31 Mar 2019 AR: 08 Jun 2020	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence to support the going concern assumption (specifically the viability of assumptions used in the cash flow forecast).	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards.
2.	385 Ski Field Operator (Public Benefit Entity) BD: 30 Nov 2019 AR: 19 May 2020	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence to support the going concern assumption.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
3.	386 Building Society (<i>investments in early stage companies</i>) BD: 31 Jan 2020 AR: 30 Jun 2020	Qualified opinion Unable to obtain sufficient appropriate evidence regarding the fair value of investments in funds (could not substantiate values for the underlying investee companies).	NZ IFRS 9 <i>Financial Instruments</i> NZ IFRS 13 <i>Fair Value Measurement</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
4.	387 Healthcare products manufacturing BD: 31 Mar 2020 AR: 26 Jun 2020	Qualified opinion Unable to obtain sufficient appropriate audit evidence concerning closing inventory balances due to Covid-19.	NZ IAS 2 <i>Inventory</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
5.	388 Manufacturer of Fish Oil BD: 31 Mar 2020 AR: 29 Jun 2020	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence to support the going concern assumption. Unable to obtain sufficient appropriate audit evidence to support the assumptions made by the Directors regarding the impairment and carrying values of PP&E and right of use assets (RoU). (NB: Prior period disclaimer regarding the inability to obtain	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IAS 36 <i>Impairment of Assets</i> NZ IFRS 16 <i>Leases</i> NZ IAS 16 <i>Property, Plant & Equipment</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

⁸ This is the numbering sequence used on the website to record modified audit reports received.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
		sufficient appropriate audit evidence to support the carrying value of PP&E (31.3.19)).			
6.	389 and 394 Software company BD: 31 Mar 2020 AR: 29 Jun 2020 (withdrawn) AR: 15 Jul 2020	Disclaimer of opinion (withdrawn) Unmodified opinion subsequently issued⁹ The Disclaimer of opinion issued on 29 June 2020 was subsequently withdrawn and an unmodified audit report (with a material uncertainty re: going concern) was issued on 15 July 2020.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards.
7.	390 Non-Trading Entity BD: 31 March 2014 AR: 25 May 2020	Disclaimer of opinion Unable to perform the audit. The Company closed its offices and removed its records.	-	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
8.	391 Issuer of prepaid foreign currency cards BD: 31 Dec 2019 AR: 29 Jun 2020	Disclaimer of opinion (Malware Attack) Unable to obtain sufficient appropriate audit evidence to substantiate the financial records. (The financial statements have been prepared on a “break-up” basis).	-	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards.
9.	392 Issuer of prepaid cards BD: 31 Dec 2019 AR: 30 Jun 2020	Disclaimer of opinion (Malware Attack) Unable to obtain sufficient appropriate audit evidence to substantiate the financial records. Unable to obtain sufficient appropriate audit evidence to support the use of the going concern assumption.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

