

Board Meeting Agenda

8 April 2021
9:15 am to 5.00 pm

Virtual

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
10.30 am	<i>Morning tea</i>				
B: PUBLIC SESSION					
10.45 am	3	<u>NAS and Fees</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>PIE definition ED</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Draft submission	Consider	Paper	
	4.3	Supplementary Guidance to Exposure Draft to Aid Local Body Considerations Regarding Adoption and Implementation	Note	Paper	
		Feedback received (confidential)	-	-	
12:30 pm	<i>Lunch</i>				
1:15 pm	5	<u>Prospective information education session</u>			
	5.1	Board meeting summary paper	Note	Paper	
2.00 pm	6	<u>Corporate Fundraisings</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Issues paper	Consider	Paper	
	6.3	Draft assurance standard	Consider	Paper	
3.00 pm	<i>Afternoon tea</i>				
3.15 pm	7	<u>NZAuASB Action Plan 2021-2026</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Draft NZAuASB Action Plan 2021-2026	Consider	Paper	
	7.3	NZAuASB SAP 2020-2025	Note	Paper	
	7.4	XRB Strategic Plan 2021-2026	Note	Paper	
4.00 pm	8	<u>Simple Engagement project</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	Minutes of working group meeting	Note	Paper	
	8.3	Alternative Engagement working draft	Consider	Paper	

Est. Time	Item	Topic	Objective		Page
4.45 pm	9	<u>Environmental scanning</u>			
	9.1	International Update	Note	Paper	
	9.2	Domestic Update	Note	Paper	
4.50 pm		<u>Closing</u>			

Next meeting: 2 June 2021 – In person in Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.1

Meeting date: 8 April 2021

Subject: Non-Assurance Services

Date: 23 March 2021

Prepared By: Sharon Walker, Peyman Momenan

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is:
 - To receive an update from Channa Wijesinghe, CE of the APESB, on the Australian position regarding the provision of NAS
 - To receive an update on results of the survey on the effect on user perceptions of non-assurance services on the auditor's independence; and
 - For the Board to provide direction to staff on the way forward for the non-assurance services project in New Zealand.

Background

2. At the February 2021 meeting, the NZAuASB received an update on how the IESBA had addressed the concerns raised by the Board in finalising the revisions to the Non-Assurance Services provisions of the International Code of Ethics.
3. The key question being considered by the NZAuASB is whether the IESBA provisions go far enough in addressing the concerns raised by the NZAuASB relating to effects on the perception of independence of the provision of non-assurance services, and whether there is a compelling reason to go further in New Zealand. Key concerns raised by the NZAuASB in its submission included:
 - Whether limiting the prohibition to the self-review threat will sufficiently address the perception that providing non-assurance services impairs the auditor's independence.
 - Concern that singling out the self-review threat creates a de facto hierarchy of threats, i.e., the self-review threat is more important than the other threats to independence.

- Suggesting 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 (as required by the conceptual framework).
4. The Board discussed three possible alternatives:
 - (i) No compelling reason changes;
 - (ii) Prohibition of all non-assurance services to audit clients that are public interest entities (the “nuclear” approach)
 - (iii) Something in between – possibly similar to the Auditor-General approach or a blacklist approach, as is being considered in Australia in response to the PJC recommendation.
 5. The Board recognises the need to work closely with the Accounting Professional and Ethical Standards Board in Australia (APESB) to ensure a harmonised trans-Tasman approach. We understand that APESB staff are of the view that the IESBA drafting of the prohibition on the provision of non-assurance services that create a self-review threat creates too much subjectivity. We have therefore invited Channa Wijesinghe to provide an update to the Board on the current thinking about this issue in Australia.
 6. We have prepared a draft of the proposed non-assurance services provisions to illustrate for the Board the full prohibition approach. This draft is included at agenda item 3.3.
 7. The NZAuASB’s February discussions did not identify a clear way forward. The Board requested staff to undertake outreach to obtain a better understanding of the perceptions of users of non-assurance services on the auditor’s independence.
 8. To obtain this understanding, we prepared a survey which closes on 31 March 2021. The detailed interim results are included in agenda item 3.2.
 9. The survey was distributed through various means including: NZAuASB E-Newsletter, website, LinkedIn, targeted distribution to XRAP and XRB Board members, Institute of Directors, NZ Shareholders Association, INFINZ and others.
 10. Over 100 responses to the survey have been received to date. The question as to which group best represents your interest in auditing and financial reporting was a late addition to the survey with approximately 50 participants responding to the survey prior to the question being added. We suspect a large number of the initial responses are from the shareholder/investor community as this was the initial group targeted. Responses from those participants that answered this question indicate the following split; approximately 40% from practitioners, 25% from shareholders/investors, and 35% from others (e.g., directors/those charged with governance, professional accountants in practice (other than auditors), lawyer/solicitor, executive management, and others).
 11. In response to the question, does the provision of other services by an audit firm to an audit client decrease your trust in the audit opinion on the financial statements, 10% responded no, approximately 35% responded yes, the remaining 55% responded depends on the nature of the service.
 12. When asked, what is the effect on your trust in the financial statements when the audit firm provides [type of service] to the audit client, a majority of respondents noted some negative effect (either high, moderate or low) for most of the types of services. Those services where negative effects on the independence of the auditor were perceived by less than 50% of respondents were limited to assurance over internal control and agreed upon procedures

engagements. Even for assurance over internal control and AUP procedures, approximately 30% of respondents considered there to be high or moderate negative effects from the provision of such services.

13. For the 10 respondents who responded that the provision of other services by an audit firm to an audit client does not decrease their trust in the audit opinion on the financial statements, 90% indicated an interest in the breakdown of fees paid to the auditor and for what purpose.

14. Approximately 90% of respondents agreed that public disclosure of fees will help in the decision making about the audit firm's independence. The categories of fees included:

- fee for the audit of the financial statements;
- fees for assurance services and agreed-upon procedures engagements, other than the audit of the financial statements, that are required by legislation to be provided by the auditor;
- fees for other assurance and agreed-upon procedures engagements required by legislation, but not required to be provided by the auditor, or by contractual arrangement; and
- fees for other services.

Action Requested

15. The Board is asked to:

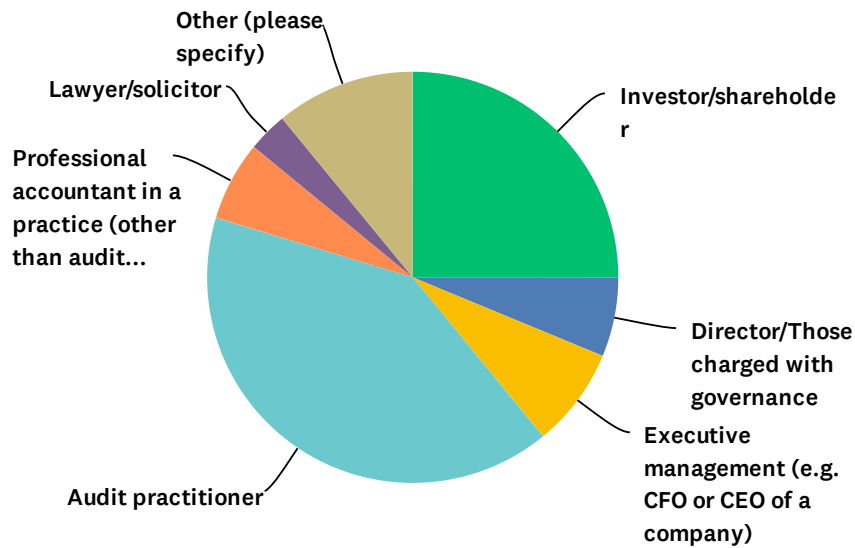
- NOTE the results of the survey on users' perceptions of non-assurance services on the auditor's independence; and
- PROVIDE direction on the way forward. A possible action to consider is to consult on the various options.

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Interim Survey Results
Agenda item 3.3	Draft revisions to NAS – full prohibition for PIEs

Q1 Please tell us which group best represents your interest in auditing and financial reporting

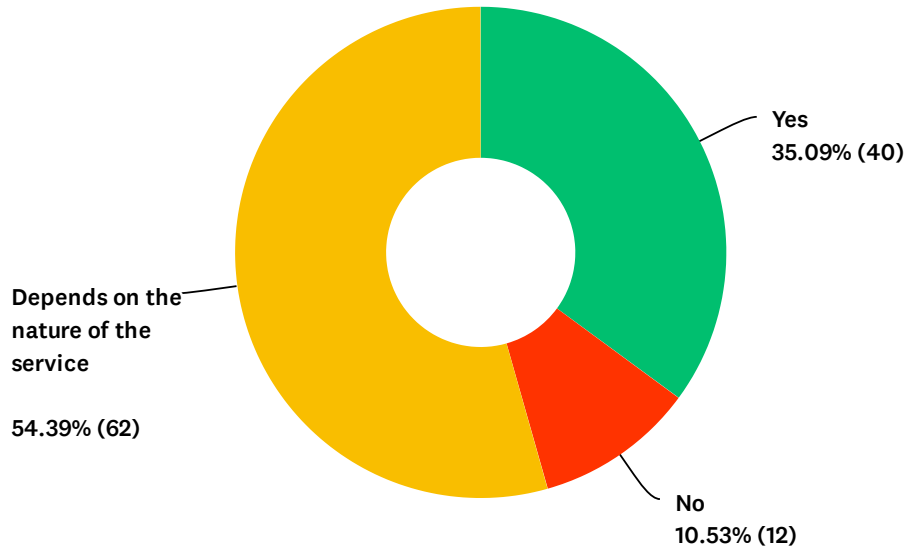
Answered: 64 Skipped: 51



ANSWER CHOICES	RESPONSES	
Investor/shareholder	25.00%	16
Director/Those charged with governance	6.25%	4
Executive management (e.g. CFO or CEO of a company)	7.81%	5
Audit practitioner	40.63%	26
Professional accountant in a practice (other than audit practitioners)	6.25%	4
Lawyer/solicitor	3.13%	2
Business journalist/blogger	0.00%	0
Other (please specify)	10.94%	7
TOTAL		64

Q2 Q1. Does the provision of other services by an audit firm to an audit client decrease your trust in the audit opinion on the financial statements?

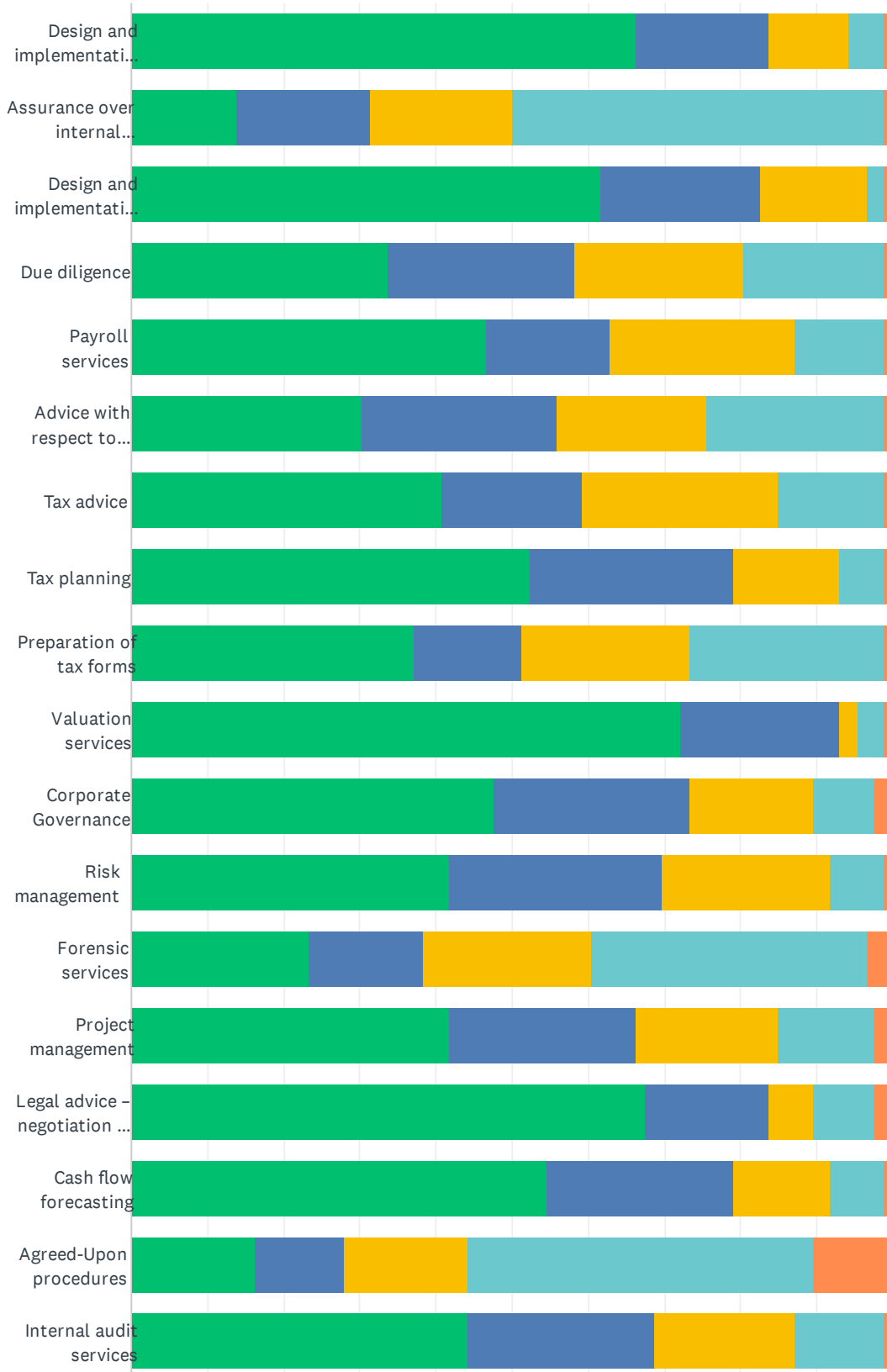
Answered: 114 Skipped: 1

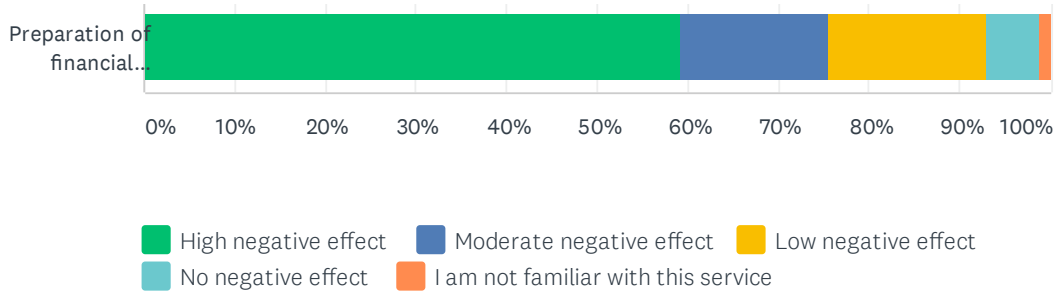


ANSWER CHOICES	RESPONSES	
Yes	35.09%	40
No	10.53%	12
Depends on the nature of the service	54.39%	62
TOTAL		114

Q3 What is the effect on your trust in the financial statements when the audit firm provides the following services to the audit client?

Answered: 86 Skipped: 29

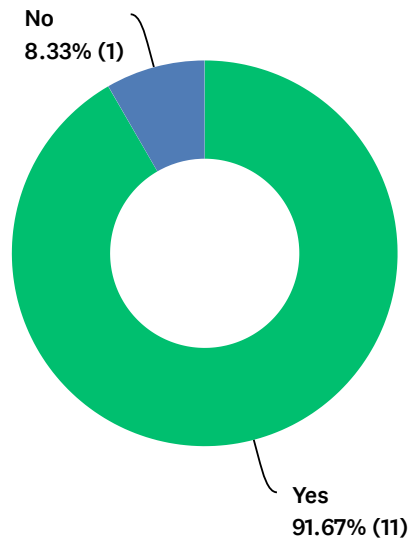




	HIGH NEGATIVE EFFECT	MODERATE NEGATIVE EFFECT	LOW NEGATIVE EFFECT	NO NEGATIVE EFFECT	I AM NOT FAMILIAR WITH THIS SERVICE	TOTAL	WEIGHTED AVERAGE
Design and implementation of internal control systems	66.28% 57	17.44% 15	10.47% 9	4.65% 4	1.16% 1	86	1.53
Assurance over internal control systems	13.95% 12	17.44% 15	18.60% 16	48.84% 42	1.16% 1	86	3.04
Design and implementation of accounting information systems	61.63% 53	20.93% 18	13.95% 12	2.33% 2	1.16% 1	86	1.56
Due diligence	33.72% 29	24.42% 21	22.09% 19	18.60% 16	1.16% 1	86	2.26
Payroll services	46.51% 40	16.28% 14	24.42% 21	11.63% 10	1.16% 1	86	2.01
Advice with respect to financial reporting	30.23% 26	25.58% 22	19.77% 17	23.26% 20	1.16% 1	86	2.36
Tax advice	40.70% 35	18.60% 16	25.58% 22	13.95% 12	1.16% 1	86	2.13
Tax planning	52.33% 45	26.74% 23	13.95% 12	5.81% 5	1.16% 1	86	1.73
Preparation of tax forms	37.21% 32	13.95% 12	22.09% 19	25.58% 22	1.16% 1	86	2.36
Valuation services	72.09% 62	20.93% 18	2.33% 2	3.49% 3	1.16% 1	86	1.36
Corporate Governance	47.67% 41	25.58% 22	16.28% 14	8.14% 7	2.33% 2	86	1.85
Risk management	41.86% 36	27.91% 24	22.09% 19	6.98% 6	1.16% 1	86	1.94
Forensic services	23.26% 20	15.12% 13	22.09% 19	36.05% 31	3.49% 3	86	2.73
Project management	41.86% 36	24.42% 21	18.60% 16	12.79% 11	2.33% 2	86	2.02
Legal advice – negotiation on behalf of the client	67.44% 58	16.28% 14	5.81% 5	8.14% 7	2.33% 2	86	1.54
Cash flow forecasting	54.65% 47	24.42% 21	12.79% 11	6.98% 6	1.16% 1	86	1.72
Agreed-Upon procedures	16.28% 14	11.63% 10	16.28% 14	45.35% 39	10.47% 9	86	3.01
Internal audit services	44.19% 38	24.42% 21	18.60% 16	11.63% 10	1.16% 1	86	1.98
Preparation of financial statements	59.30% 51	16.28% 14	17.44% 15	5.81% 5	1.16% 1	86	1.69

Q4 You said that the provision of other services by an audit firm to an audit client does not decrease your trust in the audit opinion on the financial statements. So when looking at an entity's financial statements, are you interested to see the breakdown of what fees are paid to the auditor and for what purpose?

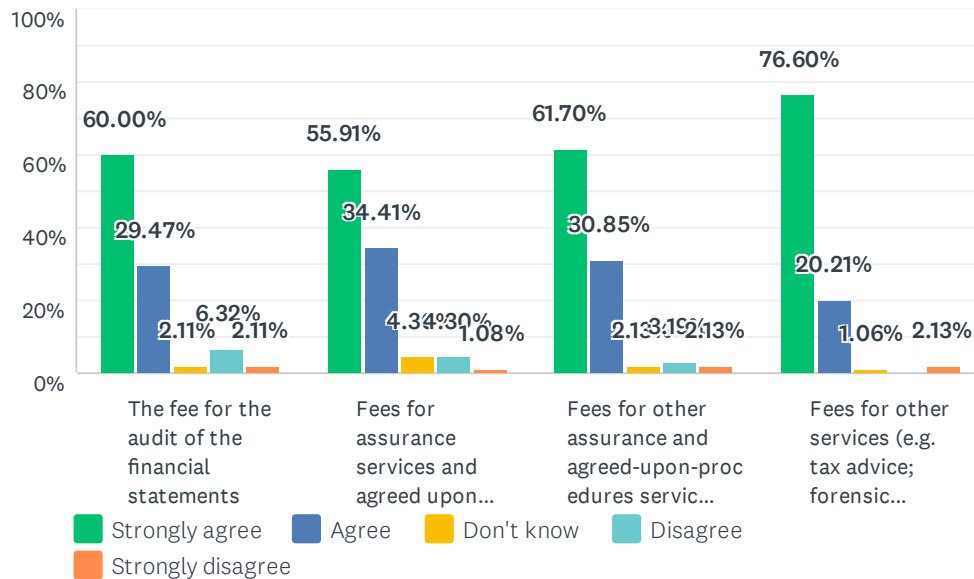
Answered: 12 Skipped: 103



ANSWER CHOICES	RESPONSES	
Yes	91.67%	11
No	8.33%	1
TOTAL		12

Q5 Enhanced transparency of audit fees can serve to better inform your views and decisions about the auditor’s independence. Public disclosure of the following information will help you in your decision making about the audit firm’s independence:

Answered: 95 Skipped: 20



	STRONGLY AGREE	AGREE	DON'T KNOW	DISAGREE	STRONGLY DISAGREE	TOTAL	WEIGHTED AVERAGE
The fee for the audit of the financial statements	60.00% 57	29.47% 28	2.11% 2	6.32% 6	2.11% 2	95	1.61
Fees for assurance services and agreed upon procedures, other than the audit of the financial statements, that are required by legislation to be provided by the auditor (e.g. assurance reports on Disclosure Information for electricity distribution companies, assurance on compliance with regulations or contracts)	55.91% 52	34.41% 32	4.30% 4	4.30% 4	1.08% 1	93	1.60
Fees for other assurance and agreed-upon-procedures services required by legislation (but not required to be provided by the auditor) or contractual arrangements (e.g. a controls assurance engagement, assurance over climate related disclosures, compliance engagements)	61.70% 58	30.85% 29	2.13% 2	3.19% 3	2.13% 2	94	1.53
Fees for other services (e.g. tax advice; forensic services, project management).	76.60% 72	20.21% 19	1.06% 1	0.00% 0	2.13% 2	94	1.31

Q6 Do you have any other comments about the provision of services provided by the audit firm to audit clients and the impact on your trust in the auditor's independence?

Answered: 55 Skipped: 60

Revised Non-Assurance Services Provisions

(Effective as of December 15, 2022)

Note 1: This document includes the revisions to Code's Non-Assurance Services (NAS) provisions that IESBA approved on December 8, 2020. **The final NAS pronouncement will be released after the IESBA receives confirmation of the PIOB's approves these revised NAS provisions.**

Note 2: The revised proposals include:

- Chapter 1 – Revisions to Section 600.
- Chapter 2 – Conforming amendments to Section 400.
- Chapter 3 –Consequential amendments to [Part 4B \(Revised\)](#), Section 950.
- Chapter 4 – Conforming amendments to [Part 4B \(Revised\)](#), Section 900.
- Chapter 5 –Conforming amendment to Section 525

Paragraphs that are shaded in grey are provided for context and are unchanged from the extant Code.

I. Chapter 1 – Revisions to Section 600

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

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Section 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT OR REVIEW CLIENT

Introduction

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [1]:
600.1

600.2 Firms and network firms might provide a range of non-assurance services to their audit or review clients, consistent with their skills and expertise. Providing non-assurance services to audit or review clients might create threats to compliance with the fundamental principles and threats to independence.

Commented [2]:
600.2

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit or review clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit or review clients and indicate the types of threats that might be created as a result.

Commented [3]:
600.3

600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit or review client because the threats created

cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit or review client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

Commented [4]:
600.4 A2

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

600.6 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit or review clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

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New paragraph

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

600.7 A1 When a firm or a network firm provides a non-assurance service to an audit or review client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.14 have been complied with.

Commented [6]:
600.7 A4

Accepting an Engagement to Provide a Non-Assurance Service

R600.8 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit or review client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Commented [7]:
R600.4

Identifying and Evaluating Threats

All Audit Clients

600.9 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit or review client is set out in paragraph 120.6 A3.

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New paragraph

600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit or review client, and evaluating the level of such threats include:

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600.5 A1

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.

- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.13 to R400.14).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit or review.
- The fee relating to the provision of the non-assurance service.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

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600.5 A2

Materiality in relation to financial statements

600.10 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an audit or review client. Subsections 601 to 610 refer to materiality in relation to an audit or review client's financial statements. The concept of materiality in relation to an audit is addressed in ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE (NZ) 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

Commented [11]:
600.5 A3

600.10 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit or review client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion or conclusion.

Commented [12]:
New paragraph

Providing advice and recommendations

600.11 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.14. Where the audit or review client is not a public

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New paragraph

interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the audit or review client is a public interest entity, paragraphs R600.16 and R600.17 apply.

Multiple non-assurance services provided to the same audit or review client

R600.12 When a firm or a network firm provides multiple non-assurance services to an audit or review client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

600.12 A1 In addition to paragraph 600.9 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to an audit or review client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit or review client.

Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit or review client, there might be a risk of the firm auditing or reviewing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment 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 judgment as part of an audit.

R600.14 Before providing a non-assurance service to an audit or review client, a firm or a network firm shall determine whether the provision of that service 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 internal controls over financial reporting, or the financial statements on which the firm will express an opinion or conclusion; and
- (b) In the course of the audit of those financial statements on which the firm will express an opinion or conclusion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

Audit or Review Clients that are Public Interest Entities

600.15 A1 When the audit or review 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.~~

600.15 A2 ~~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. The provision of a non-assurance service to an audit or review client that is a public interest entity creates a~~

Commented [14]:
New paragraph

Commented [15]:
600.5 A4

Commented [16]:
New paragraph

Commented [17]:
New paragraph

Commented [18]:
New paragraph

Commented [19]:
New paragraph

Commented [20]:
New paragraph

Commented [SW21]: Not sure this sentence needed. At a minimum remove reference to self-review threat.

Commented [22]:
New paragraph

threat to independence that cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

NZ R600.16 A firm or a network firm shall not provide a non-assurance service to an audit or review client that is a public interest entity ~~if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.13 A1 and R600.14).~~

Commented [23]:
New paragraph

Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, a firm or a network firm may provide advice and recommendations to an audit or review client that is a public interest entity in relation to information or matters arising in the course of an audit or review provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R400.13 and R400.14); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, ~~other than self-review threats,~~ to independence that might be created by the provision of that advice.

Commented [SW24]: I'm struggling conceptually with this paragraph. Initially I thought it should be deleted because there can't be an exception to a prohibition. But looking at the examples, how could we prohibit "proposing adjusting journal entries arising from audit findings"? Likewise, how could we prohibit discussions?

Commented [25]:
New paragraph

600.17 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit or review include:

- Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.
- Advising on the appropriateness of financial and accounting control and the methods used in determining the stated amounts in the financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit or review findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.
- Advising on compliance with group accounting policies.

Commented [26]:
601.3 A3

Addressing Threats

All Audit or Review Clients

600.18 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

Commented [27]:
600.6 A1, 600.6 A3

600.18 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit or review client vary depending on the facts and circumstances of the audit or review engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

Commented [28]:
New paragraph

600.18 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit or review team members to perform the service.

- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

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New paragraph

600.18 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit or review client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

Commented [30]:
New paragraph

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the audit engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Audit Clients

600.19 A1 Paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Audit Clients that are Public Interest Entities

~~600.20 A1 Paragraphs R600.21 to R600.23 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that audits the financial statements of that public interest entity.~~

Commented [SW31]: Not applicable if provision of all NAS to PIEs is prohibited.

~~600.20 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:~~

- ~~• Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.~~
- ~~• Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.~~
- ~~• Identify any services that can be provided to the entities identified in paragraph R600.21 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.~~

- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

R600.21 Before a firm that audits the financial statements of a public interest entity, or a network firm accepts an engagement to provide a non-assurance service to:

- (A) That public interest entity;
 - (B) Any entity that controls, directly or indirectly, that public interest entity; or
 - (C) Any entity that is controlled directly or indirectly by that public interest entity;
- the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
 - (i) Is not prohibited; and
 - (ii) Will not create a threat to the firm's independence as auditor of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

600.21 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

R600.22 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.21 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's

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~~independence as auditor of the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and~~

~~(b) The provision of that service.~~

~~**R600.23** As an exception to paragraphs R600.21 and R600.22, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:~~

~~(a) The firm provides such information as it is able without breaching its legal or professional obligations;~~

~~(b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and~~

~~(c) Those charged with governance do not disagree with the firm's conclusion in (b).~~

~~**R600.24** The firm or network firm, having taken into account any matters raised by those charged with governance of the audit client that is a public interest entity or by the entity referred to in paragraph R600.21 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the audit engagement if:~~

~~(a) The firm or network firm is not permitted to provide any information to those charged with governance of the audit client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or~~

~~(b) Those charged with governance of an audit client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.~~

Audit or Review Client that Later Becomes a Public Interest Entity

R600.25 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit or review client compromises the firm's independence when the client becomes a public interest entity unless:

(a) The previous non-assurance service complies with the provisions of this section that relate to audit or review clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for audit or review clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and

(c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

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600.25 A1 Examples of actions that the firm might recommend to the audit or review client include engaging another firm to:

- Review or re-perform the affected audit work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

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Considerations for Certain Related Entities

R600.26 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit or review clients. As an exception to those requirements and the requirement in paragraph R400.13, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

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R600.10

- (a) An entity that has direct or indirect control over the client;
 - (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
 - (c) An entity which is under common control with the client,
- provided that all of the following conditions are met:
- (i) The firm or a network firm does not express an opinion or conclusion on the financial statements of the related entity;
 - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion or conclusion;
 - (iii) The services do not create a self-review threat; and
 - (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

600.27 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the financial statements on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the audit or review client, including whether the results of the service will be subject to audit or review procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.

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- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- ~~In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.21, the steps taken to comply with paragraphs R600.21 to R600.23.~~

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SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit or review client.

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Requirements and Application Material

General

601.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

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- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
 - Purchase orders.
 - Payroll time records.
 - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

Description of Service

601.2 A3 Accounting and bookkeeping services comprise a broad range of services including:

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601.3 A1

- Preparing accounting records or financial statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing financial statements from one financial reporting framework to another.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit or Review Clients

601.3 A1 Providing accounting and bookkeeping services to an audit or review client creates a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion.

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601.1

Audit or Review Clients that are Not Public Interest Entities

R601.4 A firm or a network firm shall not provide to an audit or review client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or conclusion or financial information which forms the basis of such financial statements, unless:

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R601.5

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

601.4 A1 Accounting and bookkeeping services that are routine or mechanical:

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601.4 A1

- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
- (b) Require little or no professional judgment.

601.4 A2 Examples of services that might be regarded as routine or mechanical include:

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- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit or review clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.14 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.4 (b).

601.4 A3 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit or review client that is not a public interest entity include:

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- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

Audit or Review Clients that are Public Interest Entities

R601.5 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity.

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R601.6

R601.6 As an exception to paragraph R601.5, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit or review client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- (a) The audit or review report on the group financial statements of the public interest entity has been issued;
- (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
- (c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and
- (d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing administrative services.

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Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

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602.2 A2 Examples of administrative services include:

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602.3 A2

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising an audit client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Audit or Review Clients

602.3 A1 Providing administrative services to an audit or review client does not usually create a threat when such services are clerical in nature and require little to no professional judgment.

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Audit or Review Clients that are Public Interest Entities

NZ R602.4 A firm or a network firm shall not provide administrative services to an audit client that is a public interest entity. (Ref: Para. NZ R600.16).

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R601.6

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing valuation services to an audit or review client.

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Requirements and Application Material

Description of Service

603.2 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity.

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603.2 A2 If a firm or a network firm is requested to perform a valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes and the results of the valuation have no effect on the accounting records or the financial statements other than through accounting entries related to tax, the requirements and application material set out in paragraphs 604.17 A1 to 604.19 A1, relating to such services, apply.

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Potential Threats Arising from the Provision of Valuation Services

All Audit or Review Clients

603.3 A1 Providing a valuation service to an audit or review client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

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NZ 603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation services to an audit or review client, and evaluating the level of such threats include:

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- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent of the disclosures related to the valuation in the financial statements.
- The volatility of the amounts involved as a result of dependence on future events.

When ~~a self-review threat for~~ an audit client ~~that~~ is a public interest entity ~~has been identified~~, paragraph NZR603.5 applies.

Audit or Review Clients that are Not Public Interest Entities

603.3 A3 A Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation service to an audit or review client that is not a public interest entity include:

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- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

R603.4 A firm or a network firm shall not provide a valuation service to an audit or review client that is not a public interest entity if:

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R603.4

- (a) The valuation involves a significant degree of subjectivity; and
- (b) The valuation will have a material effect on the financial statements on which the firm will express an opinion or conclusion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

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Audit or Review Clients that are Public Interest Entities

Self-review Threats

NZR603.5 A firm or a network firm shall not provide a valuation service to an audit or review client that is a public interest entity ~~if the provision of such valuation service might create a self-review threat~~. (Ref: Para. ~~R600.14 and~~ NZ R600.16).

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Advocacy Threats

~~603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation service to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.~~

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603.3 A4

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a tax service to an audit or review client.

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Requirements and Application Material

Description of Service

604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory services.
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

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604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.

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Potential Threats Arising from the Provision of Tax Services

604.3 A1 Providing tax services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

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604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an audit or review client, and evaluating the level of such threats include:

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604.3 A2

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

All Audit or Review Clients that are not Public Interest Entities

R604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to an audit or review client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

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604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated

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and safeguards are not capable of being applied to reduce such threats to an acceptable level.

Audit or Review Clients that are Public Interest Entities

NZ R604.5 A firm or a network firm shall not provide a tax service or recommend a transaction to an audit or review client that is a public interest entity if the service or transaction relates to marketing, planning or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance. (Ref: Para. NZ R600.16).

A. Tax Return Preparation

Description of Service

604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

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604.4 A2

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit or Review Clients that are not Public Interest Entities

604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

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604.4 A1, 604.4 A3

Audit or Review Clients that are Public Interest Entities

NZ R604.7 A firm or a network firm shall not provide tax return preparation services to an audit or review client that is a public interest entity.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1 Tax calculation services involves the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the audit or review client.

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Potential Threats Arising from the Provision of Tax Calculation Services

All Audit or Review Clients

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit or review client for the purpose of preparing accounting entries that support such balances creates a self-review threat.

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604.5 A1

Audit or Review Clients that are Not Public Interest Entities

604.9 A1 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for an audit or review client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion or conclusion.

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604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the audit or review client is not a public interest entity include:

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604.5 A3

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

Audit or Review Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit or review client that is a public interest entity. (Ref: Para. R600.14 and R600.16).

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R604.6

C. Tax Advisory and Tax Planning Services

Description of Service

604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the audit or review client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

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604.7 A2

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Audit or Review Clients

604.12 A1 Providing tax advisory and tax planning services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

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604.7 A1

604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

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- (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.

604.12 A3 In addition to paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to audit or review clients, and evaluating the level of such threats include:

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604.7 A3

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
- The extent to which the outcome of the tax advice might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph NZR604.15 applies.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.13 A firm or a network firm shall not provide tax advisory and tax planning services to an audit or review client when:

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R604.8

- (a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and
- (b) The audit or review team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit or Review Clients that are Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to an audit or review client that is not a public interest entity include:

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604.7 A4

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the audit or review work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

NZ R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity ~~if the provision of such services might create a self-review threat.~~ (Ref: Para. ~~R600.14, R600.16, 604.12 A2~~).

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New paragraph

Advocacy Threats

~~604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to an audit client that is a public interest entity include:~~

- ~~• Using professionals who are not audit team members to perform the service.~~
- ~~• Obtaining pre-clearance from the tax authorities.~~

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D. Tax Services Involving Valuations

Description of Service

604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

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New paragraph

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit *or Review* Clients

604.17 A1 Providing a valuation for tax purposes to an audit *or review* client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion *or conclusion*. Such a service might also create an advocacy threat.

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604.9 A1

604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an audit *or review* client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

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604.9 A5

- Have no effect on the accounting records or the financial statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
- Affect the accounting records or the financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

604.17 A3 Performing a valuation for tax purposes for an audit *or review* client will not create a self-review threat if:

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- The underlying assumptions are either established by law or regulation, or are widely accepted; or
- The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Audit or Review Clients that are Not Public Interest Entities

604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an audit or review client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax. This would not usually create threats if the effect on the financial statements is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

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604.9 A2

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an audit or review client that is not a public interest entity, and evaluating the level of such threats:

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604.9 A3

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address such threats for an audit or review client that is not a public interest entity include:

Commented [92]:
604.9 A4

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit or Review Clients that are Public Interest Entities

Self-review Threats

NZ R604.19 A firm or a network firm shall not perform a valuation for tax purposes for an audit client that is a public interest entity ~~if the provision of that service might create a self-review threat.~~ (Ref: Para. ~~R600.14, R600.16, 604.17 A3~~).

Commented [93]:
New paragraph

Advocacy Threats

~~604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an audit client that is a public interest entity include:~~

Commented [94]:
New paragraph

- ~~• Using professionals who are not audit team members to perform the service.~~
- ~~• Obtaining pre-clearance from the tax authorities.~~

E. Assistance in the Resolution of Tax Disputes

Description of Service

604.20 A1 A non-assurance service to provide assistance to an audit or review client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Commented [95]:
604.10 A2

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Audit or Review Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an audit or review client might create a self-review when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such a service might also create an advocacy threat.

Commented [96]:
604.10 A1

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting an audit or review client in the resolution of tax disputes, and evaluating the level of such threats include:

Commented [97]:
604.10 A3

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion or conclusion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for an the -audit client that is a public interest entity has been identified, paragraph NZR604.24 applies.

Audit or Review Clients that are Not Public Interest Entities

604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an audit or review client that is not a public interest entity in the resolution of tax disputes include:

Commented [98]:
604.10 A4

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

Audit or Review Clients that are Public Interest Entities

Self-review Threats

NZR604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity ~~if the provision of that assistance might create a self-review threat.~~ (Ref: Para. ~~R600.14 and R600.16~~).

Commented [99]:
New paragraph

Advocacy Threats

~~604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.~~

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New paragraph

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Audit or Review Clients that are Not Public Interest Entities

R604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit or review client that is not a public interest entity if:

Commented [101]:
R604.11

- (a) The services involve acting as an advocate for the audit or review client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion or conclusion.

Audit or Review Clients that are Public Interest Entities

R604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit or review client that is a public interest entity if the services involve acting as an advocate for the audit client before a tribunal or court.

Commented [102]:
New paragraph

~~604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:~~

Commented [SW103]: I don't think this application paragraph is relevant if NAS are prohibited for PIEs.

- ~~• Responding to specific requests for information.~~
- ~~• Providing factual accounts or testimony about the work performed.~~
- ~~• Assisting the client in analyzing the tax issues related to the matter.~~

Commented [104]:
604.11 A1

604.27 A2 What constitutes a "tribunal or court" depends on how tax proceedings are heard in the particular jurisdiction.

Commented [105]:
604.11 A2

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an internal audit service to an audit or review client.

Commented [106]:
605.2

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the audit or review client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the financial statements.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit or review client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

Commented [107]:
605.3 A1

Commented [108]:
605.3 A2

Commented [109]:
605.4 A1, R605.4

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

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605.4 A1

605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit or Review Clients

605.4 A1 Providing internal audit services to an audit or review client might create a self-review threat when there is a risk that the results of the services impact the audit of the financial statements on which the firm will express an opinion or conclusion.

Commented [111]:
605.1

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs (NZ) require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit or review client, the results of those services might be used in conducting the external audit or review. This might create a self-review threat because it is possible that the audit or review team will use the results of the internal audit service for purposes of the audit or review engagement without:

Commented [112]:
605.4 A3

Commented [SW113]: Intentionally left as audit

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit or review client, and evaluating the level of such a threat include:

Commented [114]:
605.4 A4

- The materiality of the related financial statements amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.

- The degree of reliance that the audit or review team will place on the work of the internal audit service.

Audit or Review Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an audit or review client that is not a public interest entity is using professionals who are not audit or review team members to perform the service.

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605.4 A5

Audit or Review Clients that are Public Interest Entities

NZR605.6 A firm or a network firm shall not provide internal audit services to an audit or review client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Commented [116]:
R605.5

~~605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:~~

Commented [117]:
R605.5

- ~~• The internal controls over financial reporting;~~
- ~~• Financial accounting systems that generate information for the client's accounting records or financial statements on which the firm will express an opinion;~~
- ~~• Amounts or disclosures that relate to the financial statements on which the firm will express an opinion;~~

Commented [SW118]: Don't think this paragraph is necessary given the strict prohibition on providing NAS to PIE audit clients. Consider deleting.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit or review client.

Commented [119]:
606.2

Requirements and Application Material

Description of Service

606.2 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

Commented [120]:
606.3 A1

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit or review client's accounting records or the internal control over financial reporting or financial statements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit or review client, the firm or network firm shall be satisfied that:

Commented [121]:
R606.4, 606.3 A2

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Potential Threats Arising from the Provision of IT Systems Services

All Audit of Review Clients

606.4 A1 Providing IT systems services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the audit or review of the financial statements on which the firm will express an opinion or conclusion.

Commented [122]:
606.1

606.4 A2 Providing the following IT systems services to an audit or review client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility:

Commented [123]:
606.3 A2

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming part of the accounting records or financial statements; and
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant.

606.4 A3 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit or review client, and evaluating the level of such a threat include:

Commented [124]:
606.4 A1

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's accounting records, internal controls over financial reporting or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit or review.

Audit or Review Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an audit or review client that is not a public interest entity is using professionals who are not audit or review team members to perform the service.

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606.4 A2

Audit or Review Clients that are Public Interest Entities

NZR606.6 A firm or a network firm shall not provide IT systems services to an audit or review client that is a public interest entity ~~if the provision of such services might create a self-review threat~~ (Ref: Para. R600.14 and R600.16).

Commented [126]:
R606.5

~~606.6 A1 Examples of services that are prohibited because they give rise to a self-review threat include those involving designing or implementing IT systems that:~~

Commented [127]:
R606.5

- ~~• Form part of the internal control over financial reporting; or~~
- ~~• Generate information for the client's accounting records or financial statements on which the firm will express an opinion.~~

Commented [SW128]: Consider deleting. All services prohibited.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a litigation support service to an audit or review client.

Commented [129]:
607.2

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

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607.3 A1

Potential Threats Arising from the Provision of Litigation Support Services

All Audit or Review Clients

607.3 A1 Providing litigation support services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

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607.1

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to an audit or review client, and evaluating the level of such threats include:

Commented [132]:
607.3 A2

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the financial statements on which the firm will express an opinion or conclusion.

When ~~a self-review threat for~~ an audit client ~~that~~ is a public interest entity ~~has been identified~~, paragraph R607.6 applies.

607.4 A2 If a firm ~~or~~ a network firm provides a litigation support service to an audit or review client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the financial statements on which the firm will express an opinion or review, the requirements and application material set out in Subsection 603 related to valuation services apply.

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607.3 A4

Audit or Review Clients that are Not Public Interest Entities

607.5 A1 An example of ~~an~~ action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to an audit or review client that is not a public interest entity is using a professional who was not an audit or review team member to perform the service.

Commented [134]:
607.3 A3

Audit or Review Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm ~~or~~ a network firm shall not provide litigation support services to an audit or review client that is a public interest entity ~~if the provision of such services might create a self-review threat~~. (Ref: Para. ~~R600.14 and NZR600.16~~).

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New paragraph

~~607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the financial statements on which the firm will express an opinion.~~

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New paragraph

Advocacy Threats

~~607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to an audit client that is a public interest entity is using a professional who was not an audit team member to perform the service.~~

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New paragraph

Acting as a Witness

All Audit or Review Clients

607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

Commented [138]:
New paragraph

- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
- (b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

607.7 A2 A threat **to** independence is not created when an individual, in relation to a matter that involves an audit **or review** client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

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New paragraph

607.7 A3 The **advocacy** threat created when acting as an expert witness on behalf of an audit **or review** client is at an acceptable level if a firm or a network firm is:

Commented [140]:
New paragraph

- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
- (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
 - (i) The firm's audit **and review** clients constitute less than 20% of the members of the class or group (in number and in value);
 - (ii) No audit **or review** client is designated to lead the class or group; and
 - (iii) No audit **or review** client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

*Audit **or Review** Clients that are Not Public Interest Entities*

607.8 A1 An **example** of an action that might be a safeguard to address an advocacy threat for an audit **or review** client that is not a public interest entity is using a professional to perform the service who is not, and has not been, an audit **or review** team member.

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607.3 A3

*Audit **or Review** Clients that are Public Interest Entities*

NZR607.9 A firm **or** a network firm, or an individual within a firm or a network firm, shall not act for an audit **or review** client that is a public interest entity as an expert witness in a matter **unless the circumstances set out in paragraph 607.7 A3 apply.**

Commented [142]:
New paragraph

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 In **addition** to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a legal service to an audit **or review** client.

Commented [143]:
608.2

Requirements and Application Material

Description of Service

608.2 A1 Legal **services** are defined as any services for which the individual providing the services must either:

Commented [144]:
608.3 A1

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Commented [145]:
New paragraph

Potential Threats Arising from Providing Legal Services

All Audit or Review Clients

608.3 A1 Providing legal services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

Commented [146]:
608.1

A. Providing Legal Advice

Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to audit or review clients, such as:

Commented [147]:
608.4 A1

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Audit or Review Clients

608.5 A1 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing legal advice to an audit or review client include:

Commented [148]:
608.4 A2

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client's financial statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client's financial statements.

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New paragraph

608.5 A3 Negotiating on behalf of an audit or review client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

Commented [150]:
New paragraph

Audit or Review Clients that are Not Public Interest Entities

608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an audit or review client that is not a public interest entity include:

- Using professionals who are not audit or review team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

Commented [151]:
608.4 A3

Audit or Review Clients that are Public Interest Entities

Self-review Threats

NZR608.7 A firm or a network shall not provide legal advice to an audit or review client that is a public interest entity ~~if the provision of such a service might create a self-review threat.~~ (Ref: Para. ~~R600.14 and R600.16~~).

Commented [152]:
New paragraph

Advocacy Threats

~~608.8 A1 The considerations in paragraphs 608.5 A1 and 608.5 A3 to 608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an audit client that is a public interest entity.~~

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New paragraph

B. Acting as General Counsel

All Audit or Review Clients

R608.9 A partner or employee of the firm or the network firm shall not serve as General Counsel of an audit or review client.

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R608.5

608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

Commented [155]:
608.5 A1

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Audit or Review Clients that are Not Public Interest Entities

R608.10 A firm or a network firm shall not act in an advocacy role for an audit or client that is a not public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts involved are material to the financial statements on which the firm will express an opinion or conclusion.

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R608.6

608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit or review client that is not a public interest entity include:

Commented [157]:
608.6 A1

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed.

Audit or Review Clients that are Public Interest Entities

R608.11 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

Commented [158]:
New paragraph

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a recruiting service to an audit or review client.

Commented [159]:
609.2

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

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609.3 A1

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit or review client, the firm shall be satisfied that:

Commented [161]:
609.1, R609.4, 609.3 A3

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Audit or Review Clients

609.4 A1 Providing recruiting services to an audit or review client might create a self-interest, familiarity or intimidation threat.

Commented [162]:
609.1

609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

Commented [163]:
609.3 A2

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an audit or review client, and evaluating the level of such threats include:

Commented [164]:
609.5 A1

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit or review team members to perform the service.

Commented [165]:
609.5 A2

Audit or Review Clients that are Not Public Interest Entities

Recruiting Services that are Prohibited

R609.5 When providing recruiting services to an audit or review client, the firm or the network firm shall not act as a negotiator on the client's behalf.

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R609.6

R609.6 A firm or a network firm shall not provide a recruiting service to an audit or review client if the service relates to:

Commented [167]:
R609.7

- (a) Searching for or seeking out candidates;
- (b) Undertaking reference checks of prospective candidates;
- (c) Recommending the person to be appointed; or
- (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate,

with respect to the following positions:

- (i) A director or officer of the entity; or
- (ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or conclusion.

Audit or Review Clients that are Public Interest Entities

NZR609.7 A firm or a network firm shall not provide a recruiting service to an audit or review client that is a public interest entity.

Commented [168]:
R609.7

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an audit or review client.

Commented [169]:
610.2

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

- Assisting an audit or review client in developing corporate strategies.
- Identifying possible targets for the audit or review client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

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610.3 A1

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit or Review Clients

610.3 A1 Providing corporate finance services to an audit or client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

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610.1

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to an audit or review client, and evaluating the level of such threats include:

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610.3 A2

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.

- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
 - The outcome of the corporate finance service might have a material effect on the financial statements.

When ~~a self-review threat for~~ an audit client ~~that~~ is a public interest entity ~~has been identified~~, paragraph NZR610.8 applies.

Corporate Finance Services that are Prohibited

R610.5 A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit or review client or providing advice on investment in such shares, debt or other financial instruments.

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R610.4

R610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to an audit or review client where:

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R610.5

- (a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion or conclusion; and
- (b) The audit or review team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit or Review Clients that are Not Public Interest Entities

610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to an audit or review client that is not a public interest entity include:

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610.3 A3

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

Audit or Review Clients that are Public Interest Entities

Self-review Threats

NZR610.8 A firm or a network firm shall not provide corporate finance services to an audit or review client that is a public interest entity ~~if the provision of such services might create a self-review threat~~. (Ref: Para. ~~R600.14~~ and ~~R600.16~~).

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New paragraph

Advocacy Threats

~~610.8 A1 — An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.~~

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New paragraph

II. Chapter 2 –Conforming Amendments to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

General

...

Requirements and Application Material

...

General

R400.11 A firm performing an audit engagement shall be independent.

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R400.11

R400.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

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R400.12

Prohibition on Assuming Management Responsibilities

R400.13 A firm or a network firm shall not assume a management responsibility for an audit or review client.

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R600.7

400.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

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600.7 A1

400.13 A2 When a firm or a network firm assumes a management responsibility for an audit or review client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

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600.7 A2

400.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

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600.7 A3

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties

to implement.

- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

400.13 A4 Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit or review client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

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600.7 A4

R400.14 When performing a professional activity for an audit or review client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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R600.8

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the activities; and
- (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

[Paragraphs 400.15 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit or review client that is a listed entity-FMC reporting entity considered to have a higher level of public accountability includes all of its related entities. For all other entities, references to an audit or review client in this Part include related entities over which the client has direct or indirect control. When the audit or review team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit or review team shall include that related entity when identifying, evaluating and addressing threats to independence.