⁹ The auditor originally issued a disclaimer of opinion in June because the auditor was unable to obtain sufficient appropriate audit evidence to support the entity's going concern assumption due to the level of uncertainty over the entity's future cash flows. In July, the annual report (including the consolidated) financial statements was re-issued and included an unmodified audit report (with a material uncertainty related to going concern) as additional audit evidence had been provided relating to the Board's plan to secure new revenue and raise additional cash in the 12 month period from the date of the signed financial statements.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
10.	393 Finance (<i>deposit taking and lending; investment advisory and research provider</i>) BD: 31 Mar 2020 AR: 16 Jul 2020	Qualified Opinion Unable to obtain sufficient appropriate audit evidence to determine the recoverable amount of goodwill and other indefinite life intangible assets.	NZ IAS 38 <i>Intangible Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards.
11.	395 Foreign exchange company BD: 31 Dec 2019 AR: 27 July 2020	Disclaimer of opinion (Malware Attack) Unable to obtain sufficient appropriate audit evidence to substantiate the financial records. Unable to obtain sufficient appropriate audit evidence to support use of the going concern assumption.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
12.	396 Precious metal mint BD: 31 Mar 2020 AR: 31 Jul 2020	Qualified Opinion Unable to obtain sufficient appropriate audit evidence concerning closing inventory balances due to the effects of Covid-19.	NZ IAS 2 <i>Inventory</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards.
13.	397 Technology BD: 31 Mar 2020 AR: 12 Aug 2020	Qualified Opinion Unable to obtain sufficient appropriate audit evidence concerning closing inventory balances due to the effects of Covid-19.	NZ IAS 2 <i>Inventory</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
14.	398 Taxi operator BD: 31 Mar 2020 AR: 10 Aug 2020	Qualified Opinion Lack of evidence to verify the receivables balance with a third party (receivables balance in dispute).	NZ IFRS 9 <i>Financial Instruments</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards.
15.	399 – Test 400 Property Lending and Investment BD: 31 March 2020 AR: 28 August 2020	Qualified Opinion Unable to obtain sufficient appropriate audit evidence to support the fair value of investment property as at 31 March 2019 and 31 March 2020.	NZ IFRS 13 <i>Fair Value Measurement</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
16.	401 Master Franchiser BD: 31 March 2020 AR: 31 August 2020	Qualified Opinion The prior year financial statements (31.3.19) were audited by another auditor who issued a disclaimer of opinion, which included that they were unable to determine the level of impairment related to the Group's investment in an associate located in China. For FY 31.3.20 the auditor has been unable to obtain any further evidence and has issued a qualification.	NZ IAS 36 <i>Impairment of Assets</i> NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
17.	402 Fund Manager BD: 31 March 2018 AR: 9 Sep 2020	Qualified opinion Unable to obtain sufficient appropriate audit evidence over the recoverability of the related party loan receivable balance at balance date.	NZ IFRS 9 <i>Financial Instruments</i> NZ IAS 24 <i>Related Party Disclosures</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
18.	403 Branch of an international airline BD: 31 Dec 2019 AR: 28 Aug 2020	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence to support the use of the going concern assumption.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
19.	404 Chocolate manufacturer BD: 31 Mar 2020 AR: 21 Sep 2020	Disclaimer of opinion Unable to observe the closing inventory count and could not establish by alternative means the closing balance of inventory. Unable to obtain sufficient appropriate audit evidence to support the use of the going concern assumption.	NZ IAS 2 <i>Inventory</i> NZ IAS 1 <i>Presentation of Financial Statements</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
20.	405 Taxi Operator BD: 31 Mar 2020 AR: 20 July 2020	Qualified Opinion Unable to obtain sufficient appropriate audit evidence about a material cash variance of \$33,912 due to the entity not maintaining adequate controls and records.	-	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
-	406 ¹⁰	Number used twice in the database for same entity (Chocolate manufacturer – #404).	N/A	N/A	N/A
21.	407 Ski field operator BD: 31 Oct 2019 AR: 14 Oct 2020 The consolidated financial statements have been prepared on a realisation basis and the going concern assumption has not been used.	Disclaimer of Opinion The Group ceased trading during the financial year (as it was purchased by another operator in the industry) and did not maintain access to the information systems that recorded the Group's underlying sales revenue and payroll transactions. The auditor was unable to verify the balances reported or to determine whether any adjustments were necessary in respect of the Group's sales revenue and payroll expenditure in the consolidated statement of comprehensive income and consolidated statement of cash flows and the related elements in the consolidated statement of financial position and consolidated statement of equity.	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IFRS 15 <i>Revenue from Contracts with Customers</i> NZ IAS 7 <i>Statement of Cash Flows</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
22.	408 Provider of vocational programmes, courses and training for international and domestic students and New Zealand businesses BD: 31 Dec 2019 AR: 30 Nov 2020	Qualified Opinion Based on recognising the goodwill impairment in the correct period, the loss for FY 2018 and opening equity for FY 2018 should be reduced and opening retained losses at 1 January 2018 increased (i.e. same rationale as 409 below).	NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
23.	409 Provider of vocational	Qualified Opinion For FY 31 December 2017 (unaudited consolidated	NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any	Nil. We did not identify any