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R400.20

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

All Audit Clients

R400.30 Independence, as required by this Part, shall be maintained during both:

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R400.30

- (a) The engagement period; and

(b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.

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400.30 A1

R400.31 If an entity becomes an audit or review client during or after the period covered by the financial statements on which the firm will express an opinion or a conclusion, the firm shall determine whether any threats to independence are created by:

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R400.31

(a) Financial or business relationships with the audit or review client during or after the period covered by the financial statements but before accepting the audit or review engagement; or

(b) Services provided to the audit or review client by the firm or a network firm in prior financial statement periods.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit or review client during, or after the period covered by the financial statements, but before the audit or review team begins to perform the audit or review, and the service would not be permitted during the engagement period.

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400.31 A1

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion or a conclusion.

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New paragraph

400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

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400.31 A2

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit or review work or non-assurance service –as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit or review engagement period or prior to the period covered by the financial statements on which the firm will express an opinion or a conclusion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited or reviewed by another firm.

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New paragraph

Audit or Review Clients that are Public Interest Entities

NZR400.32 A firm shall not accept appointment as auditor or assurance practitioner of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to

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New paragraph

such appointment ~~that might create a self-review threat in relation to the financial statements on which the firm will express an opinion unless:~~

- (a) The provision of such service ceases before the commencement of the audit ~~or review~~ engagement period,
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor ~~or assurance practitioner~~ of that entity include:

- The results of the service had been subject to auditing ~~or review~~ procedures in the course of the audit ~~or review~~ of the prior year's financial statements by a predecessor firm.
- The firm engages ~~an assurance practitioner-professional accountant~~, who is not a member of the firm expressing the opinion ~~or conclusion~~ on the financial statements, to perform a review of the first audit ~~or review~~ engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,to the extent necessary to enable the other firm to take responsibility for the result of the service.

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New paragraph

Commented [SW196]: Part 4A applies equally to audit and review engagements – however, these paragraphs are drafted by IESBA only with audit in mind.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

III. Chapter 3 – Consequential Amendments to Section 950

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

...

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS

Introduction

950.1 Firms are ~~required~~ to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [SW197]: Board discussions have focused on the impact of NAS on audit/review independence. Do we accept the position taken by IESBA in relation to other assurance?

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950.1

950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

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950.2

950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.

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950.3 A1

950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms might provide to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

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950.3 A2

Requirements and Application Material

General

Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

950.5 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.13 and R900.14 have been complied with.

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New paragraph

Accepting an Engagement to Provide a Non-Assurance Service

R950.6 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

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R950.3

Identifying and Evaluating Threats

950.7 A1 A description of the categories of threats that might arise when a firm provides a non-assurance service to an assurance client is set out in paragraph 120.6 A3.

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New paragraph

950.7 A2 Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service to an assurance client include:

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950.4 A1

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:

- The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
- The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

Materiality in Relation to an Assurance Client's Information

950.8 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an assurance client. The concept of materiality in relation to an assurance client's subject matter information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

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950.4 A2

Multiple Non-assurance Services Provided to the Same Assurance Client

950.9 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

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950.4 A3

Self-Review Threats

950.10 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

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950.8 A1

- (a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.
- (b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

Assurance clients that are public interest entities

950.11 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

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New paragraph

- (a) Made available publicly, including to shareholders and other stakeholders; or
- (b) Provided to an entity or organization established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

- 950.11 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.11 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organization established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

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New paragraph

Addressing Threats

- 950.12 A1 Paragraphs 120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

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950.5 A1

- 950.12 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

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- 950.12 A3 Examples of actions that might be safeguards to address such threats include:

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- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the assurance work or service performed.

- 950.12 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

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New paragraph

- (a) Adjust the scope of the proposed service to eliminate to the circumstances that are creating the threat;
- (b) Decline or end the service that creates the threat that cannot be eliminated or reduced to an acceptable level; or
- (c) End the assurance engagement.

IV. Chapter 4 – Conforming Amendments to Section 900

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Section 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

...

Requirements and Application Material

General

- R900.11** A firm performing an assurance engagement shall be independent of the assurance client.
- 900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).
- 900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.
- 900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.
- R900.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

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R900.11

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900.11 A1

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900.11 A2

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900.11 A3

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R900.12

Prohibition on Assuming Management Responsibilities

- R900.13** A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.
- 900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

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R950.6

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950.6 A1

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950.6 A2

900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

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950.6 A3

900.13 A4 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

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950.6 A4

R900.14 When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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R950.7

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the activities; and
- (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.14 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and

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900.13 A1

a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- (a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- (b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

Network Firms

R900.15 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

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R900.14

900.15 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

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900.14 A1

Related Entities

R900.16 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

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R900.15

[Paragraphs 900.17 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

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R900.30

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

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900.30 A1

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

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R900.31

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or

(b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

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R900.32

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance or non-assurance work as appropriate.

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900.32 A1

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

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R900.33

- (a)** The firm is satisfied that:
- (i)** The non-assurance service will be completed within a short period of time; or
 - (ii)** The client has arrangements in place to transition the service to another provider within a short period of time;
- (b)** The firm applies safeguards when necessary during the service period; and
- (c)** The firm discusses the matter with the party engaging the firm or those charged with governance of the assurance client.

Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material that is relevant to communications with a party engaging the firm or those charged with governance of the assurance client.

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New paragraph

900.34 A2 Communication with a party engaging the firm or those charged with governance of the assurance client might be appropriate when significant judgments are made, and conclusions reached, to address threats to independence in relation to an assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

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New paragraph

[Paragraphs 900.35 to 900.39 are intentionally left blank]

V. Chapter 5 – Conforming Amendment to Section 525

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 525

TEMPORARY PERSONNEL ASSIGNMENTS

...

Requirements and Application Material

R525.4 A firm or a network firm shall not loan personnel to an audit client unless the firm or network firm is satisfied that:

- (a) Such assistance is provided only for a short period of time;
- (b) Such personnel will not assume management responsibilities and the audit client will be responsible for directing and supervising the activities of such personnel;
- (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
- (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	8 April 2021
Subject:	Public interest entity definition
Date:	26 March 2021
Prepared by:	Misha Pieters

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

1. For the Board to CONSIDER feedback received and APPROVE a draft submission in response to the IESBA's exposure draft to amend the definition of a public interest entity (PIE).
2. The submission is due to the IESBA on **3 May** which is before the next NZAuASB meeting.

Background

3. At the February 2021 meeting, the NZAuASB considered the [IESBA's exposure draft](#) to amend the International Code of Ethics definition of a public interest entity and the implications for the New Zealand definition.
4. The proposed revisions:
 - a. Introduce an overarching objective for additional independence requirements for entities that are PIEs.
 - b. Provide guidance on factors for consideration when determining the level of public interest in an entity.
 - c. Expand the extant definition of PIE to a list of categories of entities that should be treated as PIEs, subject to refinement by the relevant local bodies responsible for standard setting as part of the adoption and implementation process.
 - d. Replace the term "listed entity" with one of the new PIE categories, "publicly traded entity."
 - e. Elevate the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and include enhanced guidance on factors for consideration by firms.
 - f. Require firms to disclose if an audit client has been treated as a PIE.

5. Historically the IESBA's Code had a focus on listed entities and the IESBA is now proposing to expand the PIE definition but continues to recognise the important role of national standard setters in tailoring the international approach for local conditions and of the firms.
6. In New Zealand, the NZAuASB has historically amended the PIE definition, to include FMC reporting entities considered to have a higher level of public accountability and all entities that are required to apply the tier 1 reporting framework (i.e., across all sectors). The Board discussed an outreach plan with a focus on the implications of these proposals for the New Zealand PIE definition. The appendix to this summary paper provides a summary of which entities meet the definition of a PIE in New Zealand under the current definition.
7. Subsequent to the February meeting, IESBA staff have issued a supplementary guidance document to aid local body considerations regarding adoption and implementation. This guidance is available at **agenda item 4.3**.
8. Staff will also attend a virtual event hosted by the APESB in April and continue to liaise in finalising the New Zealand submission.

Outreach

9. Staff held a virtual event in March to promote awareness of the international exposure draft and to explore the implications for the New Zealand PIE definition. 18 participants registered but fewer participants joined on the day. The event was attended by practitioners, the professional bodies, academics and two other/unknown stakeholder groups.
10. We conducted a number of polls during the interactive session and the results are included in **agenda item 4.4**. We found it especially interesting that to start with, 63% of participants agreed that the extant NZ PIE definition is about right and no participants thought that the New Zealand definition was too narrow. After exploring the IESBA proposals with the participants, these responses changed with 11% considering the extant definition to be too broad, 56% about right and 33% considered that the definition was too narrow (i.e., was missing some entities for which there is significant public interest). We also sought feedback from the FMA and the OAG and will provide a verbal update at the meeting.
11. Staff highlighted the exposure draft in recent NZAuASB communications and sought written feedback to the NZAuASB by **March 25th**. Written submissions received by the time the meeting agenda papers are posted will be available from agenda item **4.6**. The draft submission has been prepared based on the discussions with the Board in February and the results of outreach undertaken prior to the 25th of March. There has not been time to perform a detailed analysis of written submissions and the NZAuASB submission may need to be adjusted after the April meeting to reflect additional matters raised in written submissions received.

Matters to Consider

12. Board members are asked to provide feedback on the developing draft submission.

Next Steps

13. There will be a need to prepare a New Zealand specific exposure draft once the IESBA finalizes its proposals.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Draft submission
Agenda item 4.3	Supplementary Guidance to Exposure Draft to Aid Local Body Considerations Regarding Adoption and Implementation
Agenda item 4.4	Results from virtual event and feedback received verbally (confidential)
Agenda item 4.5	Email from OAG (confidential)
Agenda item 4.6	Email from CAANZ staff (confidential)

Appendix: Current New Zealand PIE definition

“[NZ] Public interest entity – Any entity that meets the Tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier.”

The NZ definition includes:

FMC entities considered to have a higher level of public accountability (regulated and determined by the FMA) including:

- Equity issuers
- Debt issuers
- Licensed derivative issuers
- Listed issuers
- Recipients of money from conduit issuer
- Registered banks
- Licensed insurers
- Credit unions
- Building societies

(<https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information/#accountability>)

Large for-profit public sector entities

Large NFPs

Large public sector entities

Entities that have public accountability

The NZ PIE definition currently excludes FMC entities designated as having lower levels of public accountability (which includes):

- Licensed MIS managers (for the manager’s own financial statements)
- Licensed providers of DIMS (under the FMC Act)
- Licensed peer-to-peer lending service providers
- Licensed crowd funding service providers
- Licensed supervisors
- Licensed market operators (domestic)



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

Draft prepared by staff for consideration by the NZAuASB. Extracts from the proposed standard are included for context to facilitate discussion and will be removed from the final submission

3 May 2021

Stavros Thomadakis
Chair
International Ethics Standards Board for Accountants
539 Fifth Avenue
New York, 10017
USA

Dear Stavros,

IESBA Exposure Draft – Proposed Revision to the Definitions of Listed Entity and Public Interest Entity (PIE) in the Code

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revision to the Definitions of Listed Entity and Public Interest Entity in the Code*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

In formulating this response, the NZAuASB held a virtual roundtable to seek views from various stakeholders, including auditors, academics, and preparers. We also met with regulators, including the Financial Markets Authority and Chartered Accountants Australia and New Zealand and sought views from the public sector. All feedback received informed the development of this submission.

In New Zealand, the NZAuASB has adopted a New Zealand specific PIE definition that is broader than listed entities which has been in effect for a number of years. The New Zealand definition has been refined over time. The NZAuASB is therefore very supportive of the IESBA's project to revise the global definition of a PIE in the *International Code of Ethics for Professional Accountants including International Independence Standards* and is broadly supportive of the approach adopted, recognizing the role of the global standard setter, local standard setters, regulators and the firms in adopting and adapting which entities meet the objectives of the additional PIE requirements.

In particular the NZAuASB encourages the IESBA to reconsider the way in which the purpose of the PIE requirements has been articulated. The NZAuASB also cautions against the approach of requiring transparency as to whether the PIE requirements have been applied, noting that this may have unintended consequences. Rather, in the first instance, the NZAuASB recommends that the firms should communicate

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with those charged with governance as to whether the PIE requirements have been applied. Further details on these key points are outlined in response to the particular questions below.

Should you have any queries concerning our submission please contact , Sylvia van Dyk, Director – Assurance Standards, at sylvia.vandyk@xrb.govt.nz.

Yours sincerely,

Robert Buchanan

Chair

Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Exposure Draft – Proposed Revision to the Definitions of Listed Entity and Public Interest Entity in the Code

Schedule of Responses to the IESBA's Specific Questions

Overarching Objective

1. Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

400.8 Some of the requirements and application material set out in this Part ~~reflect the extent of public interest in certain entities which are defined to be applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. [Moved to R400.17] The extent of public interest will depend on Ffactors to be considered including:~~

~~400.9 The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements.~~

Response:

The NZAuASB agrees that it is important to clearly articulate the objective for defining entities as PIEs and considers that it is especially important to make it clear that the additional independence requirements are not about having a different "level" of independence.

The NZAuASB does not however support the objectives as set out in proposed paragraphs 400.8 and 400.9, as we consider the proposed objective lacks the necessary clarity to make this clear. Rather, the proposed objective may be confusing and misunderstood to imply that there are two levels of independence.

The NZAuASB considers that proposed paragraph 400.8 is clearer, with a focus on perception, and on entities with wider and higher visibility. However, we consider that proposed paragraph 400.9 is too generic and when read on its own is applicable to all audit engagements.

67% of participants on our virtual outreach event also agreed that the proposed objective applies equally to all audit engagements with a further 17% supporting a revised objective.

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.¹ It is therefore important that all intended users have confidence in the audit engagement that they are relying on.

We recommend that the rationale in proposed paragraph 400.9 may be better articulated with reference to the conceptual framework within the Code, i.e., for entities which reflect significant public interest in the financial condition, there are or may be different or heightened threats, perceived or otherwise, to the independence of auditors. Based on the higher threats (perceived or otherwise), additional requirements are included within the Code for audits of public interest entities to ensure that the threats are eliminated or reduced to an acceptable level. There is also an opportunity to emphasise in the Code as part of the objective for the PIE requirements that the rationale for the PIE requirements does not create different levels of independence.

The factors described in proposed paragraph 400.8 helpfully articulated why there may be significant public interest in an entity, which is an important part of describing the rationale for the additional requirements. In addition, the NZAuASB considers there to be a lack of clarity between proposed paragraph 400.8, which references more broadly to the financial condition of these entities but then reverts back to a focus on confidence in the financial statements in proposed paragraph 400.9.

The NZAuASB is supportive of a broader focus on the financial conditions of the entity as part of identifying PIEs and the rationale for the PIE requirements, so specifically recommends that proposed paragraph 400.9 should be reworded.

2. Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?

- The nature of the business or activities, such as ~~the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds taking on financial obligations to the public as part of an entity's primary business.~~
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

Response:

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with the International Standards on Auditing*, paragraph 3.

At our virtual event, the majority of participants did not identify concerns with the factors as described, rather agreed that these confirmed what types of entities should be considered to be identified as a PIE.

The NZAuASB also found the proposed list of factors useful and that the proposed revisions are in line with the current understanding of and approach to identifying PIEs in the extant New Zealand definition. We recommend that it might be helpful to emphasise in the Code that there is a balance to be struck as to whether each factor should be applied separately or balanced against each other, similar to the explanation in the explanatory memorandum.

An example of where such clarity was highlighted is the new factor, as to whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. In isolation this factor would imply that any entity that is subject to regulatory supervision is a PIE. The explanatory memorandum notes that these should not be read in isolation.

Approach to Revising the PIE Definition

3. Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:

- **Replacing the extant PIE definition with a list of high-level categories of PIEs?**
- **Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?**

Response:

The NZAuASB is very supportive of the approach adopted by the IESBA and considers that replacing the extant PIE definition with a list of categories of PIEs is a useful step to promote global consistency, appropriately tailored at the local level.

The extant New Zealand definition of a PIE encompasses the categories of entities included in the proposed categories of PIEs.

PIE Definition

4. Do you support the proposals for the new term “publicly traded entity” as set out in subparagraph R400.14(a) and the Glossary, replacing the term “listed entity”? Please provide explanatory comments on the definition and its description in this ED.

Publicly traded entity **An entity that issues financial instruments that are transferrable and publicly traded.**

Response:

The NZAuASB considers that the term listed entity would benefit from clarification to ensure consistency with respect to second-tier markets or over-the-counter trading platforms, and what is meant by a “recognised” stock exchange.

Commented [MP1]: Question to the NZAuASB– do you consider that the introduction of this new factor would result in **all** FMC reporting entities being classified as a PIE, not just those with higher levels of public accountability. The FMA has indicated that this is a desirable outcome, making it simpler and minimizing the risk of misapplying the PIE definition

Commented [MP2]: In New Zealand, the entity will be a FMC HPLA when they are listed, irrespective of whether they are only listed but not intended to be traded.

The NZAuASB encourages the IAASB and the IESBA to work closely together to ensure that any new “term” can be defined and applied consistently across both the auditing standards and the ethical standards.

During our virtual outreach event, the change in terminology raised more questions, including how many trades are needed to meet the definition of “publicly traded”, one, two or more? The new terminology also highlighted that not all of these other platforms are regulated in the same way as stock exchanges are, so there is likely to remain ongoing matters for consideration at a local level. The questions raised by participants confirms that there is a need for further clarification.

The NZAuASB considers that the extant New Zealand definition incorporates the broader approach proposed by the IESBA. For example, there is a large dairy co-operative whose instruments may not be “listed”, rather shares can be purchased from other farmer shareholders at the co-operative’s shareholders market or privately through an off-market transaction (e.g., as part of a farm sale). The co-operative is included within the New Zealand definition of a PIE. Unlisted is an example of a second - tier market in New Zealand. We understand that entities listed on the Unlisted exchange would be considered to be a PIE in New Zealand.

Commented [MP3]: NZAuASB members are asked to confirm whether this is their understanding.

5. Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

Public Interest Entities

R400.14 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public;
- (d) An entity whose function is to provide post-employment benefits;
- (e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
- (f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9.

Response:

Yes, the NZAuASB agrees with the remaining categories set out in proposed R400.14. We consider that these categories reflect categories that would be adopted by most jurisdictions and includes the categories of entities that are captured by the extant New Zealand definition (to the extent that the determination is not made with reference to the size, which is determined within the New Zealand context).

6. Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added? Please provide your views on whether, bearing in mind the overarching objective, entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO) should be captured as a further PIE category in the IESBA Code. Please provide your views on how these could be defined for the purposes of the

Code recognizing that local bodies would be expected to further refine the definition as appropriate.

Response:

Yes, we agree with the proposed factors and have not identified any key missing factors. As noted in response to question 2, the NZAuASB found the proposed list of factors useful and that the proposed revisions are in line with the current understanding of and approach to identifying PIEs in the extant New Zealand definition. We encourage the IESBA to make it clearer in the Code that the factors should not be read in isolation.

The majority of the participants at our virtual roundtable agreed that less conventional forms of capital raising, such as an initial coin offering should be captured as a PIE, however many participants also supported “maybe”, suggesting that it may not be as simple that all forms of capital raising default to being a PIE.

The NZAuASB considers that the factors in proposed 400.8 are useful in balancing the factors that should be considered in determining whether ICOs and other less conventional forms of capital raising should be captured as a PIE.

7. Do you support proposed paragraph 400.15 A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?

400.15 A1 The categories set out in paragraph R400.14 are broadly defined and no recognition is given to any size or other criteria that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to refine these categories by, for example, making reference to local law and regulation governing certain types of entities. Similarly, the Code also provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure.

Response:

The NZAuASB is supportive of the high level nature of the list and the role described by IESBA for the relevant local bodies. We encourage the IESBA to reflect on how a local jurisdiction would adopt this specific paragraph in a local Code, the language in proposed paragraph 400.15 A1 is appropriate in a global code but is not easily adopted in a local code, as it is largely not relevant within a specific jurisdiction.

8. Please provide any feedback to the IESBA’s proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?

Response:

The NZAuASB found the *Supplementary Guidance to Exposure Draft to Aid Local Body Considerations Regarding Adoption and Implementation* very useful. Ongoing discussion at the annual NSS meeting

as to how each jurisdiction is adopting and adapting the PIE definition would also be welcomed as especially helpful at a local level, including the specific types of entities where IESBA has not included a category of entity, including: charities, public sector entities, public utilities and custodians.

9. Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?

~~R400.16~~ **[Moved from 400.8]** ~~A Firms are encouraged shall to~~ determine whether to treat additional entities, or certain categories of entities, as public interest entities ~~because they have a large number and wide range of stakeholders. When making this determination, the firm shall take into account whether a reasonable and informed third party would be likely to conclude such entities should be treated as public interest entities.~~

Response:

At our virtual roundtable, 67% of participants supported the proposal.

The NZAuASB is supportive of a principled-based approach whereby firms exercise their professional judgement to determine whether an entity should be treated as a PIE. Additional guidance may be needed to assist firms determine when a reasonable and informed third party would be likely to conclude that an entity should be treated as a PIE. The repercussions for the firms may be significant if a regulator assesses that a reasonable and informed third party would conclude that an entity should be treated as a PIE, but the firm has not reached that conclusion. Clear guidance would be helpful to ensure that a proportionate and cost-effective approach is applied by all.

10. Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

~~400.16 A1~~ In addition to the factors listed in paragraph 400.8, factors to consider when determining whether additional entities or certain categories of entities should be treated as public interest entities include:

- ~~• Whether the entity has been specified as not being a public interest entity by law or regulation.~~
- ~~• Whether the entity is likely to become a public interest entity in the near future.~~
- ~~• Whether in similar circumstances the firm or a predecessor firm has treated the entity as a public interest entity.~~
- ~~• Whether in similar circumstances the firm has treated other entities as a public interest entity.~~
- ~~• Whether the entity or other stakeholders requested the firm to treat the entity as a public interest entity and, if so, whether there are any reasons for not meeting this request.~~
- ~~• The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.~~

Response:

The NZAuASB considers that the ~~firms~~ are best positioned to comment on these factors.

Commented [MP4]: Question to NZAuASB and practitioner members – do you have any specific comments to be raised by the NZAuASB. We did not ask this question specifically during our outreach event, but did not that 1/3 of participants did not support this change.

During our virtual event, participants specifically agreed that the entity itself should be an important consideration as to whether or not the PIE requirements should apply. In this regard, we recommend that, rather than promoting transparency by the auditor to the user as to whether the PIE requirements have been applied, an interim but very important first step should be communicating which independence requirements have been applied to the entity's audit engagement with those charged with governance to guide the firm's assessment as to whether the entity is a PIE or not. This may be especially important for entities where the PIE requirements have not been applied.

11. Do you support the proposal for firms to disclose if they treated an audit client as a PIE?

Response:

78% of participants at our virtual roundtable did not support the proposal for firms to disclose if they treated an audit client as a PIE.

NZAuASB members had mixed views as to the benefits and potential unintended consequences of requiring transparency as to when the PIE independence requirements have been applied. While the NZAuASB notes the benefits of transparency, it was highlighted that those benefits are constrained to what users will understand.

As noted in response to question 1, we have concerns with the way in which the objective of the PIE requirements has been expressed. We consider that the definition and scope of the PIE definition is a complex matter, with the potential for misinterpretation. Further confusion may run the risk of further widening the audit expectation gap. The Code requires all auditors to be independent. Confidence in the independence of all auditors for all audits, is in the public interest, regardless of whether the audit is performed for a public interest entity.

We caution the IESBA to consider the unintended consequences of promoting transparency as to whether or not a client has been treated as a PIE. There is likely to be ongoing variation within various jurisdictions as to which entities meet the definition of a PIE, based on local circumstances, including size and whether a firm determines it is necessary to treat an entity as a PIE. Without a clear rationale as to what the objective is for the additional PIE requirements, and further information about the context in which the determination has been made, we consider that there is a risk that users may misinterpret such transparency as meaning that some auditors are "more independent" than others. We consider that this could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities and potentially exacerbate the audit expectation gap.

12. Please share any views on possible mechanisms (including whether the auditor's report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each. Also see question 15(c) below.

Response:

The NZAuASB considers that the IAASB will need to determine whether the auditor's report is an appropriate mechanism for achieving any disclosure regarding whether or not the auditor has applied the PIE requirements for that engagement. This might be addressed as part of the post implementation review of the revised auditors report.

As noted in response to question 11, the NZAuASB similarly encourages the IAASB to consider the unintended consequences of such disclosure and how those may be overcome in determining whether the auditor's report is an appropriate mechanism.

As noted in response to question 10, we also recommend that an interim but important first step should be communicating which independence requirements have been applied by the auditor to those charged with governance of the client. This may be especially important for entities where the PIE requirements have not been applied.

13. For the purposes of this project, do you support the IESBA's conclusions not to:

- a) **Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream?**

Response:

The NZAuASB supports the IESBA's conclusion.

- b) **Propose any amendments to Part 4B of the Code?**

Response:

The NZAuASB agrees that some assurance engagements, other than audits of financial statements, are of greater public interest than others, and that this has to do with both the nature of the engagement and the nature of the entity.

While the NZAuASB agrees that proposing amendments to Part 4B is outside the scope of this project, we highlight that IFAC and the IIRC have recently set out their vision for accelerating integrated reporting assurance. They recognise that as an increasing number of businesses around the world implement integrated reporting as a route to long-term value creation and sustainable development, demand for assurance on such reports is expected to rise and that development and evolution of integrated reporting assurance is needed to make a greater contribution to the confidence and credibility of integrated reporting. They recognise that ultimately assurance on integrated reports enhances the credibility of corporate reporting on the business as a whole, which provides a more robust foundation of trust in capital markets.

The NZAuASB encourages the IESBA to commence a project to explore the need for a PIE definition and PIE requirements for specific types of other assurance engagements in Part 4B, recognizing the increasingly significant public interest to ensure that confidence in the assurance of that information is high so as to promote the credibility of the reported information.

14. Do you support the proposed effective date of December 15, 2024?

Response:

Yes, the NZAuASB supports the proposed effective date, however considers that it is also in the public interest for the recently revised non-assurance services requirements to apply to the broader classification of PIEs sooner rather than later.

15. To assist the IAASB in its deliberations, please provide your views on the following:

- a) **Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.**

Response:

As noted in response to question 2, the NZAuASB agrees that it is important to clearly articulate the objective for defining entities as PIEs and/or establishing differential requirements for certain entities.

The NZAuASB does not however support the objectives as set out in proposed paragraphs 400.8 and 400.9, as we consider the proposed objective lacks the necessary clarity to make this clear and that rather the proposed objective may be confusing and misunderstood to imply that there are two levels of independence or two levels of "audits". We consider that proposed paragraph 400.9 is too generic and when read on its own is applicable to all audit engagements. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.² It is therefore important that all intended users have confidence in the audit engagement that they are relying on.

Why and how to establish differential requirements for certain entities is a key theme in a number of IAASB and IESBA projects, including the less complex entities project, the non-assurance services project, the quality management project and also in determining who has to report key audit matters, etc. This is an important issue where we consider that it is in the public interest for the two boards to collaborate closely to ensure that the why and how to establish any differential requirements is clear and does not undermine the level of confidence and trust in audited financial statements.

It may be that there are similar but varying underlying reasons for various differential requirements and therefore it may be appropriate for the reasons and objectives to differ. For example, in the quality management standards, the reasons for requiring an engagement quality review may not be the same as the reasons for identifying that users would find reporting of key audit matters useful. We support a collaborative and flexible approach, where the public interest and trust and confidence in all audit engagements is not undermined, but that enables a proportionate, risk and cost/benefit analysis to guide the approach.

- b) **The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.**

Response:

Yes, the NZAuASB is supportive of a case-by-case approach for determining whether differential requirements should be applied only to listed entities or more broadly, but

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with the International Standards on Auditing*, paragraph 3.

encourages both the IESBA and IAASB to collaborate in developing a framework which would inform both boards in establishing differential requirements.

We note that in New Zealand, the NZAuASB has already adopted a "case-by-case" approach in adopting both the Code and the ISAs. In New Zealand, the standards do not refer to "listed entities" but the ISAs (NZ) do not refer to PIEs, rather a subset of PIEs.

- c) **Considering IESBA's proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB's Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor's report?**

Response:

As noted in response to question 11, 78% of participants at our virtual roundtable did not support the proposal for firms to disclose if they treated an audit client as a PIE. NZAuASB members had mixed views as to the benefits and potential unintended consequences of requiring more transparency when the PIE independence requirements have been applied. While the NZAuASB notes the benefits of transparency, it was highlighted that those benefits are constrained to what users will understand.

We consider that the definition and scope of the PIE definition is a complex matter, with the potential for misinterpretation. It is important that confidence in the independence of all audits, for all auditors, is in the public interest, regardless of whether the audit is performed for a public interest audit. The Code requires all auditors to be independent of their audit clients.

We caution both the IESBA and IAASB to consider the unintended consequences of promoting transparency as to whether or not a client has been treated as a PIE. Without a clear rationale as to what the objective is for the additional PIE requirements, and further information about the context in which the determination has been made, we consider that there is a risk that users may misinterpret such transparency as meaning that some auditors are "more independent" than others. We consider that this could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities.

IESBA

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Proposed IESBA Definition of Public Interest Entity

Supplementary Guidance to Exposure Draft to Aid Local Body
Considerations Regarding Adoption and Implementation



MARCH 2021

Purpose



This staff publication provides additional explanation and information on the IESBA's proposed revisions to the definition of public interest entity (PIE) in the Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (PIE ED) and supplements some of the guidance material in the explanatory memorandum of the ED.

This publication has been developed to, amongst other things, assist local regulators, national standard setters or other relevant local bodies in considering and planning adoption of the revised PIE definition when finalized and issued by the IESBA. **The IESBA recognizes that there may be refinements to the proposals as a result of the comments received on exposure.**

Firms may also find this publication helpful in further understanding the requirement for them to determine whether to treat additional entities, or categories of entities, as PIEs in accordance with proposed paragraph R400.16.

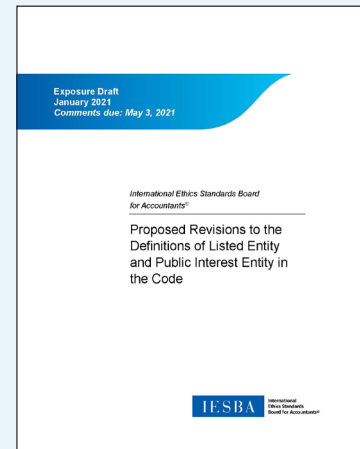
This staff-prepared publication does not amend or override the Code, the text of which alone is authoritative. Reading this publication is not a substitute for reading the Code. This guide is not meant to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

Introduction



In January 2021, the IESBA released the PIE ED which proposes amongst other things to:

- Introduce an overarching objective for additional independence requirements for audits of entities that are PIEs.
- Provide guidance on factors for consideration when determining the level of public interest in an entity.
- Expand the extant definition of PIE to a list of categories of entities that should be treated as PIEs, subject to refinement by the relevant local bodies responsible for ethics standard setting as part of the adoption and implementation process.
- Replace the term “listed entity” with one of the new PIE categories, “publicly traded entity.”
- Elevate the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and include enhanced guidance on factors for consideration by firms.
- Require firms to disclose if an audit client has been treated as a PIE.



On January 29th, 2021 the IESBA released *Proposed Revisions to The Definitions of Listed Entity and Public Interest Entity In the Code*.

[Click the image to read more](#)

The IESBA's Proposed Approach



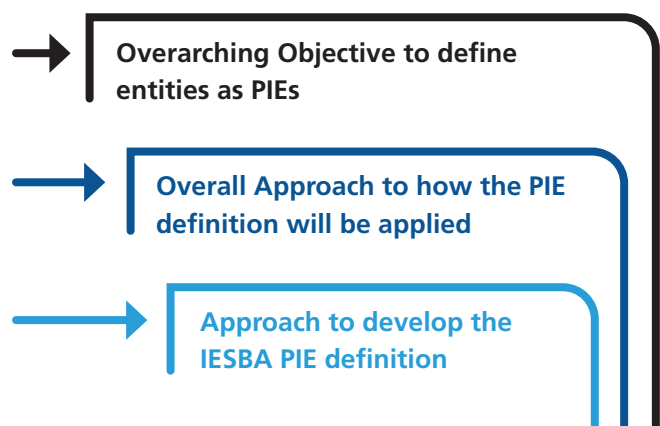
Overarching Objective

In considering how the definition of PIE should be enhanced, the IESBA took the view that it is important to first have clarity about the overarching objective of defining a class of entities for which the audits require additional independence requirements.

Such an objective would then form the basis of the overall approach and also provide a clear principle against which any proposals can be tested.

The proposed overarching objective (see paragraphs 400.8 and 400.9) means that when refining the IESBA definition and determining which entities should be categorized as PIEs in the local code, it is important for relevant local bodies to assess the *public interest in the financial condition* of an entity (i.e. how its financial success or failure may impact the public) and not the public interest in

other aspects of that entity such as the quality of the products or services it provides, the manner in which it delivers those products or services, or the nature of the data the entity holds.





Example 1

Whilst there might be a significant level of public interest in the provision of services by a public hospital given its role within a jurisdiction’s health services infrastructure, whether that public hospital should be categorized as a PIE in the local code will depend on the public interest in its financial condition. In this regard, the financial condition of a public hospital might not attract significant public interest if the government is committed to providing sufficient funding to enable it to continue the provision of its services.

Example 2

Whilst there might be significant public interest in charities if they have significant “public funding” or they deliver services and activities for the benefit of vulnerable communities, the public impact of their financial failures will vary from charity to charity. For instance, the public interest in the financial condition of a private foundation with only a few founding donors which primarily provides grants to other charities might not be significant as its financial failure would not have the same level of public interest as the financial failure of a major charity that runs programs that directly assist vulnerable beneficiaries.

Example 3

For social media providers, there might be significant public interest in how they manage the collection, use and disposal of their users’ data that contain personal and sensitive information. However, whilst the financial success or failure of social media providers will impact their investors, there is only likely to be limited impact on their users given that the providers are usually free to join and they are easily replaced by other similar providers.

Broad Approach to How the Code will be Applied

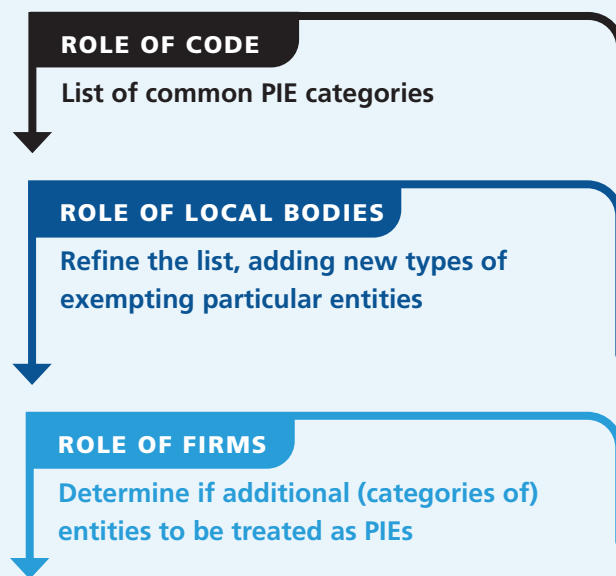
The IESBA’s proposed approach to revising the definition of PIE is a broad approach which uses a longer and more broadly defined list of categories. This is contrasted with the more limited approach adopted by the extant Code which only has a narrow list of entities to which local bodies can add.

This broad approach comprises 3 key elements:

- The development of a longer and broader list of high-level categories of entities as PIEs in the IESBA Code;
- Refinement of the IESBA definition by relevant local bodies by tightening definitions, setting size criterion and adding new types of entities or exempting particular entities; and
- Determination by firms if any additional entities should be treated as PIEs.

Broad Approach

A longer and more broadly defined list which local regulators and authorities can modify by following definitions, setting size criteria and adding new types of PIEs or exempting particular entities.



Under this approach, relevant local bodies will play a pivotal role towards ensuring that the list of PIE categories applicable in the local setting is fit for purpose. To achieve this, relevant local bodies are expected to refine the IESBA definition as part of the local adoption and implementation process, taking into account, amongst other things, the overarching objective and the list of factors set out in paragraph 400.8 (see discussion below).

As highlighted in the PIE ED, the IESBA’s rationale for relying on local bodies to refine the definition is that local regulators, national standard setters or other relevant bodies have the responsibility, and are also best placed, to assess and determine which entities or types of entities should be treated as PIEs for the purposes of additional independence requirements. A number of countries, such as European Union member states, the UK, Australia and South Africa, have already developed their own definitions of PIE for the purposes of additional independence requirements.

Further, the IESBA recognized that any categories it seeks to include in a global principles-based Code will inevitably be quite broad and could therefore scope in entities in respect of which the public interest is not significant. Also, in some jurisdictions there will be categories of entities that should be added as PIEs because of the level of public interest in their financial condition or well-being but which would not be suitable as PIEs for all jurisdictions at the global level.

Under the IESBA’s broad approach, firms are also required to determine if any additional entities or categories of entities should be treated as PIEs. It is important to note that firms can only add additional audit clients as PIEs and cannot treat any audit clients as non-PIE entities if those entities are required to be treated as PIEs for the purposes of the Code.

Approach to Develop the Five Specific PIE Categories

Proposed paragraph R400.14 sets out the list of PIE categories as follows:

(a)	A publicly traded entity
(b)	An entity one of whose main functions is to take deposits from the public
(c)	An entity one of whose main functions is to provide insurance to the public
(d)	An entity whose function is to provide post-employment benefits
(e)	An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public
(f)	An entity specified as such by law or regulation to meet the objective set in paragraph 400.9

5 specific categories



The IESBA considered a number of other categories during the development of the definition. However, it concluded that whilst those other categories may have applicability in specific jurisdictions, none of them were likely to be of global relevance.

In looking at existing PIE definitions used in various jurisdictions, the IESBA noted that they were often defined by reference to local legislation governing, for example, entities carrying on banking or insurance businesses. As the IESBA Code is intended for global application, the IESBA is not able to follow a similar course. Hence, the categories in the proposed definition are broadly based and described in such way as to avoid the use of terms that are more jurisdiction specific.

In addition, the IESBA recognized that in attaching no size criterion to the various categories in the definition, it was potentially scoping in some very small entities that would not objectively be considered to be PIEs. However, the IESBA did not believe it would be practicable to define size thresholds that would be capable of global application. Proposed paragraph 400.15 A1 therefore makes clear that the IESBA list does not give any recognition to size. Instead, the Code provides for the relevant local bodies to further refine these categories, including the exclusion of entities that should not be treated as PIEs. If these categories were adopted by the relevant local bodies as they are without any refinement, they will likely scope in entities that do not have significant public interest.

IESBA Approach to developing the 5 specific categories (R400.14 (a)-(e))

INCLUDE →

- Categories that are likely to be adopted by most jurisdictions
- Categories suited for a global list because of the nature of their main functions

EXCLUDE →

- Categories that would only be included by local bodies because they are very large

Refining the IESBA Definition of PIE



When considering how to refine the IESBA's definition of PIE in proposed paragraph R400.14 for local adoption, a relevant local body should ask, with respect to:

1. The Code's PIE Categories (Subparagraphs R400.14(a) to (e))
 - How might each of the five specific categories be further refined so that the right entities are scoped in or out as the case may be? This could be by reference to local law or regulation—for example, defining what is a bank or on which markets/trading platforms securities are regarded as being publicly traded, as well as possibly setting size criterion.
2. Entities Defined by Law or Regulation as PIEs (Subparagraph R400.14 (f))
 - Which entities have been specified by law or regulation as PIEs having regard to the objective in paragraph R400.9? However, if an entity was defined by local law or regulation as PIE but for reasons unrelated to the objective set out in paragraph 400.9

(see paragraph 400.14 A1), that entity should not be treated as a PIE under subparagraph R400.14(f).

3. Additional Categories

- Are there any additional categories of entities that should be included as PIEs?

To address the above three questions, the IESBA expects that the relevant local body will, amongst other matters:

- Be guided by the overarching objective (see proposed paragraphs 400.8 and 400.9) for defining entities as PIEs in the Code.
- Consider the list of factors set out in proposed paragraph 400.8 for determining the level of public interest.
- Consider whether the entities concerned can fulfill the requirements imposed for PIEs, for example being subject to some form of corporate governance that will permit those charged with governance to assume the role envisaged for them by the Code.

List of Factors for Consideration

When considering the list of factors in proposed paragraph 400.8, it is important to note that the list is not exhaustive and there may be other relevant factors to consider in the specific jurisdiction. Further, each factor on its own may not be sufficient to determine if a category of entities should be added.

1 **Nature of Business and Activities**

The nature of the activities, such as taking on financial obligations to the public as part of an entity's primary business

- In relation to this factor, the IESBA intends the term “public” to encompass not only individuals but also other entities.
- The two most obvious examples of entities in these categories are banks and insurers. However, depending on the jurisdiction, there may be other examples of entities which, as part of their business model, take on significant financial obligations to the public.
- The IESBA expects that local jurisdictions might also exclude certain entities even if the nature of the primary business or activities might give rise to some level of public interest in their financial condition. For example, the IESBA noted that some local codes exclude entities such as credit unions or certain mutual insurance concerns.

2 **Regulatory Supervision**

Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations

- This factor relates to entities that are subject to financial or prudential regulatory supervision designed to give confidence that the entities will meet their financial obligations. Such regulation is primarily but not necessarily restricted to financial markets. If an entity is subject to regulatory supervision that includes ensuring it meets its financial obligations, there is likely to be significant public interest in that entity's financial condition.

3 **Size**

Size of the entity

- Size as a factor can be viewed both from the perspective of excluding very small entities that might meet other factors, and from the perspective of considering very large entities that by sheer size alone might qualify to be regarded as of significant public interest. This latter aspect will often be linked to bullet #5.
- This is one of the key factors that should be taken into consideration as, under the IESBA's approach for developing its list of PIEs, smaller entities within each of the categories in proposed paragraph R400.14 will be scoped in irrespective of whether they are deemed to have significant public interest in their jurisdictions.
- For instance, under CPA Canada's Independence Standards – Harmonized Rule of Professional Conduct that addresses independence requirements (Rule 204),¹ the definition of “listed entity” excludes those entities which have, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. Another example is that under South Africa's IRBA Code of Professional Conduct for Registered Auditors, entities are presumed to have satisfied the conditions of a PIE if they are insurers “registered under the Long-term Insurance Act 1998, (Act No. 52 of 1998) and the Short-term Insurance Act 1998, (Act No.53. of 1998) excluding micro lenders.”

1. The extent to which Rule 204 is adopted by individual Canadian provincial bodies and CPA Bermuda is determined by those bodies.

4 Importance to Sector

The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure

- This factor relates to entities that are an integral part of a sector such as the energy sector or capital markets. The harder it is to replace an entity to provide the relevant products or services if it were to suffer financial failure, the greater the likelihood that it will have a higher level of public interest.
- This factor is particularly relevant to entities such as public utility entities and financial market infrastructure entities.
- For instance, companies that sell electricity plans to retail customers are unlikely to play an integral part in the energy sector. The financial failure of such a company is unlikely to create significant disruption as its customers would be able to sign up with another company and receive similar services.

5 Number and Nature of Stakeholders

Number and nature of stakeholders including investors, customers, creditors and employees

- The greater the number of stakeholders and the broader the range of stakeholders an entity has, the more likely there will be significant public interest in the financial condition of that entity.
- This factor calls for consideration of not only the number of stakeholders, but also their nature. For instance, the level of public interest may not be high if the investors are mostly sophisticated investors who are investing for their own accounts.
- Another example is local credit unions that take deposits from the public but may only have relatively small numbers of customers. A relevant local body might determine that such entities should be excluded from being treated as PIEs.

6 Systemic Impact

The nature of the activities, such as taking on financial obligations to the public as part of an entity's primary business

- Irrespective of the other factors, if an entity's financial failure were to have a significant impact on the economic system in which it operates, this would indicate that it is of significant public interest.
- Whilst many entities of systemic impact would be expected to be part of the financial systems and therefore captured under some of the other categories of the PIE definition such as publicly traded entity, the IESBA is of the view that there may be other entities in a local jurisdiction that will have such impact.

A relevant local body might determine that only certain types of entities within each IESBA PIE category should be treated as PIEs under paragraph R400.14 or determine to exclude specific entities. For instance, a relevant local body might determine to exclude some state-owned entities that would otherwise be encompassed by the IESBA definition, such as a state-owned bank.

Other Categories for Consideration

In addition to refining the list of PIE categories set out in paragraph R400.14, a relevant local body may also consider including other categories of entities as additional categories of PIEs in its local code, taking into consideration the local context.

Examples of local codes that already include an expanded list of PIEs:

- [Australia](#)
- [New Zealand](#)
- [Singapore](#)
- [South Africa](#)

The following is a list of those categories that the IESBA has determined not to have sufficient public interest to be categorized as PIEs in a global code. Whilst these may not be suitable PIE categories for the Code, relevant local bodies might determine to include some of them as PIEs in their local codes. Some jurisdictions have already included some of these categories as PIEs in their local codes. The IESBA also noted that some of the entities in these categories may already fall within one of the other PIE categories (e.g., an entity would be a publicly traded entity if they issued debt instruments that are transferable and publicly traded).

Charities



Charities cover a broad range of sectors such as social and welfare, education, sports, health, arts and religion. In this regard, it may be argued that the level of public interest in these entities varies depending on the nature of their operations and services. For instance, the public interest in the financial condition of a major welfare organization on which its beneficiaries are highly dependent may be different to that of a local sporting club that is also registered as a charity.

Charities also vary in size – in terms of donations, the number and types of donors and beneficiaries, as well as number of employees. For instance, some of the largest private foundations in the world may have only a small number of donors (often the founders) and distribute their money to grantees (often other charities) instead of directly for the benefit of members of the public. The level of public interest in such private foundations' financial condition might therefore be lower than that in those charitable organizations which run programs that directly benefit large numbers of the public and receive donations from a broad spectrum of society.

There is also a public interest in ensuring that as far as possible a charity's monies are spent on its charitable objectives and not on administration. To meet this public interest, the audit requirements for charities are often less stringent than those for similar sized commercial enterprises. In this regard, the IESBA recognizes that application of the PIE requirements of the Code may have cost implications.

The IESBA therefore determined that the public interest in the financial condition of a charity will vary considerably depending on factors such as size, nature of services and number of stakeholders. Accordingly, the IESBA did not consider it appropriate to include charities as a separate category of PIE in a global code.

Nonetheless, this may well be a category which can selectively be added by local jurisdictions. For example, the Singapore's [ISCA Code](#) provides that the audit of large charities and large institutions of a public character are subject to the same independence requirements applicable to listed entities if they meet certain size thresholds as defined by the relevant laws and regulations. Similarly, New Zealand's [XRB Code](#) also includes not-for-profit entities of a certain size as PIEs. Finally, whilst charities are not listed as a category of PIE in its local Code, Australia's APESB has recently published an [Independence Guide](#) that includes an illustrative example of a significant charity as an entity that firms might determine to treat as a PIE.

Public Utilities



A public utility is an entity that provides essential services to the public such as electricity, gas, water and postal services.

Whilst there may be significant public interest in the continuing operations of a public utility entity because of

the essential nature of the services it provides, the level of public interest in the financial condition of such entity will depend on a number of factors. Such factors may include the source and sustainability of its funding and whether in the event of financial failure, the provision of its services can be readily replaced by other service providers.

In this respect, the IESBA also acknowledges that the term “public utility” might encompass a range of entities involved in the overall supply chain of services to the public. So, for example, in the case of the supply of electricity, the generation, transmission and customer relationship/ distribution might be undertaken by separate entities, some of which might be more easily replaced than others.

For these reasons, the IESBA determined this was not a suitable category to try to define at a global level, but might clearly need to be considered within specific jurisdictions.

Public Sector Entities



Similar to the rationale relating to public utility entities, whilst there may be significant public interest in the continuing operations of a public sector entity, the level of public interest in the financial condition of such entity will depend on a number of factors. In addition, some public sector entities in certain jurisdictions are audited by other arms of government rather than by professional accountants.

Accordingly, the IESBA is of the view that public sector entities should not be included as a separate PIE category in a global code.

Large Private Companies



The IESBA is of the view that what is “large” will vary from jurisdiction to jurisdiction and it would be impossible to set an appropriate monetary limit which would be of global application. Whether there is sufficient public interest in the financial condition of a particular private company or types of private companies will also depend on other factors such as those included in the proposed paragraph 400.8.

Accordingly, the IESBA is of the view that large private companies, including any companies that were once publicly traded companies, should not be included as a separate PIE category in a global code. Instead, the inclusion of any private companies or categories of private companies should be considered only at the local level. For instance, some jurisdictions might determine that any private companies that are required to file certain types of financial statements should be added as a category of PIE.

The IESBA noted that under the UK Financial Reporting Council’s (FRC’s) revised Ethical Standard as of December 2019, the statutory audit of an entity that meets the definition of “other entity of public interest” (OEPI) is subject to certain independence requirements with respect to the provision of non-audit/additional services. Under the UK FRC’s revised Glossary of Terms, large private companies that meet certain thresholds and criteria are deemed to be OEPIs. The IESBA further notes that such entities have also been subject to enhanced corporate governance requirements.

Private Equity Funds



Private equity funds generally receive investments from institutional investors and do not attract funds from the public directly.

Similar to the rationale for large private companies, the IESBA is of the view that whether there is sufficient public interest in the financial condition of a private equity fund will depend on other factors such as those included in the proposed paragraph 400.8. Accordingly, the IESBA is of the view that private equity funds should not be included as a separate PIE category in a global code.

Financial Market Infrastructures, Stock and Commodity Exchanges



In the [Principles for Financial Market Infrastructures \(PFMI\)](#) of the Committee on Payment and Settlement Systems of the International Organization of Securities Commissions (IOSCO), financial market infrastructure (FMI) is defined as:

A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.

FMI play a significant role within the financial system and are considered to be systemically important. Safe and efficient FMIs are essential for a stable and well-functioning financial system. This means they require sound design and high standards of operational and financial resilience. FMIs can be structured in a variety of forms, including associations of financial institutions, nonbank clearing corporations, and specialized banking organizations. They may also be owned and operated by central banks or by the private sector and can be either for-profit or not-for-profit. FMIs may include payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.