¹⁰ This is the numbering sequence used on the website to record modified audit reports received.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
	programmes, courses and training for international and domestic students and New Zealand businesses BD: 31 Dec 2018 AR: 30 Nov 2020	<p>financial statements) the directors concluded the goodwill balance of \$109.3 million was not impaired.</p> <p>In 2018, the directors concluded that the carrying amount of goodwill would not be fully recovered. This resulted in an impairment of goodwill of \$32.5 million at 31 December 2018.</p> <p>Based on 2018 audit work, the auditors concluded that the impairment should have been recognised for the year ended 31 December 2017. In line with this the unaudited FY 2017 loss should be higher, corresponding retained losses increased and total equity reduced. The loss for FY 2018 should also be reduced to reflect the goodwill impairment in the correct period.</p>		issues with the accounting standards.	issues with the auditing standards
24.	410 Holding company for a share scheme	<p>Disclaimer of Opinion</p> <p>The company holds special shares in a related company as a result of issuing shares to financial advisers. The shares are based on a Director's valuation and are recognised when the rights to ownership have been established.</p> <p>The auditor was unable to verify the value of the investment as at the balance date due to the absence of a fair value assessment. As a result, the auditor was unable to determine whether any adjustments might have been found to be necessary in respect of the companies recorded investment, the fair value loss on the investment and the</p>	<p>NZ IFRS 10 <i>Consolidated Financial Statements</i></p> <p>NZ IAS 36 <i>Impairment of Assets</i></p>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
		elements making up the statement of changes in equity.			
25.	411 Council Controlled Trading Organisation BD: 30 Jun 2018 AR: 20 Nov 2018	Qualified Opinion The auditor noted evidence that certain assets included in property, plant and equipment may be impaired. Because the Group did not determine the recoverable amount of the relevant assets, the auditor was unable to determine whether the carrying amount of these assets should be reduced and a corresponding impairment expense recognised.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
26.	412 Council Controlled Trading Organisation BD: 30 Jun 2019 AR: 30 Sep 2019	Qualified Opinion Same reasoning as #411 above.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
27.	413 Council Controlled Trading Organisation (Regional Airport) BD: 30 Jun 2020 AR: 30 Oct 2020	Qualified Opinion The company is a non-large for-profit PBE. The company did not complete a fair value assessment for land and improvements at 30 June 2020 (last completed 30 June 2018). Therefore, the company has not provided the auditor with sufficient appropriate evidence to support that the carrying amount of the land and improvements asset class does not differ materially from its fair value.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
28.	414 Council Controlled Trading Organisation BD: 30 Jun 2017 AR: 14 Sep 2017	Qualified Opinion The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). A material asset of the subsidiary is recorded using a non-commercial valuation approach. On consolidation, the Group must assess the carrying value of the assets by reference to commercial valuation approaches. The auditor has noted that there are indicators that a commercial valuation approach could result in a materially lower carrying value on the Group's balance sheet. However, the Group has not carried out an assessment of the valuation of the assets on a commercial basis. The auditor is therefore unable to determine whether any adjustments are required.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
29.	415 Council Controlled Trading Organisation BD: 30 Jun 2018 AR: 1 Oct 2018	Qualified Opinion Same reasoning as #414 above.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
30.	416 Council Controlled Trading Organisation BD: 30 Jun 2019 AR: 30 Sep 2019	Qualified Opinion Same reasoning as #414 and #415 above.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards
31.	417 Council Controlled Trading Organisation BD: 30 Jun 2020 AR: 30 Nov 2020	Qualified Opinion The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). The assets of the subsidiary are recorded using non-	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action - NZASB	Proposed action - NZAuASB
		<p>commercial valuation approaches. On consolidation, the Group must assess the carrying value of the assets by reference to commercial valuation approaches.</p> <p>The auditor has noted that there are indicators that a commercial valuation approach could result in a materially lower carrying value on the Group's balance sheet. However, the Group has not carried out an assessment of the valuation of the assets on a commercial basis. The auditor is therefore unable to determine whether any adjustments are required to depreciation expense or to the financial related performance measures presented in the statement of service performance.</p>			
32.	418 Council Controlled Trading Organisation BD: 30 Jun 2020 AR: 30 Oct 2020	Qualified Opinion Same reasoning as #411 and #412 above.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Nil. We did not identify any issues with the accounting standards.	Nil. We did not identify any issues with the auditing standards



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 28 January 2021

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 December 2020 and January 2021.