Similarly, stock and commodity exchanges play an important role within the financial system and the wider economy by providing the infrastructure, facilities and regulatory environment that allow businesses, industries and governments to raise capital, and investors to buy and sell various types of financial instruments. Many stock exchanges today are listed entities themselves and are therefore already classified as PIEs under the extant Code's definition.

The IESBA is of the view that the FMIs, stock and commodity exchanges should not be added as a PIE category in a global code for the following reasons:

- Whilst the health of FMIs, stock and commodity exchanges is clearly important to the proper functioning of financial markets, given their typically large size, lack of substitutability in the markets they serve, and strong connections with banks and other financial institutions, the IESBA is of the view that the public interest in these entities relates more to their operations (including compliance with all necessary legal requirements) than their financial condition.
- The legal structure of such entities varies considerably between jurisdictions. For instance, as noted many stock exchanges are now listed entities in their own right and would therefore be treated as PIEs for that reason. Some, in contrast, are still mutual

organizations owned by their members that effectively support it from a financial perspective. Payment organizations are similar. For example, in the UK, the payments services provider Pay.UK is effectively sponsored by the Bank of England and the major banks – the fact therefore that it is currently showing negative reserves in its financial statements is of little or no consequence to the public who depend on its operations.

Custodians



A custodian either of assets or of cash is an entity (often a financial institution) which maintains assets (which may include cash) on behalf of third-party clients. Custodians can take many different forms – from those simply providing such services to those that also provide linked advisory or investment management services. In addition, they may act as sub-custodians for other custodians. Where title to investments is held electronically, a central securities depository such as the Depository Trust Company or the various Euroclear subsidiaries in the European markets also in effect acts as the ultimate custodian. Generally, such third-party assets, including cash, held by a custodian do not feature as part of the custodian’s own financial statements, although some operational cash balances may be shown on the balance sheet offset by an equivalent liability to the client.

The third-party clients on whose behalf the assets are maintained may be other custodians, members of the public (for example, individuals with broker-dealer accounts) or mutual funds (generally run by investment managers).

Whilst there is clearly a public interest in ensuring the proper maintenance and integrity of the systems used to control and report on the client assets held by a custodian, the role of the auditor of the custodian’s financial statements may vary. In addition, in many jurisdictions, regulation requires segregation of custody assets in order to protect clients in the event of financial failure of the custodian.

Amongst other matters, the IESBA also noted that:

- At some level there is clearly a need for the financial statement auditor to consider if the custodian is complying with laws and regulations as regards its operations, However, the review and reporting to regulators of its client’s compliance with such laws and regulations are not necessarily the responsibility of the financial statement auditor.
- If the custodian’s client is itself subject to audit, then its auditor will often require the issuance of a controls report, such as under the International Auditing and Assurance Standards Board’s (IAASB’s) International Standard on Assurance Engagements (ISAE) 3402², to support the existence of the client’s assets. Similarly, such reports can be, but are not necessarily, issued by the custodian’s financial statement auditor. This can, in turn, impact what regulatory reports are required. For instance, in the US a qualified custodian is subject to a surprise examination of its custody systems by an auditor (which does not need to be the same firm that performs the audit of the financial statements), unless the investments are held on behalf of a pooled investment vehicle which itself has an appropriate audit.

Given the complexities, therefore, the IESBA felt that it was not appropriate to try to define a category to encompass those entities performing a custodian function where the role of their own financial statements and hence of the financial statement auditor was of significant public interest. Depending on the custodian arrangements in specific jurisdictions this would, however, be an aspect that might require further consideration.

2. International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls At a Service Organization*.

Systemically Significant Entities



The IESBA also considered whether, in addition to financial institutions that are systemically important, there are other systemically significant entities that should be included as a PIE category.

A systemically significant entity is an entity whose potential failure may cause serious harm to other industries and to the economy, or an entity that is “too big to fail.” The IESBA observed that aside from the large banks, it had as yet not been possible to achieve a global consensus on what other types of entities might be of systemic significance, although there had been some consideration of major insurance companies and hedge funds/asset managers as systemically significant entities.

The IESBA is, therefore, of the view that, whilst whether an individual entity has a systemic significance should play a part in the criteria used to determine if the entity is a PIE, the term is too subjective and requires too much local context to usefully include it as a separate category in a global code.

Role of Firms

Similar considerations to those above might also play a part in assisting firms to determine whether other entities should be treated as PIEs. For further information about the proposed new requirements for firms, refer to the PIE ED. These include the requirements to (1) determine if additional entities, or certain categories of entities, should be treated as PIEs (guidance is provided on additional factors for consideration) and (2) disclose if an entity has been treated as a PIE.

About the IESBA

The International Ethics Standards Board for Accountants ([IESBA](#)) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	8 April 2021
Subject:	Corporate Fundraising Education Session
Date:	25 March 2021
Prepared by:	Sharon Walker

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<input type="checkbox"/> For Information Purposes Only

Agenda Item Objectives

1. For the Board to receive a briefing from Ian McLoughlin, Managing Partner, Deals, PWC New Zealand, of the assurance landscape in New Zealand in relation to corporate fundraisings.

Background

2. We have invited Ian McLoughlin to provide an education session to the Board regarding the assurance landscape in New Zealand in relation to corporate fundraisings. Ian is a member of the reference group assisting staff with the draft proposed assurance standard to be discussed in agenda item 6.
3. Ian is a Transaction Services professional with over 20 years' experience on transactions in New Zealand, Australia and Asia. Ian specialises in assisting corporate clients and financial sponsors with their assessment of potential acquisitions and/or divestments; and assisting with the part to realising investments, whether via a M&A process or NZX/ASX listing/IPO.
4. A particular area of focus for Ian is assisting clients with maximising the return on their investments through listing processes on the NZX/ASX, whether through the provision of an Investigating Accountant's Report to the Board; or IPO Accounting Advisory Services, assisting management and the Board with the preparation of the information required to be disclosed in the Product Disclosure Statement and/or Disclose Register.

Material Presented

Agenda item 5.1 Board Meeting Summary Paper

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	8 April 2021
Subject:	Corporate Fundraising
Date:	25 March 2021
Prepared by:	Sharon Walker

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Agenda Item Objectives

1. The objective of this agenda item is for the Board to consider the issues and perform a first read of the draft standard dealing with the performance of and reporting on a corporate fundraising assurance engagement.

Background

2. The NZAuASB approved a project proposal to develop a standard for the performance of, and reporting on, assurance over prospective financial information at its October 2017 meeting.
3. Preliminary issues were considered by the Board at its February 2018, December 2018 and September 2019 meetings.
4. At the February 2018 meeting, the Board agreed to:
 - Use ASAE 3450¹ as a base, and to expand the scope to tailor the standard to better reflect the needs of New Zealand stakeholders, including:
 - broadening the scope to address financial and non-financial prospective financial information;
 - adding specific public sector guidance where necessary; and
 - amending the title to better reflect the use in New Zealand.
 - Permit the assurance practitioner to perform a reasonable assurance engagement over prospective financial information.
 - Consider the relevance of references in ASAE 3450 to external documents including, where necessary, to add applicable guidance.

¹ ASAE 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*
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- Explore further ethical considerations including whether APES 350² and/or APES 345³ are needed in New Zealand.
5. In December 2018, the Board received an update on the progress of the prospective financial information project and provided the following direction:
 - The New Zealand standard should be principles based and framework neutral.
 - The scope of the project will include pro forma and prospective financial information. Historical financial information is excluded from the scope of the standard given the audit and review standards already address historical financial information.
 - The proposed standard will build on ISAE (NZ) 3000 (Revised) but does not need to duplicate the requirements of ISAE (NZ) 3000 (Revised).
 6. The Board also discussed its previous decision to address both financial and non-financial information in the draft standard, noting the IAASB's progress on its EER project. A key driver for this project is the need for a current standard for assurance over local government long term plans.
 7. At the September 2019 meeting, the Board considered the working group's recommendation to develop separate standards for corporate fundraisings and prospective information. The Board agreed to develop an assurance standard specific to corporate fundraisings.
 8. The Board questioned who would use an assurance standard on prospective information, other than the Auditor-General's auditors in relation to local authority long term plans. It was not clear that there is demand for an assurance standard on prospective information to meet other assurance needs. Further discussions will be undertaken with the Office of the Auditor-General to determine demand for a domestic standard.
 9. We have relied heavily on ASAE 3450 as a starting point for the draft standard. It is our intention that the draft standard and ASAE 3450 are consistent, however, they are not the same, as discussed further in the issues paper.
 10. We would like to acknowledge and thank Ian McLoughlin and Garth Barnes from PwC for their guidance in the preparation of the draft.

Matters to Consider

11. The Board is asked to CONSIDER the issues identified in the issues paper and PROVIDE feedback on the draft standard.

Next Steps

12. We will present a full draft standard to the Board for consideration at its June 2021 meeting. The Board will be asked to consider a draft for exposure at its September 2021 meeting.

² APES 350, *Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document*

³ APES 345, *Reporting on Prospective Financial Information prepared in connection with a Public Document.*

Material Presented

Agenda item 6.1

Agenda item 6.2

Agenda item 6.3

Board Meeting Summary Paper

Issues Paper

Draft standard – Requirements

Corporate Fundraising

A: Scope

1. The draft standard has been prepared on the basis that the scope of the engagement is applicable to public offerings only, i.e., those offerings to which the Financial Markets Conduct Regulations 2014 apply. Private offerings are intentionally scoped out of the draft standard.
2. In a public offering, there is no statutory requirement for assurance over any of the financial information. However, it is common practice in a public offering that some or all of the financial information is assured.
3. Due to the nature of the financial information being assured, the draft standard supports limited assurance engagements only.
4. Because of its intended limited application, the draft standard has not been written in a way that is framework neutral. Rather, the draft makes reference to the Financial Markets Act 2013 and the Financial Markets Conduct Regulations 2014 in defining a corporate fundraising.

Does the Board agree with this approach?

B: Relationship to ISAE (NZ) 3000 (Revised)

5. ISAE (NZ) 3000 (Revised) addresses assurance engagements other than audits or reviews of historical financial information. ISAE (NZ) 3000 (Revised) states that where a subject matter specific ISAE (NZ) or SAE is relevant to the subject matter of a particular engagement, that IASE (NZ) or SAE applies in addition to ISAE (NZ) 3000 (Revised) ¹.
6. In developing the draft, we compared the requirements in ISAE (NZ) 3000 (Revised) with the requirements in ASAE 3450² in order to identify areas of duplication.
7. The draft standard only includes requirements that are over and above those required by ISAE (NZ) 3000 (Revised). It does not duplicate the requirements of ISAE (NZ) 3000 (Revised). For example, requirements dealing with compliance with ethical requirements, quality control, professional scepticism are addressed in ISAE (NZ) 3000 (Revised) and are not repeated in the draft standard.
8. In this respect, it is important that the draft be read and applied alongside ISAE (NZ) 3000 (Revised). It is not intended to be a one stop shop.

When considering the draft, we ask Board members to consider whether there is sufficient contextual information so that it is understandable or are there specific areas that need greater linkage to ISAE (NZ) 3000 (Revised).

¹ [ISAE \(NZ\) 3000 \(Revised\) Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#), paragraph 5

² ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial information*

C: Drafting Approach

9. The draft has been prepared based on the principles of ISAE (NZ) 3000 (Revised) and using ASAE 3450 as a base for the more detailed requirements. The draft deals with the following types of financial information:
 - Historical financial information
 - Pro forma historical financial information
 - Prospective financial information
 - Pro forma prospective financial information
10. Some requirements are common to all types of financial information – these are the core requirements of the draft. Unless otherwise stated, a requirement is applicable to all types of financial information. Other requirements are applicable to a specific type of financial information only, for example, prospective financial information. When this is the case, the draft indicates, for example, *in an assurance engagement over prospective financial information...* or when the material is more extensive, subheadings within the relevant procedure are used, see for example, paragraphs xx to xx in the section obtaining an understanding of the entity and its environment.
11. The requirements specific to a particular type of financial information only, have been integrated throughout the draft rather than in separate sections following the core requirements. In comparison, [ASAE 3450](#) presents the requirements and application material for the particular types of financial information in separate sections following the core requirements.
12. We are still working on application material and illustrative examples.

What are the Board's views on the flow of the draft?

Is the Board comfortable with the level of prescription in the requirements?

D: Definitions

13. This section identifies proposed definitions of terms and how they differ from the corresponding term used in ASAE 3450.

Assumption

14. For purposes of the draft, the definition of *assumption* is based on FRS 42³. Assumption is defined as,

A view about the future for the purpose of preparing prospective financial information,⁴ for example, views about economic and business conditions and proposed courses of action.

15. This differs from ASAE 3450 which defines assumptions as,

Assumptions means expectations made by the responsible party as to future events and actions expected to take place as at the date the prospective financial information is prepared and exclude hypothetical assumptions, unless otherwise stated.

Corporate fundraising

16. The definition of corporate fundraising is aligned with the types of financial products addressed in the FMC Act 2013. For purposes of the draft standard, corporate fundraising is defined as,

³ Financial Reporting Standard (FRS) 42 *Prospective Financial Statements*, paragraph 19

⁴ FRS 42 refers to prospective financial statements

Any transaction involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014.

17. ASAE 3450 defines corporate fundraising as,

any transaction involving shares, debentures, units or interests in a management investment scheme undertaken to raise debt or equity funds, or issue equity, and/or offer and/or respond to an offer of, cash and/or scrip consideration to effect a transaction through the issuance of a public or non-public document. It includes initial public offerings, fundraisings, takeovers, schemes of arrangement or other corporate restructures.

Published Financial Information

18. The draft uses the term *published financial information* in place of the term *document* used in ASAE 3450.

19. In a corporate fundraising engagement, the financial information is made available to users through the product disclosure statement and via the online register.

Financial information prepared for the purpose of the corporate fundraising and that is made available publicly, for example, the product disclosure statement and online register.

20. ASAE 3450 defines the terms document, public document and non-public document.

Document means a public document or non-public document related to a corporate fundraising or other document containing prospective financial information.

Non-public document means a document in relation to a fundraising or a document containing prospective financial information, which is not a public document. It is not prepared in accordance with the Corporations Act 2001.

Public document means a disclosure document, product disclosure statement or other documentation provided to shareholders, unit holders, or holders of a relevant interest in an entity (or which is provided to management of an entity) in relation to a scheme of arrangement under Part 5.1 of the Corporations Act 2001, or a takeover or compulsory acquisition under Chapter 6 of the Corporations Act 2001. Examples include:

(i) A prospectus prepared by an entity that is a corporation in accordance with relevant sections of the Corporations Act 2001.⁵

(ii) A Short-Form Prospectus; lodged with the Australian Securities and Investments Commission (ASIC), instead of including in the body of the prospectus the relevant information discussed in such materials.⁶

(iii) Scheme Booklets.

(iv) Target Statements.

(v) Bidder Statements.

⁵ See Sections 710, 711, and 713 of the *Corporations Act 2001*.

⁶ See Section 712 of the *Corporations Act 2001*.

(vi) *Profile Statements*; this is a brief statement that may be sent out with offers, with ASIC's approval, instead of a prospectus.⁷

(vii) *Offer Information Statements*; this is a document that may be used instead of a prospectus under certain criteria set by the *Corporations Act 2001*.⁸

(viii) *Product Disclosure Statements (PDS)* used where the entity is a trust or other type of managed investment scheme.

Prospective financial information

21. The draft proposes the following definition of *prospective financial information*,

Future oriented financial information prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.

Prospective financial information is based on assumptions about events that may occur in the future and possible actions by the entity.

22. This definition is based on the definition of general purpose prospective financial statements in FRS 42. FRS 42 does not distinguish between a forecast and a projection.

23. ASAE 3450 defines prospective financial information as,

Prospective financial information means financial information of a predictive character prepared based on assumptions made by the responsible party, in accordance with the stated basis of preparation. Prospective financial information may be either:

(i) *a forecast which is prepared based on the responsible party's assumptions as to future events expected to take place on the dates, or in the period, described and the actions expected to be taken at the date the financial information is prepared. It is commonly referred to as a "directors' forecast"; or*

(ii) *a projection⁹ which is prepared based on the responsible party's material hypothetical assumptions, or a mixture of assumptions and material hypothetical assumptions as to future events which are not necessarily expected to take place on the dates, or in the period, described and the actions not necessarily expected to be taken at the date the financial information is prepared (a "what-if" scenario).*

Does the Board agree with the drafted definitions, in particular, where there are differences with the Australian standard?

Does the Board agree that terms defined in ISAE (NZ) 3000 (Revised) do not require definition in the draft?

Are there other terms that the Board considers require definition in the draft?

⁷ See Sections 705 and 721 of the *Corporations Act 2001*.

⁸ See Section 709 of the *Corporations Act 2001* for the criteria as to when an Offer Information Statement may be used instead of a prospectus.

⁹ See RG 170, which contains guidance that prospective financial information that includes a projection (that is, supported by material hypothetical assumptions) rather than reasonable grounds is likely to be misleading and therefore is not permitted to be included in a public document.

[Proposed] SAE 3450 Assurance Engagements Involving Corporate Fundraisings

Introduction

1. This Standard on Assurance Engagements (SAE) deals with the responsibilities of the assurance practitioner when performing an assurance engagement and reporting on the responsible party's preparation of published financial information prepared in connection with a corporate fundraising in accordance with general accepted accounting principles

2. This SAE applies to an assurance engagement to provide a limited assurance report on the financial information. (ref: A1)

3. The types of financial information covered by this SAE are:

- historical,
- pro forma historical,
- prospective and
- pro forma prospective

financial information prepared in respect of a corporate fundraising. The financial information may be in respect of one entity or multiple entities (for example, in the case of a merger or acquisition).

4. Assurance engagements covered by this SAE often involve the assurance practitioner performing an assurance engagement, and reporting, on more than one type of financial information. In such circumstances, the assurance practitioner conducts the engagement in accordance with the applicable requirements and related application and other explanatory material, and reports the assurance conclusion for each type of financial information in the assurance report. Appendix x contains illustrative assurance report examples.

Commented [SW1]: Ignore references to application material. Application material will be available for the second read.

Commented [SW2]: Appendices still to be developed

Relationship to ISAE (NZ) 3000 (Revised)

5. The assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised) and this SAE when performing an assurance engagement to report on published financial information prepared in connection with a corporate fundraising. This SAE supplements, but does not replace ISAE (NZ) 3000 (Revised).

6. Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*¹ issued by the New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation that are at least as demanding.² It also requires the lead assurance practitioner to be a member of a firm that

¹ In Professional and Ethical Standard 1, the term "engagement partner" should be read as referring to "lead assurance practitioner".

² ISAE (NZ) 3000 (Revised), paragraph 3(a), 20 and 34

applies [proposed] Professional and Ethical Standard 3³, or other professional requirements, or requirements in law or regulation, that are at least as demanding as [proposed] Professional and Ethical Standard 3.⁴

Effective Date

7. This SAE is effective for engagements commencing on or after [date]. Early adoption is permitted.

Objectives

8. The objectives of the assurance practitioner are:

- (a) To obtain limited assurance about whether the financial information is free from material misstatement, thereby enabling the assurance practitioner to express a limited assurance conclusion;
- (b) To report, in accordance with the assurance practitioner's findings; and
- (c) To communicate as otherwise required by this SAE.

Definitions

9. For purposes of this SAE, the following terms have the meanings attributed below:

(a) Assumption – a view taken about the future for the purpose of preparing prospective financial information, for example views about economic and business conditions and proposed courses of action.

Commented [SW3]: Based on FRS 42, para 19

(b) Assurance report – a written report prepared by an independent assurance practitioner. (Ref: A2)

(c) Corporate fundraising – any transaction involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014. (Ref: A3)

Commented [SW4]: Intent to keep the scope very narrow.

(d) Published financial information – Financial information prepared for the purpose of the corporate fundraising and that is made available publicly, for example, the product disclosure statement and online register.

Commented [SW5]: This definition differs from that used in ISAE (NZ) 3420 which states:
Published financial information – financial information of the entity or of an acquiree or a divestee that is made publicly available

(e) Financial information – information of a financial nature prepared by the responsible party in the form of:

- (i) Historical financial information
- (ii) Pro forma historical financial information

³ [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*

⁴ ISAE (NZ) 3000 (Revised) paragraphs 3(b) and 31(a)

(iii) Prospective financial information (iv) Pro forma prospective financial information.
(f) Pro forma adjustments –adjustments to the unadjusted financial information to: (i) illustrate the impact of a transaction or event as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred or as if it had not occurred at all; (ii) eliminate the effects of unusual or non-recurring events or transactions that are not part of the normal operations of the entity; or (iii) exclude certain events or transactions or present transactions or balances on a different recognition or measurement basis from that required or permitted by generally accepted accounting principles.
(g) Pro forma financial information – unadjusted financial information shown together with pro forma adjustments prepared in accordance with the stated basis of preparation.
(g) Prospective financial information – Future oriented financial information prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs. Prospective financial information is based on assumptions about events that may occur in the future and possible actions by the entity. (Ref: A4)
(h) Stated basis of preparation – the basis on which the responsible party has chosen to prepare the financial information that is acceptable in view of the nature and objective of the published financial information, or as required by applicable law or regulation.
(i) Unadjusted financial information –financial information to which pro forma adjustments are applied by the responsible party. (Ref: A5)
Requirements
10. The assurance practitioner shall not represent compliance with this SAE unless the assurance practitioner has complied with the requirements of both this SAE and ISAE (NZ) 3000 (Revised).
<i>Preconditions for the Assurance Engagement</i>
11. In establishing whether the preconditions for the engagement are present in accordance with ISAE (NZ) 3000 (Revised) the assurance practitioner shall: (a) determine that the financial information and the engagement have sufficient scope to be useful to intended users; (b) determine whether the criteria encompass at a minimum (Ref: A6) (i) The method for determining the stated basis of preparation. (ii) Adequate disclosures such that intended users can understand the significant judgements made in preparing the financial information. (c) obtain the agreement of the responsible party that it acknowledges and understands its responsibility: (i) For designing, implementing and maintaining such internal control as the entity determines is necessary to enable the preparation of financial information that is free from material misstatement.

Commented [SW6]: This is the definition of FRS 42 in relation to *general purpose prospective financial statements*. I have changed financial statements to financial information for purposes of this standard.

Commented [SW7]: Link back to the FMC Act and Regulations through published financial information.

Published financial information is prepared for purposes of the corporate fundraising and the corporate fundraising references the FMC Act and FMC Regulations.

- (ii) For the preparation of the financial information in accordance with the stated basis of preparation. This may also include responsibility for the selection of the financial information, including whether it contains comparative information, and for determining the applicable time period to be covered by the financial information. (Ref: A7-A8)
- (a) In an assurance engagement over *pro forma historical financial information* this includes obtaining the agreement of the responsible party that it acknowledges and understands its responsibility for:
- Selecting the basis of preparation of the pro forma historical financial information;
 - Selecting the unadjusted historical financial information used as the source for the pro forma historical financial information; and
 - Selecting and determining the pro forma adjustments;.
- (b) In an assurance engagement over *prospective financial information* this includes acknowledgement from the responsible party that the prospective financial information is based on assumptions that are:
- Based on the best information that can reasonably be expected to be available to the entity;
 - Consistent among themselves;
 - Consistent with the current plans of the entity to the extent relevant, and
 - Applied consistently.
- (c) In an assurance engagement over *pro forma prospective financial information*:
- Selecting the basis of preparation of the pro forma prospective financial information
 - Selecting the unadjusted financial information used as the source of the pro forma prospective financial information; and
 - Selecting and determining the pro forma adjustments.
- (iii) For referring to or describing in the financial information the stated basis of preparation, and when it is not readily apparent from the engagement circumstances, who developed it.
- (iv) Complying with applicable laws and regulations in the preparation of the financial information.

Commented [SW8]: Paragraph 11(c)(ii)(a)-(c) contain requirements for the specific type of financial information.

Commented [SW9]: From FRS 42, para 18

Agreeing on the Terms of the Engagement

12. The terms of the engagement agreed in accordance with ISAE (NZ) 3000 (Revised)⁵ shall include:

- (a) The objective and scope of the engagement; (Ref: A9)
- (b) The responsibilities of the assurance practitioner;
- (c) The responsibilities of the responsible party, including those described in paragraph 11(c);

⁵ ISAE (NZ) 3000 (Revised), paragraph 27

- (d) Identification of the stated basis of preparation for the financial information;
- (e) Reference to the expected form and content of any reports to be issued by the assurance practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content;
- (f) An expectation that the responsible party will provide written representations at the conclusion of the engagement;
- (g) An expectation that the responsible party will provide access to all information of which it is aware that is relevant to the preparation of the financial information, including an expectation that the responsible party will provide access to information relevant to disclosures;
and
- (h) Such other terms that the assurance practitioner determines are appropriate in the engagement circumstances.

13. Where there is a change in the terms of the engagement in accordance with ISA (NZ) 3000 (Revised), such change in the terms shall be agreed, in writing, with the engaging party. (Ref: A10)

Planning and Performing the Engagement

Planning

14. When planning the engagement in accordance with ISAE (NZ) 3000 (Revised)⁶, the assurance practitioner shall: (para A11-A13)

- (a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;
- (c) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts;
- (d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the lead assurance practitioner for the entity is relevant;
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement, including the involvement of experts and other assurance practitioners;
and
- (f) If applicable, determine whether the entity's external auditor or assurance practitioner will need to be contacted in respect of the audit opinion or review conclusion expressed on the most recent historical financial statements.

Commented [SW10]: Do we need to include risk assessment in planning?. ISAE (NZ) 3000 does not include requirements for risk assessment under the heading planning.

ASAE 3450 also includes:
32(f) considering the nature, timing and extent of planned risk assessment procedures; and
32(g) assessing assurance engagement risk.

⁶ ISAE (NZ) 3000 (Revised), paragraph 40

Materiality
15. The assurance practitioner shall determine materiality for the financial information as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (para A14-A18)
16. The assurance practitioner shall revise materiality in the event of becoming aware of information during the engagement that would have caused the assurance practitioner to have determined a different amount initially. (Ref: A19)
<i>Understanding the Entity and Its Environment, including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement</i>
<i>Obtaining an Understanding of the Entity and Its Environment</i>
17. The assurance practitioner shall obtain an understanding of the financial information and other engagement circumstances sufficient to: <ul style="list-style-type: none"> (a) Enable the assurance practitioner to identify areas where a material misstatement of the financial information is likely to arise; and (b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 17(a) and to obtain limited assurance to support the practitioner's conclusion.
18. In obtaining the understanding required by paragraph 17, for each type of financial information, the assurance practitioner shall obtain an understanding of: <ul style="list-style-type: none"> (a) The stated basis of preparation chosen by the responsible party for the financial information including: (Ref: A19a) <ul style="list-style-type: none"> i. understanding the process for its selection and approval; ii. understanding what accounting policies have been adopted; (b) The financial information; (para A20-A21) (c) How the published financial information will be made available; ; (d) Any applicable legal and regulatory requirements related to the financial information or that may impact the financial information; (e) The nature of the entity and any acquiree or divestee whose financial information is included in the financial information that is the subject of the assurance report; (f) Events and transactions that may have a significant impact on the preparation of the financial information.

Commented [SW11]: Based on ISRE (NZ) 2400, for review engagement.

Commented [SW12]: Overarching requirement based on 3000 para 46L

- (g) The nature and type of other information to be included with the financial information, if available, sufficient to enable the assessment of whether it is consistent with the financial information.
- (h) An understanding of whether experts are required, and the extent to which their work will be used.
- (i) The competence of the preparers of the financial information.
- (j) Any recent key changes in the entity's business activities, and how such changes may affect the financial information.
- (k) Internal control, as it relates to the preparation of the financial information.
- (l) If applicable, in an assurance engagement over *pro forma historical financial information* the assurance practitioner's understanding shall include an understanding of:
 - (i) The source of the unadjusted historical financial information;
 - (ii) Whether the unadjusted historical financial information has been previously audited or reviewed and, if so, the type of opinion or conclusion expressed and the implications, if any, on the engagement;
 - (iii) The pro forma adjustments.
- (m) If applicable, in an assurance engagement over *prospective financial information* the assurance practitioner's understanding shall include an understanding of:
 - (i) The accuracy of any prospective financial information prepared in prior time periods, and the reasons for any material variances;
 - (ii) Whether comparative financial information is to be included, and whether it will be restated;
 - (iii) Relevant financial information available in the public domain;
 - (iv) Key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures.
- (n) If applicable, in an assurance engagement over *pro forma prospective financial information*, the assurance practitioner's understanding shall include an understanding of:
 - (i) The source of the unadjusted financial information used in the preparation of the pro forma prospective financial information including whether it has been previously audited or reviewed and, if so, the type of opinion or conclusion expressed and the implications, if any, on the engagement;
 - (ii) The pro forma adjustments;
 - (iii) Any key changes in the entity's business activities and how they affect the pro forma prospective financial information; and

(iv) Whether and how experts may be needed for the assurance engagement.
19. The lead assurance practitioner and other key engagement team members shall discuss the application of the stated basis of preparation and the susceptibility of the financial information to material misstatement.
20. When there are engagement team members not involved in the engagement team discussion, the lead assurance practitioner shall determine which matters are to be communicated to those members.
21. Based on the understanding obtained in accordance with paragraph 17, the assurance practitioner shall: (a) Identify areas where a material misstatement of the financial information is likely to arise; and (b) Design and perform enquiry and analytical procedures to address the areas identified in paragraph 21(a) and to obtain limited assurance to support the assurance practitioner's conclusion.
23. When identifying areas where a material misstatement is likely to arise and designing procedures responsive to that risk, the assurance practitioner shall consider: (a) the likelihood of intentional misstatement in the financial information; (b) applicable law or regulatory requirements with respect to the preparation or presentation of the financial information; (c) the complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and (d) how the responsible party makes significant estimates and the data on which they are based.
24 In designing analytical procedures, the assurance practitioner shall determine the suitability of particular analytical procedures in relation to the financial information, taking into consideration the identified risks of material misstatement of the financial information.
25 The assurance procedures shall include: (Ref: A31) (a) evaluating the reasonableness and appropriateness of the time period covered;

- (b) enquiring of the responsible party in respect of the financial information:
 - (i) that it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;
 - (ii) that it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;
 - (iii) that it reflects the results of any identified misstatements from the prior year's financial statements;
 - (iv) if any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records; and/or
- (c) if applicable, performing external confirmation procedures in respect of material balances within the financial information;
- (d) assessing the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation;
- (e) performing the analytical procedures referred to in paragraph 21b of this SAE on the financial information that the assurance practitioner considers are responsive to the identified risks of material misstatement in the financial information:
 - (i) evaluating the reliability of data from which the assurance practitioner's expectation of recorded amounts or ratios is developed, taking account of the source, comparability, and nature and relevance of information available; and
 - (ii) developing an expectation with respect to recorded amounts or ratios in the financial information; and
 - (iii) investigating differences between the assurance practitioner's expectation and the recorded amounts or ratios in the financial information.
- (f) if applicable, in respect of material accounting estimates included in the financial information:
 - (i) confirming that the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates;
 - (ii) verifying the method chosen for making material accounting estimates:
 - ◆ has been applied consistently;
 - ◆ is appropriate when compared with the most recent audited or reviewed financial statements;
 - ◆ reflects any changes in method from prior periods; and
 - ◆ any changes in method are consistent with the stated basis of preparation;
 - (iii) considering whether other procedures are necessary in the circumstances including testing how the responsible party made the accounting estimate and the data on which it is based, including evaluating whether the method of quantification used is appropriate in

the circumstances, and the assumptions used by the responsible party are reasonable;

- (g) in respect of the stated basis of preparation:
 - (i) assessing its reasonableness and suitability for presenting the significant effects attributable to the events or transactions that are the subject of the published financial information by understanding the nature, effect of, and reasons for any changes made to the stated basis of preparation as compared to that used in the most recent audited or reviewed financial statements;
 - (ii) performing consistency checks in the application of the stated basis of preparation to the financial information;
 - (iii) assessing, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document; and
- (h) assessing whether the financial information is prepared in accordance with the stated basis of preparation;
- (i) enquiring of the responsible party and, where applicable, other relevant parties⁷ whether there were:
 - (i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the relevant time period;
 - (ii) any adjustments made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;
 - (iii) any unadjusted audit differences from the most recently audited or reviewed financial report that may be material for purposes of the published financial information;
 - (iv) any other provisions and other accounting estimates (such as asset revaluations) in the financial information;
 - (v) any significant transactions with related parties (for example, assets purchased from an associated entity); and
- (j) considering the use of sampling.

25a. In respect of comparative information, the assurance procedures shall include:

- (i) comparing, for consistency, its stated basis of preparation against the entity's previously audited or reviewed historical financial information

⁷ The concepts and discussions on using the work of another auditor or internal auditor relevant to an audit engagement are contained in ISA (NZ) 600 *Special Considerations—Audits of a Group Financial Report (including the Work of Component Auditors)* and ISA (NZ) 610 *Using the Work of Internal Auditors*, which may be helpful in considering the work of other auditors for the purposes of an assurance engagement.

and if applicable, the most recent unaudited or unreviewed annual or interim financial report, and

- ◆ evaluating the reasons for any differences; and
 - ◆ ensuring any restatements or adjustments made are appropriate;
- (ii) reading the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information;

Pro forma historical financial information

25b. In addition to the requirements in paragraph 25, in an assurance engagement over *pro forma historical financial information*, the assurance practitioner's procedures shall include:

- If the source of the unadjusted historical financial information has not been previously audited or reviewed, such procedures as are necessary, in relation to the unadjusted historical financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; or
- If the source of the unadjusted historical financial information has been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on which to rely for engagement purposes; and
- Such procedures as are necessary to determine whether the pro forma adjustments:
 - Have been selected and applied to the unadjusted historical financial information in accordance with the stated basis of preparation;
 - Are supported by sufficient appropriate evidence; and
 - Are arithmetically correct.

Prospective financial information

26. In addition to the requirements in paragraph 25, for assurance over *prospective financial information*, the assurance practitioner shall perform the following procedures to determine whether the responsible party has extracted the source of the prospective financial information from an appropriate source:

- (a) making enquiries of the responsible party, experts and relevant parties of the nature of the source of the prospective financial information;
- (b) if the source of the prospective financial information includes material historical financial information which has been previously audited or reviewed:
 - (i) reading the historical financial information to which the audit or review report relates to establish if its stated basis of preparation and time frame covered are acceptable; and

Commented [SW13]: From ASAE 3450. Is acceptable the right word here? Appropriate? As required?

- (ii) reading the audit or review report to assess whether the report was modified and, if so, why, and the impact if any on the engagement, and whether there are any matters that may affect the prospective financial information; or
- (c) If the source of the prospective financial information includes material historical financial information which has not been previously audited or reviewed the assurance practitioner shall:
 - (i) Ascertain whether the assurance practitioner is able to access all required documentation describing and supporting the source;
 - (ii) Enquire of the responsible party about:
 - the process by which the source has been prepared and the reliability of its underlying accounting records;
 - Whether all transactions for the time period have been recorded;
 - Whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation.
 - Whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;
 - The responsible party's assessment of the risk that the source may be materially misstated as a result of error or fraud;
 - How recently the entity's historical financial information was audited or reviewed;
 - Whether there have been any changes in the entity's business activities and operations, and if so, their effect on the source; and
 - The extent to which statistical and mathematical modelling, computer assisted audit techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; or
- (d) If the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, considered the findings and whether these might indicate any issues with the preparation of the source from which the historical financial information has been extracted;
- (e) Evaluating the adequacy and reliability of the financial information as a source of the prospective financial information;
- (f) Evaluating the accuracy of any prospective financial information prepared in prior time periods compared to actual financial results, and the reasons provided for significant variances; and

- (g) Determining whether the source of the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so:
 - (i) Determining the nature of, and reasons for, the changes and their effect on the prospective financial information;
 - (ii) Evaluating whether there have been any reclassifications or adjustments made by the responsible party to reflect unusual or non-recurring items, or to correct known errors and uncertainties; and
 - (iii) Evaluating any difference between the basis of preparation of the prospective financial information and that of other types of financial information included in the published financial information.

- 26a The assurance practitioner's procedures on the assumptions shall include:
- (a) reading the most recent audited or reviewed financial report, and, if appropriate, the most recently prepared annual or interim financial information, to enable the assessment of the assumptions used in the preparation of the prospective financial information;
 - (b) enquiry of the responsible party of:
 - (i) the source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable;
 - (ii) the time period the assumptions cover;
 - (iii) the methodology used in their development and quantification, including the extent to which they are affected by the responsible party's judgement;
 - (iv) the likelihood of the assumptions actually occurring; (Ref: Para. A91)
 - (v) whether the assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the prospective financial information of such sensitivities; and/or
 - (vi) whether any hypothetical assumptions are included, and if so, their materiality to the prospective financial information;
 - (c) evaluating whether all material assumptions required for the preparation of the prospective financial information have been identified;
 - (d) determining whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;
 - (e) determining whether the assumptions are arithmetically correct;
 - (f) obtaining appropriate evidence to support all material assumptions;

	<ul style="list-style-type: none"> (g) evaluating whether the assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the prospective financial information; (h) performing, or reviewing the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the prospective financial information to material changes in key assumptions underlying that prospective financial information; and (i) considering the responsible party's reliance on the work of experts in relation to the assumptions.
26b	If the responsible party's assumptions on which the prospective financial information has been prepared lack supporting evidence, and are determined by the assurance practitioner not to be reasonable and supportable, the assurance practitioner shall consider such assumptions to be hypothetical and shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.
26c	<p>The assurance practitioner's assurance procedures to ascertain if the prospective financial information has been prepared in accordance with the stated basis of preparation and the assumptions shall include:</p> <ul style="list-style-type: none"> (a) evaluating the chosen stated basis of preparation; (Ref: Para. A92) (b) assessing whether the stated basis of preparation described in the published financial information is consistent with the assurance practitioner's understanding; (c) making clerical checks such as re-computations and reviewing internal consistency of assumptions including those with common variables (that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates); (d) agreeing that the prospective financial information reflects any changes made to the stated basis of preparation from the previously audited or reviewed financial report included in the document; (e) considering the interrelationships of elements within the prospective financial information; (f) agreeing or reconciling the assumptions included to the stated basis of preparation; and (g) obtaining through enquiry of the responsible party, an understanding of all material assumptions and considering whether any other procedures are necessary in the circumstances.

26d	<p>The assurance practitioner’s assurance procedures on the prospective financial information itself shall include:</p> <ul style="list-style-type: none"> (a) evaluating the length of time covered by the prospective financial information, taking into account that information ordinarily becomes more speculative and less verifiable as the length of the period covered increases, and by: <ul style="list-style-type: none"> (i) enquiring of the responsible party the reasons for the choice of time period; (ii) considering whether the time period is consistent with the entity’s normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and (iii) considering whether any elapsed portion of the current time period is included in the prospective financial information; (b) evaluating the type of business conducted by the entity, the assumptions included in the prospective financial information, and consequently the assessed volatility of the overall prospective financial information; (c) assessing the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results and obtaining and assessing the responsible party’s reasons for any significant variances; and (d) assessing whether the prospective financial information is prepared on a reasonable and supportable basis, based on evidence obtained throughout the engagement.
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Pro Forma Prospective Financial Information

26e In addition to the requirements in paragraph 25, for assurance engagements over *pro forma prospective financial information*, the assurance practitioner shall perform the following procedures:

- (a) If the source of the unadjusted financial information has not been previously audited or reviewed, such procedures as are necessary, in relation to the unadjusted financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; or
- (b) If the source of the unadjusted financial information has been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner’s professional judgement, to obtain sufficient appropriate evidence on which to rely for engagement purposes; and
- (c) Such procedures as are necessary to determine whether the pro forma adjustments:
 - a. Are directly attributable to the events or transactions requiring the preparation of the pro forma prospective financial information;
 - b. Have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;

- c. Are supported by sufficient appropriate evidence;
- d. Are arithmetically correct; and
- e. Reflect the planned events or transactions in the time period in which they are expected to occur.

(d) Determining whether the resultant pro forma prospective financial information reflects the results of applying the pro forma adjustments to the unadjusted financial information.

Determining Whether Additional Procedures are Necessary in a Limited Assurance Engagement

26f. If the assurance practitioner becomes aware of a matter(s) that causes the assurance practitioner to believe that the financial information may be materially misstated, the assurance practitioner shall design and perform additional procedures to obtain further evidence until the assurance practitioner is able to:

- (a) Conclude that the matter is not likely to cause the financial information to be materially misstated; or
- (b) Determine that the matter(s) causes the financial information to be materially misstated.

Commented [SW14]: This requirement repeats the requirement in ISAE (NZ) 3000 (Revised) 49L

Specialised Skills or Knowledge

26g. The assurance practitioner shall determine whether specialised skills or knowledge are required regarding the financial information and whether to use the work of an assurance practitioner's expert. If the assurance practitioner uses work performed by another assurance practitioner or an expert in the course of performing the limited assurance engagement, the assurance practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the assurance practitioner's purposes.

Written Representations

27. The assurance practitioner shall request written representations from the appropriate party(ies): (para A32)

- (a) That they understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type of assurance, i.e., limited assurance, to be expressed
- (b) That they acknowledge and understand their responsibility for:
 - (i) the preparation of the of the financial information in accordance with the stated basis of preparation;
 - (ii) The selection of the financial information, including whether it contains comparatives;
 - (iii) Determining the relevant time period to be covered by the financial information;
 - (iv) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document;

- (v) The contents, preparation and issuance of the published financial information.
 - (vi) Complying with the requirements of the applicable laws and regulations in the preparation of the published financial information; and
 - (vii) Such internal control as is determined to be necessary to enable the preparation of financial information and the published financial information.
- (c) That the going concern basis of preparation of the financial information is appropriate in the document;
 - (d) That the assurance practitioner has been provided with all relevant information and access as agreed in the terms of engagement prior to the finalisation of the assurance report;
 - (e) All material events and transactions have been properly recorded in the accounting records underlying the financial information.
 - (f) That there are no currently anticipated material changes to be made to the financial information between the date of the report and the date of the published financial information (or that any material changes that may have occurred have been advised to the assurance practitioner/firm);
 - (g) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial information. A summary of such items shall be included in or attached to the written representations.
 - (h) Whether there have been events, transactions, corrections, errors or other matters that have arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the financial information.
 - (i) Whether all material risks that may impact on the business have been adequately disclosed in the document and considered in relation to their impact on the financial information.
 - (j) They have disclosed to the assurance practitioner their knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management; Employees who have significant roles in internal control; or
 - (ii) Others where the fraud could have a material effect on the financial information.
 - (k) All known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial information have been disclosed to the assurance practitioner.
 - (l) Whether there have been any communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the entity's adherence to relevant legislation
 - (m) Such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.

Commented [SW15]: Does "published financial information" work here?

Pro forma Historical Financial Information

27a In addition to the requirements in paragraph 27, when the financial information includes pro forma historical financial information, the assurance practitioner shall request the responsible party to include in the written representations that they acknowledge and understand their responsibility for:

- (a) Selecting the basis of preparation of the pro forma historical financial information;
- (b) Selecting the unadjusted historical financial information used as the source for the pro forma historical financial information;
- (c) Selecting and determining the pro forma adjustments; and
- (d) Complying with the requirements of all applicable laws and regulations;
- (e)

Prospective Financial Information

27b. In addition to the requirements in paragraph 27, when the financial information includes prospective financial information, the assurance practitioner shall request the responsible party include in the written representations:

- (a) that they acknowledge and understand their responsibility for the completeness of all material assumptions use in the preparation of the prospective financial information; and
- (b) confirmation that the material assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.

Subsequent Events

28. If the assurance practitioner becomes aware of events, transactions or errors after the issuance of the assurance report and before the relevant date that require adjustment of, or disclosure in, the financial information, the assurance practitioner shall request the responsible party to correct those misstatements.

29. The assurance practitioner shall revoke any consent to include the assurance report in the document if in the assurance practitioner's professional judgement, the matter is not appropriately addressed by the responsible party.

Going Concern Considerations

30. A limited assurance engagement includes consideration of the entity's ability to continue as a going concern. The assurance practitioner shall consider the responsible party's assessment of the entity's ability to continue as a going concern in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use of the going concern assumption in the preparation of the financial information.

31. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to events or conditions that individually, or collectively, may cast significant doubt about the entity's ability to continue as a going concern, the assurance

practitioner shall consider the implications for the engagement and the assurance report.
Forming the Assurance Conclusion
32 The assurance practitioner shall form a conclusion about whether the financial information is free from material misstatement. In forming that conclusion the assurance practitioner shall consider the assurance practitioner's conclusion regarding the sufficiency and appropriateness of evidence obtained in the context of the engagement and an evaluation of whether uncorrected misstatements are material, individually or in the aggregate in accordance with ISAE (NZ) 3000 (Revised) ⁸ .
Preparing the Assurance Report
33. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's conclusion on each type of financial information that is the subject of the engagement.
34. The assurance practitioner's conclusion shall clearly distinguish each type of financial information from any other types of financial information within the assurance report.
<i>Assurance Report Content</i>
35. The assurance report shall include, at a minimum, the following basic elements: (Ref: A32)
(a) A title that clearly indicates the report is an independent assurance report.
(b) An addressee
(c) Identification of the financial information, including the period(s) it covers, and, if any information in the financial information is not covered by the assurance practitioner's conclusion, clear identification of the financial information subject to assurance as well as the excluded information, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.
(d) A description of the responsible party's responsibilities.
(e) Identification of the stated basis of preparation: <ul style="list-style-type: none"> (i) Identification of how the stated basis of preparation can be accessed; (ii) If the stated basis of preparation needs to be supplemented by disclosures in the explanatory notes to the financial information for that stated basis of preparation to be suitable, identification of the relevant note(s).

⁸ ISAE (NZ) 3000 (Revised), paragraphs 64-65

<p>(f) If the stated basis of preparation is available only to specific intended users, or is relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the financial information may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose.</p>
<p>(g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the assurance practitioner’s responsibilities.</p>
<p>(h) A statement that the engagement was performed in accordance with SAE xxxx, <i>Assurance Engagements Involving Corporate Fundraisings</i>.</p>
<p>(i) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3 (Amended), or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 (Amended). If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3 (Amended).</p>
<p>(j) A statement that the assurance practitioner complies with the independence and other ethical requirements of Professional and Ethical Standard 1, or other professional requirements that are at least as demanding as Professional and Ethical Standard 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Professional and Ethical Standard 1.</p>

<p>(k) An informative summary of the work performed as the basis for the assurance practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the assurance practitioner's conclusion. In a limited assurance engagement, the summary of work performed shall state that:</p> <ul style="list-style-type: none"> (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.
<p>(l) The assurance practitioner's conclusion expressed in a form that conveys whether, based on the procedures performed and the evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.</p>
<p>(m) When the assurance practitioner expresses a modified conclusion, the assurance report shall contain:</p> <ul style="list-style-type: none"> a. A section that provides a description of the matter(s) giving rise to the modification; and b. A section that contains the assurance practitioner's modified conclusion.
<p>(n) A statement as to the existence of any relationship (other than as investigating accountant) the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity.</p>
<p>(o) A consent statement</p>
<p>(p) A liability statement</p>
<p>(q) The assurance practitioner's signature.</p>
<p>(r) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the assurance practitioner has obtained the evidence on which the assurance practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the financial information.</p>

Commented [SW16]: Wording aligns with NZ requirement in ISA (NZ) 700.

(s) The location in the jurisdiction where the assurance practitioner practices.
(t) A statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries.
(u) A statement that the financial information has been prepared for the document, and that as a result, the financial information may not be suitable for another purpose.
<p>36 In addition to the required elements in paragraph 35, when reporting on pro forma historical financial information, the assurance report shall:</p> <ul style="list-style-type: none"> (a) Identify the pro forma historical financial information being reported on, including the time period covered; (b) Identify whether the unadjusted financial information on which the proforma historical financial information has been prepared has been audited or reviewed; (c) Cross reference or describe the stated basis of preparation selected by the responsible party for the pro forma historical financial information. (d) If applicable, a statement that the engagement did not include updating or reissuing any previous audit or review report on the unadjusted historical financial information used in the preparation of the pro forma historical financial information.
<p>37. In addition to the required elements in paragraph 35, when reporting on <i>prospective financial information</i>, the assurance report shall include:</p> <ul style="list-style-type: none"> (a) if applicable, in the assurance practitioner’s responsibility section, that the engagement did not include updating or re-issuing any previous audit or review report on the financial information used as the source of the prospective financial information. (b) statements that: <ul style="list-style-type: none"> (i) actual results are likely to be different from the prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation could be material; and (ii) disclaim the assurance practitioner’s responsibility for the achievability of the results indicated by the prospective financial information.
<p>37a In addition the required elements in paragraph 35, when reporting on <i>pro forma prospective financial information</i>, the assurance report shall include .a statement that identifies whether the unadjusted financial information from which the pro forma prospective financial information was prepared has been audited or reviewed</p>
Consent
<p>37b. The assurance practitioner shall consider applicable law or regulation when the assurance practitioner has been requested to provide consent in writing to the responsible party for the inclusion of the assurance report in the document.</p>

Commented [SW17]: ASAE 3450 also requires a statement regarding hypothetical assumptions, if applicable.
FRS 42 requires assumptions to be reasonable and supportable, i.e., not hypothetical.

38. If the assurance practitioner considers it inappropriate for the assurance report to be included in the document, the assurance practitioner shall either not provide consent, or revoke consent prior to the relevant date.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.1
Meeting date: 8 April 2021
Subject: NZAuASB Action Plan 2021-2026 DRAFT
Date: 25 March 2021

Action Required

For Information Purposes Only

Agenda Item Objectives

To APPROVE:

- The updated NZAuASB Action Plan document for the five-year period 1 July 2021 to 30 June 2026 in support of the XRB's Strategic Plan for 2021-2026.

Background

1. The NZAuASB Action Plan is based on the XRB's Strategic five year-plan. The XRB Board approved the XRB Strategic Plan for 2021-2026 at its December 2020 meeting to reflect the strategic direction of the organisation for the next 5 years. The CE provided an overview of the XRB Strategic Plan to the NZASB and the NZAuASB at the joint Board meeting in February.
2. We have prepared a draft NZAuASB Action Plan 2021-2026 in support of the XRB's Strategic Plan for 2021-2026. This did not require major changes to the content. It mostly involved moving the grouping of the various actions of the previous NZAuASB plan into the key themes in the XRB Strategic Plan and updating it for the development in integrated reporting.
3. Because there has been a change in the structure with lots of cutting and pasting, we have not prepared a mark- up of the previous document. We have therefore also attached the previous NZAuASB 2020-2025 Plan should you need it for comparison at agenda 7.3.
4. We will prepare the "annual cut" of the NZAuASB Action Implementation Plan for 2020/21 identifying the specific actions that will be undertaken in the period 1 July 2021 – 30 June 2022 for consideration at the June meeting.
5. The XRB Strategic Plan 2021_2026 is available at agenda 7.4 for noting.