International Federation of Accountants (IFAC)

1. Together with ICAEW, The International Federation of Accountants (IFAC) released:
 - The third installment in its ***Anti-Money Laundering: The Basics*** educational series: [***Installment 3: Company Formation***](#) in November 2020.
 - And in January 2021 the fourth installment in its ***Anti-Money Laundering: The Basics*** educational series: [***Installment 4: Asset Transfers.***](#)

The publication is part of a 6-month short series helping 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. Installment four examines asset transfers, one of the primary ways in which criminals layer or integrate the proceeds of crime into the legitimate economy.

2. On 18 December 2020, IFAC applauds the publication of [***Reporting on Enterprise Value, Illustrated with a Prototype Climate-Related Financial Disclosure Standard***](#), a new report from leading sustainability and integrated reporting organizations CDP, CDSB, GRI, IIRC, and SASB. The report represents another milestone in the journey to enhancing corporate reporting, and stands to advance the dialogue between companies and their investors and stakeholders through reporting of sustainability-related information.
3. On 10 December 2020, the International Federation of Accountants (IFAC) submitted its [***response to the IFRS Foundation's Consultation Paper on Sustainability Reporting***](#), issuing a resounding "yes" to the question of whether an international sustainability standards board is needed to lead a coherent global system of interconnected corporate reporting that will rationalize the current fragmented ecosystem for sustainability information. Reiterating the themes of its September 2020 call-to-action, [***Enhancing Corporate Reporting: The Way Forward***](#), IFAC calls for the creation of the new board alongside the IASB under the IFRS Foundation. The proposed board would address the urgent and growing demand from investors,

policy makers and regulators for a reporting system that delivers consistent, comparable, reliable, and assurable information relevant to enterprise value creation, sustainable development, and evolving stakeholder expectations.

Anti-Fraud Collaboration (AFC):

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

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1).
2. During its December 2020 meeting, the IAASB held its first public discussions on the draft of a separate standard being developed for an audit of less complex entities and the [official project proposal](#) to complete and publish the draft standard for public consultation in 2021. The IAASB approved the project proposal and early draft. Following these decisions, the [IAASB in December 2020 published a new communique](#) detailing plans for the new standard, including current thinking on what the standard will look like, what entities it will apply to, and the development timeline.

International Ethics Standards Board for Accountants (IESBA)

1. In December 2020, the Staff of the South African Independent Regulatory Board for Auditors, (IRBA) the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB) jointly released the publication, [Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic, including Considerations for Auditing Financial Statements](#). The publication highlights the heightened risks of fraud arising from the disruptive and uncertain COVID-19 environment and the implications for professional accountants in business, including accountants in government, and professional accountants in public practice, including auditors. Concurrently, the Staff of Chartered Professional Accountants of Canada (CPA Canada) and IESBA jointly released a Staff Alert, [COVID-19 and Evolving Risks for Money Laundering, Terrorist Financing and Cybercrime](#). This document highlights the heightened risks of money laundering, terrorist financing and cybercrime in the COVID-19 environment. It describes the implications for both professional accountants in business and public practice.

Accountancy Europe (AE) (former FEE)

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

Public Interest Oversight Board of IFAC (IPIOB)

1. PIOB published its [quarterly update](#) on 21 January 2021.

International Integrated Reporting Council (IIRC)

1. The International Integrated Reporting Council (IIRC) on 19 January 2021, publishes [revisions to the International <IR> Framework](#) to enable more decision-useful reporting. The revisions, the first since the <IR> Framework was originally published in 2013, are the result of extensive market consultation with 1,470 individuals in 55 jurisdictions. The consultation demonstrated that the conceptual thinking and principles of the <IR> Framework remain fit for purpose and robust, as evidenced by the 2,500 organizations in over 70 countries that use it.
2. Five leading organizations in sustainability and integrated reporting, who published a shared vision for a comprehensive corporate reporting system earlier this year, have taken a next practical step together. On 18 December 2020, the group [published a paper](#) that addresses one

part of this system: standards for reporting on enterprise value, brought to life with a prototype climate-related financial disclosure standard.

CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), have co-authored an illustration of how their current frameworks, standards and platforms, along with the elements set out by the Task Force on Climate-related Financial Disclosures (TCFD), can be used together to provide a “running start” for development of global standards that enable disclosure of how sustainability matters create or erode enterprise value.