Action

i. Consider and approve the NZAuASB Action Plan for the five- year period 1 July 2021 to 30 June 2026.

ii. Note the XRB Strategic Plan 2021-2026

‘s

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	NZAuASB Action Plan 2021-2026 DRAFT
Agenda item 7.3	NZAuASB SAP 2020-2025
Agenda item 7.4	XRB Strategic Plan 2021-2026



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

NZAuASB Action Plan
In support of the XRB's Strategic Plan
2021-2026

For the five-year period

1 July 2021 to 30 June 2026

Last Updated: March 2021

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Introduction

The NZAuASB

The New Zealand Auditing and Assurance Standard Board (NZAuASB) is a standard-setting sub-Board¹ of the External Reporting Board (XRB).²

The NZAuASB is responsible for conducting activities and delivering outputs that support the advancement of the XRB's organisational vision, purpose, and strategic priorities. This will be achieved through the NZAuASB fulfilling its core standard-setting activities and through supporting the XRB in promoting high-quality, credible, integrated external reporting across all sectors.

Maintaining auditing and assurance standards that facilitate the conduct of high-quality independent audits and assurance engagements, which builds trust and confidence and encourage high-quality, meaningful, and well-accepted financial reports that are also recognised internationally³, is crucial to the achievement of the XRB's strategic objectives.

The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue auditing and assurance standards (including professional and ethical standards for assurance practitioners and standards for related services¹). In fulfilling this standard-setting role, the NZAuASB has an overriding objective of establishing a suite of auditing and assurance standards, including professional and ethical standards and related services standards, that engender trust and confidence in the quality of New Zealand external reporting.

Primary responsibility of the NZAuASB

The primary responsibility of the NZAuASB is to develop or adopt, expose, finalise and promulgate the following consistent with the XRB's strategic objectives:

- auditing and assurance standards for use in audit or assurance engagements required by statute;
- professional and ethical standards to be applied by assurance practitioners undertaking statutory assurance engagements;
- standards for related services that may ordinarily be undertaken by an audit or assurance practitioner; and
- other assurance standards within the scope of any "additional assurance standards" approval provided by the Responsible Minister in accordance with the Financial Reporting Act 2013.

To meet that responsibility, the NZAuASB:

- ensures that the auditing and assurance standards are consistent with the XRB's financial reporting strategy, including:
 - adoption of international standards, subject only to compelling reasons to enhance those standards in New Zealand and with the objective of harmonising New Zealand and Australian standards;

¹ The NZAuASB is established under Schedule 5 of the Crown Entities Act 2004, described as a Committee of the XRB.

² The XRB is an independent Crown Entity established under the Financial Reporting Act 1993 with continued existence under the Financial Reporting Act 2013, and subject to the Crown Entities Act 2004.

³ International recognition is of particular importance under the XRB's financial reporting strategy for developing for-profit accounting standards.

- development of standards jointly with Australia; or
 - development of New Zealand specific standards as may be required by the XRB's strategy;
- develops and promulgates guidance material to support the application and implementation of issued standards;
 - undertakes or commissions research relating to auditing and assurance or matters concerning professional and ethical conduct;
 - enhance its collaboration with the NZASB on mutual projects;
 - in conjunction with the XRB board and the NZASB, liaises with and influences other stakeholders in the auditing and assurance dimensions of the XRB's financial reporting strategy, including all participants in the financial and non-financial reporting "supply chain";
 - collaborates with the Australian Auditing and Assurance Standards Board (AUASB), through reciprocal membership and liaison, and occasional joint meetings, to promote cooperation and the harmonisation of New Zealand and Australian auditing and assurance standards;
 - collaborates with the Accounting Professional and Ethical Standards Board of Australia (APESB), through liaison and observing APESB meetings, to promote cooperation and harmonisation of New Zealand and Australian professional and ethical standards for assurance practitioners;
 - on behalf of the XRB as New Zealand's national standard setter, participates in the activities of the international standard setting bodies responsible for auditing and assurance and professional and ethical standards;
 - maintains and enhances relationships with other national auditing and assurance and ethical standard setters (NSSs) and collaborates on matters of mutual interest; and
 - contributes to the development and implementation of the XRB's Strategic Plan, acting as thought leaders on assurance issues in support of the XRB's mandate and strategic objectives.

The NZAuASB's Planned Actions 2021-2026

This document (the 'Plan') sets out the actions the NZAuASB⁴ plans to undertake in the five-year period from 1 July 2021 to 30 June 2026 to give effect to the overarching strategic objectives of the XRB.⁵

The Plan is prepared on a rolling five-yearly basis and updated annually. As a dynamic document, it is monitored continuously to ensure it reflects the actions delivered to date and considers new actions in response to changes in the XRB's strategy⁶.

⁴ Reference to the NZAuASB in this Plan includes both the NZAuASB Board and the staff that support the NZAuASB Board.

⁵ Set out in the XRB Strategic Plan 2021–2026.

⁶ Based on responding to changes in the domestic and international environment.

Context for the NZAuASB’s Planned Actions 2021-2026

The primary purpose of the Plan is to establish the NZAuASB’s planned actions in support of the XRB’s strategic objectives and priorities for the period. The XRB’s strategic objectives are built around the achievement of three key external reporting outcomes.

Credible	High-quality reporting and assurance that maintains trust and confidence in reporting in New Zealand and promotes transparency and accountability across all sectors of the economy.
Informative	Reporting that generates relevant, credible, and reliable information to support informed decision making and better outcomes for New Zealand.
Integrated	Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

Auditing and assurance standards are a significant element of the financial reporting “supply chain”. Assurance standards are also increasingly important in non-financial reporting, including emerging forms of integrated reporting.

Currently, there is considerable international and domestic activity examining trust and confidence in financial reporting, including audit quality, the independence of auditors and audit firms, and competition in the audit market.

These are in addition to other disruptions like the Covid-19 pandemic, developments in artificial intelligence, other technology advances, calls for more climate change disclosures and changes in the professional accounting and assurance market place.

In the period from 1 July 2021 to 30 June 2026 the NZAuASB plans to continue to actively monitor such disruptions and consider the implications for the New Zealand auditing and assurance standards.

Overarching priorities

Domestic priorities

Responding to the strategic context, and consistent with the XRB’s strategic priorities, the NZAuASB will continue to strengthen its core work by ensuring that New Zealand auditing and assurance standards remain fit-for-purpose and are capable of serving the public interest – both in relation to regulated audits and more broadly. It will do so by:

- liaising with key participants in the financial and non-financial reporting “supply chain”, and being responsive to emerging user needs;
- undertaking targeted outreach with practitioners and users in relation to standards under international revision;
- continuing its strong collaboration with the AUASB and the APESB; and
- promoting an evidence informed approach to its standard setting work.

The NZAuASB will actively support XRB initiatives that are relevant to its responsibilities or have auditing and assurance implications, including:

- Monitoring the XRB’s integrated reporting project (which aims to take an active role in leading the development of climate change reporting, in New Zealand as it relates to users of “corporate” reports), contributing to the development of guidance as appropriate.

- Working with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.
- Actively supporting (including through its own outreach and liaison activities) the XRB's work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality.
- Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary.

The NZAuASB will also enhance its collaboration with the New Zealand Accounting Standards Board (NZASB), including through joint projects and by providing any necessary support to the targeted review of the New Zealand accounting standards framework.

International priorities

Recognising that New Zealand and Australia are primarily international "standard takers", the NZAuASB will continue to seek ways to leverage its international influence in the international auditing and assurance standard setting (including the ethical standard setting) context.

This will include:

- seeking to influence the international discussion, through maintaining and building on current relationships with IAASB, IESBA and other national standard-setting groups;
- progressing the initiatives being undertaken jointly with the AUASB and the Canadian Auditing and Assurance Standards Board, and with the IAASB, to enhance cooperation between the international boards and the national assurance standard setters (NASSs) to promote effective international standard setting; and between NASSs themselves to leverage standard setting work being done in other jurisdictions,
- continuing to assist, where practicable, the IAASB and the IESBA to enhance cooperation between the international boards and the national assurance standard setters and national ethical standard setters (NSSs);
- (jointly with the AUASB) supporting the contributions of the New Zealand and Australian members of the IAASB; and
- supporting the development of thought leadership/research in New Zealand to help advance the international debate on specific issues.

Planned actions

In support of the XRB's Strategic Plan 2021-2026, the NZAuASB's planned actions for the 2021–2026 period is built around four key themes:

1. Maintaining and enhancing existing standards
2. Influencing the development of international standards
3. Enhancing constituency engagement and support
4. Supporting the XRB to influence delivery of high-quality audit and assurance services

1: Maintaining and enhancing existing standards

Overview

The NZAuASB has an overarching responsibility for ensuring that the existing sets of auditing and assurance standards are maintained on an ongoing basis, fully converged with international

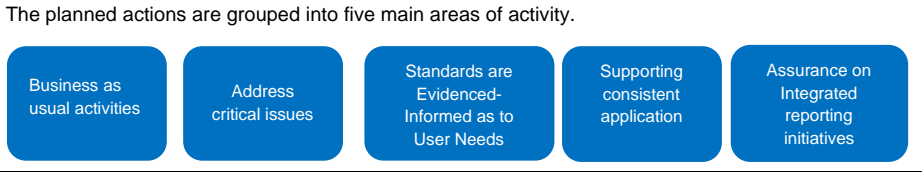
standards and harmonised with Australian standards, where appropriate, at all times, and retain local relevance and acceptance.

The focus of the NZAuASB planned actions in support of the XRB strategy is on ensuring convergence and harmonisation is maintained, including actively monitoring any issues emerging from the implementation of standards both in New Zealand and internationally, and responding to those issues where appropriate.

The NZAuASB plans to further enhance its collaboration with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact.

Domestic activities will include the issuance of supporting guidance and FAQ publications in response to emerging assurance issues and trends.

NZAuASB’s planned actions



Business as Usual Activities	
This section outlines the “business as usual” activities that the NZAuASB will undertake during the strategic period. These activities comprise the actions required to maintain the existing suite of standards in accordance with the XRB’s overarching strategy (convergence with international standards, and harmonisation with Australian standards where appropriate). To a large extent these activities are a continuation of the activities undertaken by the NZAuASB during the previous strategic period.	
Specific action	This action will comprise...
Action 1.1: Maintaining New Zealand Standards	<p>Amending the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards, related services standards and professional and ethical standards) to ensure that the existing suite of standards are maintained on an on-going basis, by:</p> <ul style="list-style-type: none"> 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. b. Incorporating any ethical standards, or amendments to those standards, issued by the IESBA, including liaising with the Australian Professional Ethical Standards Board (APESB) to ensure any changes are appropriately harmonised. c. Responding as appropriate to any gaps /issues identified with the current suite of standards. d. Incorporating any amendments to international auditing and assurance standards to domestic standards where applicable, including liaising with the AUASB.

	<ul style="list-style-type: none"> e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised. f. Liaising with the New Zealand Accounting Standards Board during the development stage of new or amending accounting standards and any post-implementation reviews, to identify any audit or assurance considerations. g. Ensuring that all appropriate due process requirements are satisfied in accordance with section 22 of the Financial Reporting Act 2013 and associated XRB guidelines before a new standard (or amendment, authoritative notice, or other pronouncement) is approved for issue.
<p>Action 1.2: Monitoring the Assurance Environment</p>	<p>Monitoring the wider assurance environment, liaising with key participants in the financial and non- financial reporting "supply chain", and considering the implications of any developing issues for New Zealand auditing and assurance standards.</p> <ul style="list-style-type: none"> a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate. b. Monitoring issues or gaps with the current suite of standards and responding as appropriate. c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB considering the implications for the New Zealand auditing and assurance standards. d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards. e. Assisting the XRB to contribute to government policy work relating to auditing and assurance standards. f. 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. g. Monitoring issues in respect of the COVID-19 crisis and the implications for assurance in New Zealand including the implementation of the auditing and assurance standards
<p>Action 1.3 Working together with the NZASB</p>	<ul style="list-style-type: none"> a. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact. b. Periodically meeting with the NZASB and staff to provide an update on the NZAuASB work plan (and vice versa receiving an update on the NZASB work plan).

Commented [SvD1]: New action added.

Commented [SvD2]: Added as a new action – previously included under action 1.1.

Address critical issues

This section outlines the new specific actions that the NZAuASB intends to carry out during the period of the XRB's strategic Action Plan 2021-2026. These planned actions comprise activities that would not normally be undertaken as part of the business as usual actions outlined in section 1.

They also relate to issues or matters not addressed (or addressed in any detail) by the NZAuASB previously.

The purpose of these specific actions is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting. The actions required are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.

The NZAuASB is aware of a small number of critical issues with the existing standards and policies that it plans to address during the 2021–2026 period:

Specific action	This action will comprise...
Action 1.4 : Developing an Assurance Standard on the Examination of Prospective Information	Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1.5 Developing a Review Standard on Service Performance Information	Developing a review standard on service performance information for Public Benefit Entities (PBEs) in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1.6 Developing an Engagement Standard/Guidance for smaller NFPs	Developing an engagement standard/guidance for smaller NFPs, not required by statute to have an audit or review, to better meet the needs of users, as informed by research completed in 2016-17, in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1.7 Performing a post implementation review jointly with the AUASB on the Compliance Engagement Standard	Performing a post implementation review on the Compliance Engagement Standard jointly with the AUASB to determine if further guidance is needed.
Action 1.8 Performing a post implementation review of NZ AS 1 <i>The Audit of Service Performance Information</i> three years post implementation (2023/2024)	Performing a post implementation review of NZ AS 1 - <i>The Audit of Service Performance Information</i> .

Standards are Evidenced-Informed as to User Needs

A key objective of the XRB is to ensure that its standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.

The XRB has established an Academic Forum to meet with academics once to twice per annum to identify areas for research relating to the XRB's standard setting. The NZAuASB plans to contribute and leverage of this collaboration to identify areas for research relating to auditing and assurance standards.

Action 1.9 Promoting evidence informed standard setting	<p>Identifying applicable user needs research to undertake where appropriate.</p> <p>Taking opportunities through the XRB's Academic Forum to identify and encourage areas for research related to auditing and assurance standards</p> <p>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>
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Supporting consistent application

The XRB recognises that its role in promoting relevant, credible, informative, and integrated external reporting does not end when a standard is issued. Fostering the consistent application of auditing and assurance standards is a key objective of the XRB.

The selection of guidance material will be based on responding to emerging issues and implementation challenges identified through *maintaining and enhancing constituent engagement and support* related activities and *monitoring of the assurance environment*.

A key element in promoting the consistent application of new and existing auditing and assurance standards is maintaining and enhancing the accessibility and usability of the standards issued by the XRB.

The XRB website is the sole source of auditing and assurance standards and other authoritative issued in New Zealand. It is therefore critical that the XRB explore opportunities to improve the accessibility and usability of its standards in response to evolving user expectations.

<p>Action 1.10: Development of guidance material to support the consistent application of auditing and assurance standards</p>	<ul style="list-style-type: none"> a. Developing Staff FAQs and other non-authoritative guidance material to support the consistent application of new and existing standards (where deemed required); b. Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement activities. c. Considering what further guidance is needed in the New Zealand environment and develop the guidance.
<p>Action 1.11: Improving the accessibility & usability of auditing and assurance standards</p>	<ul style="list-style-type: none"> d. Completing a feasibility assessment of the costs and benefits of introducing fully integrated digitised standards across all standards issued by the XRB; and e. Exploring other opportunities to increase the accessibility & usability of auditing and assurance standards.

Commented [SvD3]: New action

Commented [SvD4]: Revised form prior year to support XRB strategy

Integrated reporting Initiatives

The XRB vision recognises that New Zealand prospers through effective decision making informed by high-quality, credible, *integrated* reporting. Integrated reporting encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

It is expected that the implementation of non-financial information reporting strategies will be led by the XRB Board. The priority focus of the XRB Board over the next period is the development of a strategy and guidance for climate related financial disclosures (CRFD).

The NZAuASB has an important role to play in ensuring financial and non-financial reporting standard-setting developments remain connected to support an integrated approach to quality and trusted external reporting.

Connected to the XRB initiatives in relation to non-financial reporting is the IASB's ongoing *Management Commentary* project. The project scope includes consideration of how broader financial reporting could complement financial statements prepared using IFRS Standards. This is a significant and important topic for New Zealand constituents in ensuring their financial reporting remains relevant and continues to meet increasing user expectations.

Action 1.12: Contribute to the XRB's initiative on non-financial disclosures	<ul style="list-style-type: none"> a. Actively monitoring XRB led initiatives in relation to non-financial reporting and contributing to the development of reporting guidance as appropriate, and work with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed. b. actively monitoring and seeking opportunities to provide input into the work undertaken by the NZASB on the Management Commentary project;
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Commented [SvD5]: revised action

2: Influencing the development of international standards

Overview

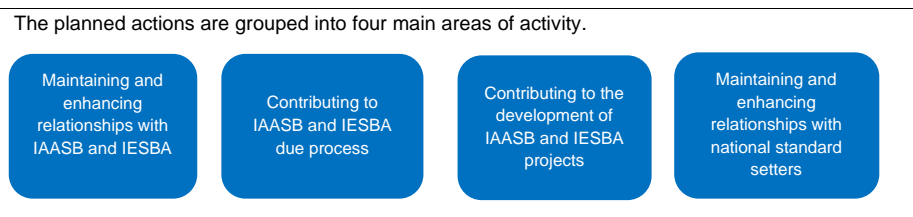
A key objective in the XRB Strategic Plan is to maintain the international convergence approach. Implicit in this approach is the need for the NZAuASB to mostly be a "standard-taker" i.e. to use the international standards as the base for New Zealand standards. For those standards to be appropriate in New Zealand, it is important for the NZAuASB to seek to influence international standards during appropriate stages of standards development to ensure high quality global standards that are both applicable in New Zealand and in the public interest.

The purpose of the NZAuASB's planned actions is to seek to influence the work of the international boards during the early stages of standards development through the establishment of "influencing strategies" specific to each international board.

NZAuASB's planned actions

The NZAuASB's specific planned actions reflects the Board's responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

The planned actions also recognise the importance of maintaining relationships with other national standard-setters. Participation in the activities of standard-setters from different jurisdictions provides an additional mechanism for influencing international boards.



Maintaining and enhancing relationships with the IAASB and the IESBA	
Action 2.1: Maintaining and enhancing relationships with the IAASB	<ul style="list-style-type: none"> a. Attending relevant meetings and events (including NSS meetings); b. Taking opportunities to meet with IAASB members and staff;

	<ul style="list-style-type: none"> c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups; d. Hosting IAASB members and staff in visits to New Zealand as appropriate; e. Responding, as appropriate, to requests for information from the IAASB and any other relevant working groups. f. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IAASB events and other international forums; g. Inviting IAASB members and staff to present at NZAuASB meetings and other XRB constituent outreach events; and a. Inviting Lyn Provost to Board meetings and providing high level support for her role (and monitoring the inputs of the Technical Advisory Group);
<p>Action 2.2: Maintaining and enhancing relationships with the IESBA</p>	<ul style="list-style-type: none"> a. Attending relevant meetings and events (including NSS meetings); b. Taking opportunities to meet with IESBA members and staff; c. Fostering relationships with Australian representatives on the IESBA; d. Hosting IESBA members and staff in visits to New Zealand; e. Responding, as appropriate, to requests for information from the IESBA and any other relevant working groups. f. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IESBA events and other international forums; g. Inviting IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events;
<p>Contributing to the IAASB and the IESBA due process</p>	
<p>Action 2.3: Contributing to International Due Process</p>	<ul style="list-style-type: none"> a. Actively contributing to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), by: <ul style="list-style-type: none"> • Ensuring assurance practitioners and relevant users of assurance reports are aware of the IAASB and the IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB; • Responding, as appropriate, to the IAASB and the IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the AUASB and the APESB where appropriate; • Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.
<p>Contributing to the development of IAASB and IESBA projects</p>	

Commented [SvD6]: Amended the previous action to reflect how this may work in the future with the TA role separate from the Director role.

Action 2.4 Contributing to the development of IAASB and IESBA projects	Actively monitoring the work undertaken by the IAASB and the IESBA, and engaging with staff on matters relevant to New Zealand, including continuing to contribute to the IAASB and IESBA work as appropriate and achievable
Maintaining and enhancing relationships with NSS	
Action 2.5: Collaborating with other NSSs to ensure global standards are fit for purpose at jurisdictional level	<ul style="list-style-type: none"> a. Be an active participant in the NASS collaboration project with the AUASB, Canadian and Netherlands NASSs, including: <ul style="list-style-type: none"> i. Participating in the exploration internationally of how NASS 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). ii. Identifying and exploring opportunities for the IAASB and national auditing and assurance standard setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work. iii. 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. b. 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.

3: Maintaining and enhancing constituency engagement and support

Overview

Auditing and assurance standards are best developed by working with a broad range of stakeholders in a collaborative manner, through maintaining and enhancing constituency engagement and

awareness-raising activities. Constituency engagement is required to ensure the standards retain general acceptance and to identify any issues or challenges in a timely manner.

The XRB has a strategic focus on developing a stronger and deeper relationship with key stakeholder groups across the reporting cycle, including regulators, policymakers, government, and the wider business and NFP communities.

A priority outcome over this period is to seek ways of increasing our engagement with Māori, to better understand the extent to which the assurance standards framework addresses the information needs of Māori entities and reflects the Māori world view.

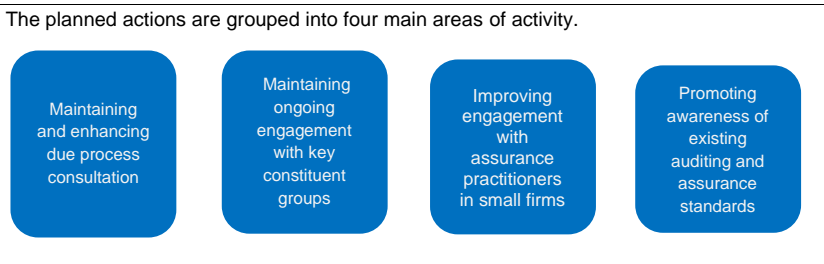
Commented [SvD7]: New XRB outcome

A primary objective of conducting constituent engagement activities is promoting awareness and communicating why a new standard or amendment has been proposed and/or issued. It is important to explain how new pronouncements will improve accountability, transparency, and better decision making by users of integrated reports.

This strategy also includes maintaining relationships with key stakeholder groups to monitor any emerging issues to ensure the auditing and assurance standards continue to be "fit-for-purpose".

NZAuASB's Planned Actions

The NZAuASB's planned actions reflect the need to continue raising awareness of standard-setting projects in progress, recently issued auditing and assurance standards, and auditing and assurance standards soon to be effective. The NZAuASB will seek to maintain and enhance consultation with major stakeholder groups across all sectors to receive feedback on specific issues relating to auditing and assurance standards, and to encourage feedback on due process documents.



Specific action	This action will comprise...
Action 3.1: Maintaining and Enhancing Due Process Consultation	<p>Enhancing due process consultation with major user constituent groups⁷ and all participants in the financial and non-financial reporting "supply chains" on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents, by:</p> <ul style="list-style-type: none"> a. Continue to publish, on a regular basis, online newsletters to promote an awareness of the NZAuASB's activities, any new standards or guidance issued, and other standard-setting developments; b. 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

⁷ CAANZ, CPA, FMA, IOD, NZX and others

	<p>c. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.</p> <p>d. Proactively seeking opportunities to engage with those involved in the external reporting of Māori incorporated entities – including preparers, advisors, and users.</p>
Maintaining ongoing engagement with key constituent groups	
Action 3.2: Undertaking On-Going Dialogue	<p>Undertaking an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing and assurance standards, including changes resulting from the evolving nature of the audit and assurance market by:</p> <p>a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings;</p> <p>b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and Maintaining strong working relationships at the operational level with key constituent groups.</p>
Improving engagement with assurance practitioners in small firms	
Action 3.3: Improving engagement with assurance practitioners in small firms.	<p>Seeking to improve engagement with assurance practitioners that are small firms and sole practitioners, by:</p> <p>Specifically targeting this group when consulting about relevant standards using customised consulting approaches.</p>
Promoting awareness of existing auditing and assurance standards :	
Action 3.4 promoting understanding of the auditing and assurance standards and engagements	<p>Undertake activities throughout the life-cycle of developing standards to promote an increased understanding of auditing and assurance standards by:</p> <p>a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness:</p> <ul style="list-style-type: none"> • of assurance practitioners about new and revised auditing and assurance standards; • of assurance users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility; <p>b. Promoting awareness of the IAASB and the IESBA implementation support activities.</p>

Commented [SvD8]: As above – new action

4: Supporting the XRB to influence delivery of high-quality audit and assurance services

Overview

Currently, there is considerable international and domestic activity examining trust and confidence in financial reporting, including audit quality, the independence of auditors and audit firms, and

competition in the audit market. A key strategy of the XRB is to have a strong leadership and voice to influence the delivery of high- quality audit and assurance services in New Zealand.