Global Reporting Initiative (GRI)

1. As part of the European Commission review of the Non-financial Reporting Directive (NFRD), it is exploring how new European sustainability standards could be created and managed. The Commission has asked the European Financial Reporting Advisory Group (EFRAG) to consider the changes needed to its governance, if it were to take on responsibility for creating non-financial reporting standards. Until now, EFRAG’s remit has been to advise on financial standards only.
In this context, GRI has [submitted a response](#) to EFRAG’s consultation, setting out how GRI and the Global Sustainability Standards Board (GSSB) can contribute to the European solution. This includes addressing the need for one global set of sustainability reporting standards, in order to secure the necessary changes to achieve a sustainable economy.
GRI supports a proposed governance change by EFRAG that would introduce a two-pillar structure for financial and non-financial reporting, which is needed to ensure both are given equal weight and rigor.
2. GRI has welcomed research that shows a record number of companies, spanning sectors and geographic regions, are voluntarily choosing to disclose their sustainability impacts – with the GRI Standards the most widely used for reporting.
The [2020 KPMG Survey of Sustainability Reporting](#) found almost all (96%) of the world’s largest 250 companies (the G250) report on their sustainability performance. For the N100 –5,200 companies comprising the largest 100 firms in 52 countries – 80% do so.
Across all companies surveyed, the GRI Standards is the only sustainability reporting framework that can demonstrate widespread global adoption. Around three-quarters (73%) of the G250 and two-thirds (67%) of the N100 now use GRI.
The report highlights trends towards global consolidation of corporate reporting requirements, which GRI supports. What this emphasizes is that the scope of sustainability reporting must include the full range of a company’s external impacts on the world, which go well beyond financially material factors.

International Forum of Independent Audit Regulators (IFIAR)

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

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. The International Organization of Securities Commissions (IOSCO1) on 23 December 2020 [submitted its response to the IFRS Consultation on Sustainability Reporting](#). IOSCO supports the establishment of a Sustainability Standards Board (SSB) under the IFRS Foundation subject to Trustees’ consideration of how the ‘requirements for success’ set out in the consultation paper are met.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. This recently published [research report](#), authored by AUASB Staff James Wake and Anne Waters, provides a snapshot and analysis of auditor reporting for listed entities over the June 2019 and 2020 reporting seasons, focussing on the impact of the COVID-19 pandemic. The report provides key insights into auditors' responses to the unprecedented challenges and uncertainties associated with the June 2020 reporting period, and changes in auditor reporting over time.
2. Following extensive consultation with Australian stakeholders the AUASB has recently finalised and submitted to the IAASB its response to the [IAASB's Fraud and Going Concern in an Audit of Financial Statements Discussion Paper](#). A copy of the AUASB's submission is located [here](#).
3. The AUASB considered and approved the Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications, which will replace the existing AUASB Functions and Processes publication. The final version of the document will be published on the AUASB website in December 2020 for a short comment period.

United Kingdom

FRC

1. Compelling [new research](#) commissioned by the Financial Reporting Council (FRC) has shown that the development of standards for audit committees would support a more consistent approach to promoting audit quality. The research, conducted by YouGov, involved interviews with Audit Committee Chairs (ACCs) on how they carry out their role.

Some of the ACCs interviewed expressed a desire to improve their understanding of what makes a good audit. The research found that ACCs placed great emphasis on the audit tendering process to ensure a high-quality audit, and on challenging their auditor over how their planned audit approach would deliver quality.

Challenge was less apparent in relation to auditors' judgements and findings, and few ACCs mentioned regularly challenging company management as well as the auditors during the audit process.

In terms of receiving external support to help drive challenge, the majority of ACCs suggested shareholders were not engaged in the audits of investee companies citing either lack of accessibility or interest in the process.

The research also reveals that the key attributes audit committee chairs value in auditors were a good understanding of the business and its sector, the ability to identify key risk areas, good communication skills, along with a focus on timeliness in raising issues and completing work.

2. On 17 December 2020 the FRC published its [response](#) to its recent consultation, [Technological Resources: Using Technology to enhance audit quality](#). The FRC's response incorporates discussion of responses received as well as discussion of other matters that have arisen throughout additional outreach and engagement with stakeholders.

Almost all respondents agreed that the use of technology could significantly improve audit quality, when deployed at the right time in the audit process and, crucially, by those with the right training. Respondents also agreed that, whilst additional application material and guidance would be beneficial, the current assurance model and audit standards do not represent a significant impediment to the development and deployment of technology in audit.

3. On 27 January 2021, the FRC and the Financial Conduct Authority (FCA) published [updated guidance](#) for companies and auditors to ensure high quality financial information continues to flow to users to support decision-making.

As the busiest period of the year for finalising company accounts approaches, remote working, travel restrictions, home schooling, staff sickness and the uncertain economic outlook continue to have a major impact on the preparation of financial accounts.

Robust and efficient capital markets rely on high quality financial information and where necessary, the joint guidance encourages preparers and auditors to allow more time to publish their financial accounts, making use of available flexibilities.

Along with these measures, the FRC and FCA strongly encourage investors, lenders and other users of financial statements to take into account the unique set of circumstances arising from Covid-19.

Recognising the heightened challenges in preparing and auditing financial information, the FRC and FCA encourages all stakeholders to re-familiarise themselves with these measures, to use them if appropriate, and to view such use as normal practice during this period of heightened challenges.

Institute of Chartered Accountants in England and Wales

1. ICAEW in January 2021 published its guide: [‘Financial reporting: who does what?’](#)

The Charity Commission

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

Association of Chartered Certified Accountants (ACCA)

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

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. In December 2020 PCAOB released a new Spotlight publication, [Staff Observations and Reminders during the COVID-19 Pandemic\(PDF\)](#), to provide insights from recent PCAOB inspections of reviews of interim financial information and audits.

American Institute of Certified Public Accountants (AICPA)

1. New [FAQ nonauthoritative guidance](#) issued by the AICPA staff addresses issues related to System and Organization Controls 2 and 3 (SOC 2 and SOC 3) engagements.

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

1. Over the years, the Securities and Exchange Commission’s (“SEC”) enforcement efforts have focused on a wide range of alleged misconduct, related but not limited to, intentional and non-scienter frauds, issuer reporting and disclosures, auditor shortcomings, absent or insufficient internal controls, deficient disclosure controls, non-GAAP measures, the Foreign Corrupt Practices Act, securities offerings, insider trading, broker dealer, and cyber-related misconduct. Given the unique impact of financial statement frauds and relevance to companies, auditors, and investors, the Anti-Fraud Collaboration (“AFC”) undertook a study to classify common financial statement fraud schemes based on an analysis of SEC enforcement actions involving accounting or auditing issues where the SEC has issued an Accounting and Auditing Enforcement Release (“AAER”).
The SEC issued a total of 531 AAERs from January 1, 2014 through June 30, 2019. This study focused on 204 enforcement actions related to financial statement frauds from which we identified

140 fraud schemes. The objective of this study is to provide observations on higher risk areas that are susceptible to fraud and insights into what companies can do to identify and mitigate these types of fraud risks more effectively.

The most common types of fraud identified included:

- Improper revenue recognition
- Reserves manipulation
- Inventory misstatement
- Loan impairment deferral

[\(Download the report PDF here\)](#)

1. The CAQ released a new report today with data and analysis on the first year that critical audit matters (CAMs) were included in auditor reports. Consistent with the requirements of the Public Company Accounting Oversight Board (PCAOB), the CAQ report finds that CAMs for S&P 100 companies frequently focused on some of the most complex accounting issues that require a high degree of judgement by the auditor.

The CAQ report, [Critical Audit Matters: A Year in Review](#), finds that every auditor report for S&P 100 companies contained at least one CAM. Auditor reports included a total of 198 CAMs for an average of just under two (1.98) CAMs per report. There was a single auditor report that communicated five CAMs, while 32 auditor reports communicated only one CAM.

Four common categories of CAMs emerged in S&P 100 auditor reports: taxes (16% of CAMs), goodwill and/or intangibles (14% of CAMs), other contingent liabilities (12% of CAMs), and revenue (9% of CAMs).

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

1. CPA Canada published an article titled: [Auditing government assistance: Are you prepared?](#)

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">No 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. n 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.

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>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>Has update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p>

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.

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

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

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.

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.

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.

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.

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.

The IAASB also discussed possible matters to be addressed in the explanatory memorandum that will accompany the ED.

Update for the period

In December 2020, the Board discussed respondents' comments on the Exposure Draft of proposed ISA 600 (Revised) (ED-600)² related to the scope and applicability of the proposed standard, the definition of component, the definition of engagement team, and the risk-based approach including the involvement of component auditors, as well as the ISA 600 Task Force's initial views and recommendations on the way forward. In addition, the Board received a high-level overview of respondents' comments related to other areas in ED-600. The ISA 600 Task Force will present issues related to this project at the March 2021 IAASB meeting.

<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</p>
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	<p>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>
<p>Data Analytics</p> <p>No Update for the period</p>	<p>Objective of the project: The objective of the Data Analytics Working Group (WG) is to:</p> <p>A) Explore emerging developments in audit data analytics; and B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication “The IAASB’s Work to Explore the Growing Use of Technology in the Audit” in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB’s Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p>Emerging External Reporting</p> <p>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>

The Discussion Paper was issued in August 2016.

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

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

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

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

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

	<p>inputs that were received in progressing the development of Phase 2 of the guidance for further discussion at the June 2019 IAASB meeting.</p> <p>In June 2019, the Board was updated on the work of the EER Task Force on the challenges allocated to Phase 2 of the project. These challenges include: determining the scope of an EER assurance engagement; obtaining evidence in respect of narrative and future-oriented information; exercising professional skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and communicating effectively in the assurance report. The Board discussed views on the EER Task Force’s initial proposals to address each of these challenges in the Phase 2 guidance. The EER Task Force will consider the inputs received from the Board, together with responses to the Phase 1 EER Consultation Paper in so far as they impact the Phase 2 guidance, in developing the draft Phase 2 guidance, which will be presented for discussion at the September 2019 IAASB meeting.</p> <p>In September 2019, the Board received an overview of the comment letters received on the EER Assurance Consultation Paper. The Board discussed respondents’ comments on the Consultation Paper, that included the draft Phase 1 guidance, and the EER Task Force’s proposals for addressing the comments. The Board also discussed the initial drafting of the Phase 2 guidance developed to date by the EER Task Force. A revised draft of the combined Phase 1 and Phase 2 guidance will be presented to the Board, for approval of an exposure draft at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board approved the combined restructured and redrafted non-authoritative EER Guidance, Special Considerations in Performing Assurance Engagements on Extended External Reporting, for public consultation. The consultation period will be 120 days from the date of publication. In finalizing the draft Guidance for public consultation, the Board agreed to emphasize that the guidance is non-authoritative and is not required to be read in its entirety, but is a useful reference source in applying particular requirements of the Standard. The Board also clarified the possible approaches to the use of framework criteria and entity-developed criteria and included additional guidance on fraud and on misstatements that might affect the practitioner’s assessment of the control environment.</p> <p>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>Update for the period</p> <p>The Board discussed the revisions made to the proposed EER Assurance Non-authoritative Guidance. The EER Task Force will present a final draft of the proposed EER Guidance for IAASB approval at the March 2021 IAASB meeting</p>
<p>Agreed-Upon Procedures</p>	<p>The objective of the project is to:</p>

No Update for the period

- A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and
- 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.

Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.

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

	<p>present the first read of the post-exposure ISRS 4400 (Revised) to the Board in the second half of 2019.</p> <p>The Board approved ISRS 4400 (Revised)² with 17 Board members voting for approval and one vote against. The revised ISRS will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Once the PIOB's confirmation that due process was followed is received, the Board will formally release the standard. In finalizing ISRS 4400 (Revised), the Board carefully deliberated the effective date and continued to focus on issues relating to compliance with independence requirements.</p>
<p>LCE</p> <p>Has update for the period</p>	<p>In March 2019 the Board discussed a proposed Discussion Paper (DP), <i>Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs</i>. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP's overall direction, noting the importance of the project and the need for action by the IAASB and others.</p> <p>The Board liked the simple, clear way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). The Board made suggestions for improvements, particularly with respect to the issues and challenges, the possible actions presented within the DP and the questions to be posed to respondents in order to obtain relevant and useful feedback. Proposed changes to the DP will be presented in a Board call on April 10th, with the final DP targeted to be published for public consultation before the end of April 2019.</p> <p>The Board discussed the feedback received to date related to audits of less complex entities, including from the Discussion Paper (DP), <i>Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs</i>, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB's work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made. As part of the proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.</p> <p>In June 2020, the Board discussed the LCE Working Group's recommendations for developing a separate standard for Audits of Less</p>

	<p>Complex Entities (LCEs) on the basis of overarching principles outlining how the separate standard could be developed.</p> <p>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> <p>Update for the period</p> <p>In December 2020, the Board discussed and approved a project proposal for the development of a separate standard for audits of financial statements of LCEs and discussed targeted matters related to the initial working draft of the standard. In addition to the broad support for excluding listed entities from the scope of the audit standard for LCEs and for the flow and structure of the standard, the Board provided further inputs on various considerations related to the applicability of the standard and other key aspects relevant to further progressing the development of the standard. The Board recognized the significant outreach undertaken to date by the LCE Working Group, including with the LCE Reference Group, and encouraged this interaction to continue as the development of the audit standard for LCEs progresses to ensure that the proposals developed are usable and meet stakeholder expectations. The LCE Task Force will continue its development work and present a revised draft of the proposed audit standard for LCEs to the IAASB for discussion at the March 2021 IAASB meeting.</p>
<p>Audit Evidence</p> <p>Has 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</p>

	<p>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> <p>Update for the period</p> <p>The Board discussed and approved a project proposal to revise ISA 500,1 including conforming and consequential amendments to other standards. In addition, the Board provided direction on the initial views of the Audit Evidence Task Force on key issues to progress the revision of the standard, including: the purpose and scope of the standard, the concept and evaluation of sufficient appropriate audit evidence, the distinction between sources of information in ISA 500 and the use of information for different types of audit procedures. The Audit Evidence Task Force will present issues related to this project at the March 2021 IAASB meeting.</p>
<p>Fraud</p> <p>Has update for period</p>	<p>Update for the period</p> <p>The IAASB received an update on the information gathering activities in relation to fraud in an audit of financial statements. In particular, it was highlighted that outreach was being undertaken with investor groups to further understand their views. The Board also discussed various specific matters related to the auditor's efforts with regard to fraud within the ISAs and provided views on possible ways that the issues and challenges could be addressed. The Fraud Working Group will continue to gather information to further inform the Board's efforts in relation to fraud in an audit of financial statements, including consideration of the responses to the IAASB Discussion Paper that is out on consultation until February 1, 2021.</p>

Agenda Item 10.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 28 January 2021

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 December 2020 and January 2021.

Financial Markets Authority (FMA)

1. The Financial Markets Authority (FMA) has published its annual accredited body reports for [CPA Australia](#) and the [New Zealand Institute of Chartered Accountants \(NZICA\)](#).

It is one of the FMA's strategic priorities to ensure that frontline regulators like the NZICA and CPA Australia are effective in their role. The Auditor Regulation Act 2011 requires the FMA to monitor and ensure the audit regulatory systems and processes used by accredited bodies are adequate and effective.

2. The reports contain the findings of the FMA's monitoring assessments of CPA Australia and NZICA for the period 1 July 2019 to 30 June 2020.

In December 2020, the Financial Markets Authority (FMA) published its [annual report for the year to June 2020](#).

The market conduct regulator said in the first half of the year it was operating in a period of relative economic stability and focusing on regular monitoring, enforcement activity, and preparing for expansion to its regulatory remit. However, COVID-19 undermined economic stability and tested the FMA's agility, as planned work was put on hold so the regulator could manage its role in the crisis, and support the industry and consumers through the situation.

The New Zealand Institute of Chartered Accountants

1. The CAANZ published an article [An ounce of prevention - internal control and fraud?](#)

CPA Australia

1. The 2020 update of the IFRS Due Process Handbook clarifies the role of IFRIC agenda decisions within the IFRS framework. [Here are the facts accountants need to know.](#)
2. After five years of consultation with regulators, standard-setting groups and other key stakeholders worldwide, the Monitoring Group of international financial regulators has released its way forward for revising the governance structure for setting standards in audit and ethics. In [this article](#) the reset on international standard-setting is assessed.

The Institute of Directors (IoD)

1. No update for the period.