NZAuASB’s Planned Actions



The NZAuASB’s planned actions are to support the XRB in considering the global audit reforms to promote an understanding of the factors that affect audit quality in New Zealand, and to develop an appropriate response plan to address implications for the auditing and assurance standards where necessary.


<p>Action 4.1: Support the XRB to promote Understanding of the Factors that Affect Audit Quality</p>	<ul style="list-style-type: none"> a. Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary; b. Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the Brydon report and the Australian Parliamentary Inquiry where relevant to New Zealand. c. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality; d. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform all participants in the external reporting supply chain about the factors that affect audit quality.
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Commented [SvD9]: New action to support XRB’s strategy

NZAuASB Action Plan Summary

The NZAuASB’s planned actions are summarised in the table below.

1.	Maintaining and enhancing existing standards	
	<p>Business as Usual</p> <p>The primary responsibility of the NZAuASB is to maintain and enhance the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners); and</p> <p>to continue the convergence and harmonisation approach (where relevant) for auditing and assurance standards.</p>	<p>Action 1.1: Maintaining New Zealand Standards</p> <p>Action 1.2: Monitoring the Assurance Environment</p> <p>Action 1.3: Working together with the NZASB</p>
	<p>Address Critical Issues</p> <p>This strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting.</p> <p>The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.</p>	<p>Action 1.4: Developing an Assurance Standard on the Examination of Prospective Information</p> <p>Action 1.5: Developing a Review Standard on Service Performance Information</p> <p>Action 1.6: Developing an Engagement Standard/Guidance for smaller NFPs</p> <p>Action 1.7: Performing a post implementation review jointly with the AUASB on the Compliance Engagement Standard</p>

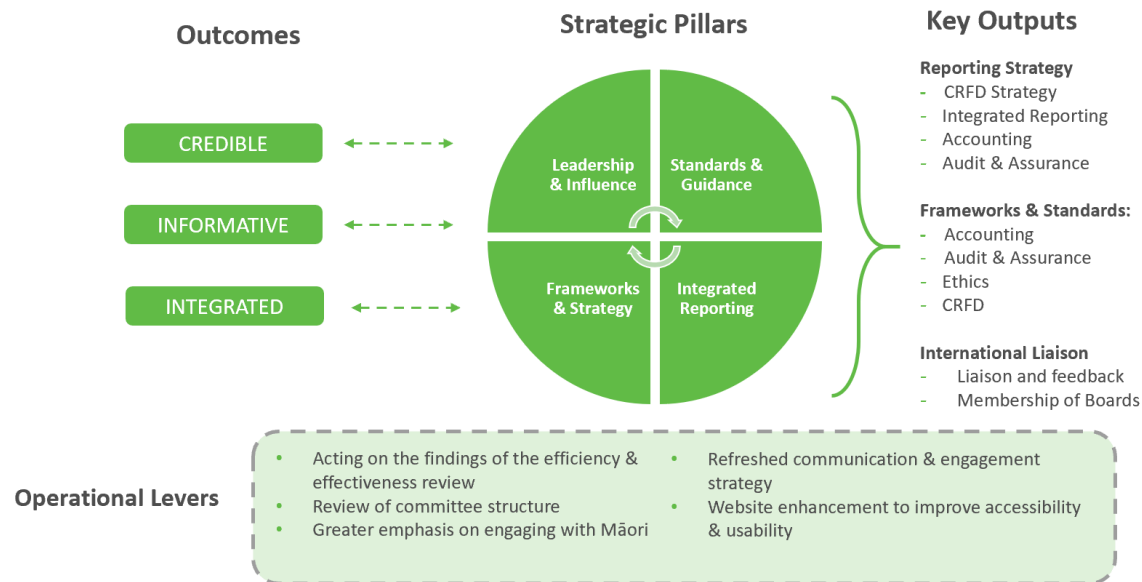
		Action 1.8: Performing a post implementation review of NZ AS 1 <i>The Audit of Service Performance Information</i> three years post implementation
	<p>Standards are evidenced informed as to user's needs</p> <p>A key objective of the XRB is to ensure that its standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes</p>	Action 1.9 Promoting evidence informed standard setting
	<p>Supporting consistent application</p> <p>The XRB recognises that its role in promoting relevant, credible, informative, and integrated external reporting does not end when a standard is issued. Fostering the consistent application of auditing and assurance standards is a key objective of the XRB.</p>	<p>Action 1.10: Development of guidance material to support the consistent application of auditing and assurance standards</p> <p>Action 1.11: Improving the accessibility & usability of auditing and assurance standards</p>
	<p>Integrated reporting initiative</p> <p>It is expected that the implementation of non-financial information reporting strategies will be led by the XRB Board. The priority focus of the XRB Board over the next period is the development of a strategy and guidance for climate related financial disclosures (CRFD).</p>	Action 1.12: Contribute to the XRB's initiative on non-financial disclosures
2.	Influencing the development of international standards	
	The NZAuASB's specific planned actions reflects the Board's responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board	<p>Action 2.1: Maintaining and enhancing relationships with the IAASB</p> <p>Action 2.2: Maintaining and enhancing relationships with the IESBA</p> <p>Action 2.3: Contributing to International Due Process</p>

	(IAASB) and the International Ethics Standards Board for Accountants (IESBA).	<p>Action 2.4 Contributing to the development of IAASB and IESBA projects</p> <p>Action 2.5: Collaborating with other NSSs to ensure global standards are fit for purpose at jurisdictional level</p>
3	Maintaining and enhancing constituency engagement and support	
	<p>Maintaining and enhancing constituency engagement and support</p> <p>A key aspect of the XRB's standard setting strategy is to ensure that standards are developed with constituents in a collaborative manner, through outreach, awareness raising activities and sector facilitation</p> <p>The NZAUASB will seek to maintain and enhance consultation with major stakeholder groups across all sectors to receive feedback on specific issues relating to auditing and assurance standards, and to encourage feedback on due process documents.</p> <p>This also includes maintaining relationships with major user constituent groups⁸ and all participants in the financial "reporting process" groups to monitor any emerging issues.</p>	Action 3.1: Maintaining and Enhancing Due Process Consultation
		Action 3.2: Undertaking On-Going Dialogue
		Action 3.3: Improving engagement with assurance practitioners in small firms.
		Action 3.4 Promoting understanding of the auditing and assurance standards and engagements
4.	Supporting the XRB to influence delivery of high-quality audit and assurance services	
	<p>The NZAUASB's planned actions are to support the XRB in considering the global audit reforms to promote an understanding of the factors that affect audit quality in New Zealand, and to develop an appropriate response plan to address implications for the auditing and assurance standards where necessary.</p>	Action 4.1: Support the XRB to promote Understanding of the Factors that Affect Audit Quality

⁸ CAANZ, CPA, FMA, IOD, NZX and others

Appendix A — XRB Strategic Plan 2020–2021: At a Glance

Vision New Zealand prospers through effective decision making informed by high-quality, credible, and integrated reporting.



9



**NZ AUDITING
AND ASSURANCE
STANDARDS BOARD**

Strategic Action Plan

**For the five-year period
1 July 2020 to 30 June 2025**

July 2020

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1. Introduction

The New Zealand Auditing and Assurance Standards Board (NZAuASB) is a Committee of the External Reporting Board (XRB) established under schedule 5 of the Crown Entities Act.

The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue auditing and assurance standards (including professional and ethical standards for assurance practitioners and standards for related services¹). In doing so the NZAuASB must operate within the financial reporting strategy established by the XRB Board.

The NZAuASB also issues "Other Assurance Standards" in accordance with an [authority provided](#) by the Minister of Commerce issued under section 24 (1) (b) (v) of the Financial Reporting Act 1993.

1.1 NZAuASB's Strategic Objective

The XRB's strategies aim to contribute to building trust and confidence in the reporting by New Zealand organisations across all sectors². The NZAuASB's strategic objective, which reflects that goal, is:

To establish auditing and assurance standards (including ethical standards) in the public interest which will encourage assurance practitioners to perform assurance engagements in a manner that engenders confidence in New Zealand financial reporting, assists New Zealand entities to compete internationally, and enhances entities' accountability to their stakeholders.

The performance of high quality assurance engagements that provides users with confidence about the fair presentation of the information presented in financial reports is vital to the achievement of the XRB's strategies. Consistent with those strategies, the NZAuASB maintains the existing suite of auditing and assurance standards and issues such standards or guidance as it considers necessary from time to time.

1.2 Role and Responsibilities of the NZAuASB

The primary responsibility of the NZAuASB is to develop or adopt, expose, finalise and promulgate:

- auditing and assurance standards for use in audit or assurance engagements required by statute;
- professional and ethical standards to be applied by assurance practitioners undertaking statutory assurance engagements;
- standards for related services that may ordinarily be undertaken by an audit or assurance practitioner; and

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

² The underlying foundations of the XRB's strategic plan are set out in detail in the XRB's [Strategic Plan 1 July 2014 to 30 June 2019](#) and in subsequent Strategic Plans. The strategies are summarised in the Appendix to this Plan.

- other assurance standards within the scope of any “additional assurance standards” approval provided by the Responsible Minister in accordance with the Financial Reporting Act 2013,

consistent with its strategic objective.

To meet that responsibility, the NZAuASB:

- ensures that the auditing and assurance standards are consistent with the XRB’s financial reporting strategy, including:
 - adoption of international standards, subject only to compelling reasons to enhance those standards in New Zealand and with the objective of harmonising New Zealand and Australian standards;
 - development of standards jointly with Australia; or
 - development of New Zealand specific standards as may be required by the strategy;
- develops and promulgates guidance material to support the application and implementation of issued standards;
- undertakes or commissions research relating to auditing and assurance or matters concerning professional and ethical conduct;
- liaises with and influences other stakeholders in the auditing and assurance dimensions of the XRB’s financial reporting strategy, including all participants in the financial and non-financial reporting “supply chain”;
- collaborates with the Australian Auditing and Assurance Standards Board (AUASB), through reciprocal membership and liaison, and occasional joint meetings, to promote cooperation and the harmonisation of New Zealand and Australian auditing and assurance standards;
- collaborates with the Accounting Professional and Ethical Standards Board of Australia (APESB), through liaison and observing APESB meetings, to promote cooperation and harmonisation of New Zealand and Australian professional and ethical standards for assurance practitioners;
- on behalf of the XRB as New Zealand’s national standard setter, participates in the activities of the international standard setting bodies responsible for auditing and assurance and professional and ethical standards;
- maintains and enhances relationships with other national auditing and assurance and ethical standard setters (NSSs) and collaborates on matters of mutual interest; and
- contributes to the development and implementation of the XRB’s Strategic Plan, acting as thought leaders on assurance issues in support of the XRB’s mandate and strategic objectives.

2. Introduction to the NZAuASB’s Strategic Action Plan

2.1 The NZAuASB’s Strategic Action Plan

This Strategic Action Plan outlines the specific actions that the NZAuASB will take in the 2020/21 financial year and subsequent years to give effect to its strategic objective.

The NZAuASB updates and revises this Strategic Action Plan annually during the five-year period covered by the overarching strategic plan. This enables the Strategic Action Plan to be a dynamic document that reflects achievements to date and new strategies and actions.

3. Strategic Context and Priorities for the 2020-2025 period

Strategic Context

Auditing and assurance standards are a significant element of the financial reporting “supply chain”. Assurance standards are also increasingly important in non-financial reporting, including emerging forms of extended external reporting (EER).

Currently, there is considerable international and domestic activity examining trust and confidence in financial reporting, including audit quality, the independence of auditors and audit firms, and competition in the audit market.

Internationally both the style and format of international auditing and assurance standards are a matter of debate and controversy. Recently announced reforms to the international structures for auditing and assurance (including ethical) standard setting, which include a new public interest framework for international standard setting, will be implemented during the period covered by this Plan.

These are in addition to other disruptions like the Covid-19 pandemic, developments in artificial intelligence, other technology advances, and changes in the professional accounting and assurance market place.

In the period from 1 July 2019 to 30 June 2024 the NZAuASB plans to continue to actively monitor such disruptions and consider the implications for the New Zealand auditing and assurance standards.

Overarching priorities

Domestic priorities

Responding to that strategic context, and consistent with the XRB’s strategic priorities, the NZAuASB will continue to strengthen its core work by ensuring that New Zealand auditing and assurance standards remain fit-for-purpose and are capable of serving the public interest – both in relation to regulated audits and more broadly. It will do so by:

- liaising with key participants in the financial and non-financial reporting “supply chain”, and being responsive to emerging user needs;
- undertaking targeted outreach with practitioners and users in relation to standards under international revision;
- continuing its strong collaboration with the AUASB and the APESB;
- reviewing the compelling reason test jointly with the AUASB, to ensure it remains fit-for-purpose; and
- promoting an evidence informed approach to its standard setting work.

The NZAuASB will actively support XRB initiatives that are relevant to its responsibilities or have auditing and assurance implications, including:

- Monitoring the XRB’s EER project (which aims to take an active role in leading the development of EER, including climate change reporting, in New Zealand as it relates to users of “corporate” reports), contributing to the development of guidance as appropriate. The NZAuASB will work with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.
- Actively supporting (including through its own outreach and liaison activities) the XRB’s work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality.

The NZAuASB will also enhance its collaboration with the New Zealand Accounting Standards Board (NZASB), including through joint projects and by providing any necessary support to the targeted review of the New Zealand accounting standards framework.

International priorities

Recognising that New Zealand and Australia are primarily international “standard takers”, the NZAuASB will continue to seek ways to leverage its international influence in the international auditing and assurance standard setting (including the ethical standard setting) context. This will include:

- progressing the initiatives being undertaken jointly with the AUASB and the Canadian Auditing and Assurance Standards Board, and with the IAASB, to enhance cooperation between the international boards and the national assurance standard setters (NASSs) to promote effective international standard setting; and between NASSs themselves to leverage standard setting work being done in other jurisdictions,
- continuing to assist, where possible, the IAASB and the IESBA to enhance cooperation between the international boards and the national assurance standard setters and national ethical standard setters (NSSs); and
- (jointly with the AUASB) supporting the contributions of the New Zealand and Australian members of the IAASB.

Specific strategies

The NZAuASB’s strategic objective in the period 2020-2025 will be achieved through the following specific strategies.

Overarching Strategy – Broad strategic approach

- Maintaining and enhancing the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners);
- Continuing the convergence and harmonisation approach (where relevant) for auditing and assurance standards;
- Working to ensure that New Zealand’s auditing and assurance standards are understood and applied in accordance with the NZAuASB’s strategic objective; and
- Responding to the changing international environment and external reporting landscape and leveraging New Zealand’s international influence.

Specific Strategy 1: Standards are Fit-for-Purpose

The purpose of this strategy is to ensure that the existing suite of standards are maintained and enhanced on an on-going basis so that they are of a high quality, fully converged with international standards and harmonised with Australian standards, where appropriate, at all times, and retain local relevance and acceptance.

The actions required under this strategy are those necessary to ensure convergence and harmonisation is maintained, including actively monitoring any issues emerging from the implementation of standards, and responding to those issues where appropriate.

The underlying actions in Specific Strategy 1 are grouped into two main areas of planned activities:

Part A: Business as Usual Activities

Part B: Address critical issues.

Specific Strategy 1: Standards are Fit-for-Purpose

Part A: Business as Usual Activities

This section outlines the “business as usual” activities that the NZAuASB will undertake during the strategic period. These activities comprise the actions required to maintain the existing suite of standards in accordance with the overarching strategy (convergence with international standards, and harmonisation with Australian standards where appropriate). To a large extent these activities are a continuation of the activities undertaken by the NZAuASB during the previous strategic period.

Specific action	This action will comprise...
Action 1A.1: Contributing to International Due Process	<p>Actively contributing to the “due process” activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), by:</p> <ol style="list-style-type: none"> Ensuring assurance practitioners and relevant users of assurance reports are aware of the IAASB and the IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB; Responding, as appropriate, to the IAASB and the IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in

	<p>conjunction with the AUASB and the APESB where appropriate;</p> <p>c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.</p>
<p>Action 1A.2: Maintaining New Zealand Standards</p>	<p>Amending 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, by:</p> <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.</p> <p>b. Incorporating any ethical standards, or amendments to those standards, issued by the IESBA, including liaising with the Australian Professional Ethical Standards Board (APESB) to ensure any changes are appropriately harmonised.</p> <p>c. Responding as appropriate to any gaps /issues identified with the current suite of standards.</p> <p>d. Incorporating any amendments to international auditing and assurance standards to domestic standards where applicable, including liaising with the AUASB.</p> <p>e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised.</p> <p>f. Liaising with the New Zealand Accounting Standards Board during the development stage of new or amending accounting standards and any post-implementation reviews, to identify any audit or assurance considerations.</p>

Action 1A.3: Monitoring the Assurance Environment

Monitoring the wider assurance environment, liaising with key participants in the financial and non- financial reporting “supply chain”, and considering the implications of any developing issues for New Zealand auditing and assurance standards.

- a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate.
- b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.
- c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB considering the implications for the New Zealand auditing and assurance standards.
- d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards.
- e. Assisting the XRB to contribute to government policy work relating to auditing and assurance standards.
- f. Monitoring the XRB EER project, contributing to the development of reporting guidance as appropriate, and work with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.
- 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.
- 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.
- i. Monitoring issues in respect of the COVID-19 crisis and the implications for assurance in New Zealand including the implementation of the auditing and assurance standards

Specific Strategy 1: Standards are Fit-for-Purpose

Part B: Address critical issues

This section outlines the new specific strategic actions that the NZAuASB intends to carry out during the period of the strategic plan. These strategic actions comprise activities that would not normally be undertaken as part of the business as usual actions outlined in section 3.

They also relate to issues or matters not addressed (or addressed in any detail) by the NZAuASB previously.

The purpose of this strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting. The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.

The NZAuASB's primary focus is on promulgating auditing and assurance standards. The Board spent the 2009-2014 period developing and issuing amended standards to give effect to the new Auditing & Assurance Standards Framework. Many of these new standards became effective during the 2014-2016 period and critical issues may emerge that need to be addressed. The Board will do so should this occur.

In addition, the NZAuASB is aware of a small number of critical issues with the existing standards and policies that it plans to address during the 2020–2025 period:

Specific action	This action will comprise...
Action 1B.1: Developing an Assurance Standard on the Examination of Prospective Information	Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1 B2: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relevant assurance products and develop guidance where identified.	<ul style="list-style-type: none"> a. Considering what further guidance is needed in the New Zealand environment. b. Developing appropriate guidance.
Action 1 B3: Developing a Review Standard on Service Performance Information	Developing a review standard on service performance information for Public Benefit Entities (PBEs) in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1 B4: Developing an Engagement Standard/Guidance for smaller NFPs	Developing an engagement standard/guidance for smaller NFPs, not required by statute to have an audit or review, to better meet the needs of users, as informed by research completed in 2016-17, in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
Action 1 B5: Performing a post implementation review jointly with the AUASB on the Compliance Engagement Standard	Performing a post implementation review on the Compliance Engagement Standard jointly with the AUASB to determine if further guidance is needed.
Action 1 B6: Reviewing the compelling reason test and the harmonisation policy jointly with the AUASB	<ul style="list-style-type: none"> a. Performing a review of the compelling reason test and the harmonisation policy, in collaboration with the AUASB, to determine if it remains fit for purpose in the current auditing and assurance environment both globally and in the two jurisdictions.

	<ul style="list-style-type: none"> b. Liaising with the AUASB about any changes that may be needed.
	<ul style="list-style-type: none"> a.
Action 1 B7: Performing a post implementation review of NZ AS 1 The audit of Service Performance Information three years post implementation (2023/2024)	Performing a post implementation review of NZ AS 1- The Audit of Service Performance Information.
Action 1 B8: Considering and addressing the implications of the XRB mandate	<p>Addressing issues arising as a result of the change to the XRB's legal mandate in relation to related services, and the implications (if any) on the professional and ethical standards including:</p> <ul style="list-style-type: none"> • The quality management standards • The Code of Ethics
<p>Specific Strategy 2: Standards are Evidenced-Informed as to User Needs</p> <p>A key objective of the XRB is to ensure that auditing and assurance standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes. This strategy involves undertaking 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, to help inform efforts to influence the work of the international standard setting boards, to respond to developments in reporting and to provide thought leadership.</p>	
Specific action	This action will comprise...
Action 2.1 Undertaking and considering user needs research as appropriate	<ul style="list-style-type: none"> a. Identifying and performing applicable user needs research to undertake where appropriate. 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.
Action 2.2 Developing relationships with academia and other "think tanks"	<p>Developing relationships to direct user needs research to contribute to the standard setting process, by</p> <ul style="list-style-type: none"> a. Leveraging collaboration between the academic members of the NZAuASB and the AUASB b. Meeting with academic constituent groups on a rolling basis as part of the NZAuASB's regular meetings; c. Taking opportunities to meet with academics through AFAANZ and in other fora, including at events hosted by them.
Action 2.3 Promoting evidence informed standard setting	Through Action 2.2, continuing to encourage opportunities for evidence informed standard setting, including by:

	<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.
<p>Specific Strategy 3: High Quality Global Standards Applicable in New Zealand</p> <p>A key aspect of the overarching strategy contained in the XRB Strategic Plan is the international convergence approach. Implicit in this approach is the need for the NZAuASB to mostly be a “standard-taker” i.e. to use the international standards as the base for New Zealand standards. For those standards to be appropriate in New Zealand, it is important for the NZAuASB to seek to influence international standards during appropriate stages of standards development to ensure high quality global standards that are both applicable in New Zealand and in the public interest.</p> <p>The purpose of Specific Strategy 3 is to seek to influence the work of the international boards during the early stages of standards development through the establishment of “influencing strategies” specific to each international board.</p> <p>The NZAuASB’s specific strategic actions relating to Specific Strategy 3 reflects the Board’s responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). This includes collaborating with other NSSs to ensure the global standards are high quality and fit-for-purpose in national jurisdictions.</p>	
<p>Action 3.1: Building Relationships with the IAASB</p>	<ul style="list-style-type: none"> a. Attending relevant meetings and events (including NSS meetings); b. Taking opportunities to meet with IAASB members and staff; c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups; d. Hosting IAASB members and staff in visits to New Zealand as appropriate; e. Responding, as appropriate, to requests for information from the IAASB and any other relevant working groups.
<p>Action 3.2: Increasing the International Visibility of the NZAuASB</p>	<ul style="list-style-type: none"> 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 b. Identifying appropriate, mutually beneficial IAASB and IESBA projects and contributing technical resources in support of those projects.
<p>Action 3.3: Supporting Lyn Provost in her role as IAASB member</p>	<ul style="list-style-type: none"> a. Inviting Lyn Provost to Board meetings and providing high level support for her role (and monitoring the inputs of the Technical Advisory Group); b. The Director Assurance Standards attending IAASB meetings as Technical Advisor (TA) to Lyn Provost.

<p>Action 3.4: Building Relationships with the IESBA</p>	<ul style="list-style-type: none"> a. Attending relevant meetings and events (including NSS meetings); b. Taking opportunities to meet with IESBA members and staff; c. Fostering relationships with Australian representatives on the IESBA; d. Hosting IESBA members and staff in visits to New Zealand; e. Responding, as appropriate, to requests for information from the IESBA and any other relevant working groups.
<p>Action 3.5: Consider digitisation of the NZAuASB standards</p>	<ul style="list-style-type: none"> 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 NZAuASB standards c. Working with the IESBA to ensure NZ specific provisions can be incorporated into the eCode d. .
<p>Action 3.6: Collaborating with other NSSs to ensure global standards are fit for purpose at jurisdictional level</p>	<ul style="list-style-type: none"> a. Be an active participant in the NASS collaboration project with the the AUASB, Canadian and Netherlands NASSs, including: <ul style="list-style-type: none"> i. Leading the exploration internationally of how NASS 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). ii. Identifying and exploring opportunities for the IAASB and national auditing and assurance standard setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work. iii. 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. b. Supporting, where possible, the IAASB and the IESBA in their initiatives to foster “quadrilogue” and project


	<p>specific collaboration between the two boards and their respective NSS groups.</p> <p>c. 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>
<p>Specific Strategy 4: Standards Developed Collaboratively with Constituency</p> <p>Another key aspect of the NZAuASB’s standard setting strategy is to ensure that standards are developed in collaboration with the constituency. This is reflected in Specific Strategy 4 which has three elements:</p> <p>Constituent engagement, awareness raising activities and sector facilitation.</p>	
Specific action	This action will comprise...
<p><i>Constituent Engagement: establish ways for the NZAuASB to enhance the level and quality of constituent engagement.</i></p>	
Action 4.1: Enhancing Due Process Consultation	<p>Enhancing due process consultation with major user constituent groups³ and all participants in the financial and non-financial reporting “supply chains” on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents, by:</p> <ul style="list-style-type: none"> 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 b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.
Action 4.2: Undertaking On-Going Dialogue	<p>Undertaking an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing and assurance standards, including changes resulting from the evolving nature of the audit and assurance market by:</p> <ul style="list-style-type: none"> a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB’s regular meetings; b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and c. Maintaining strong working relationships at the operational level with key constituent groups.
Action 4.3: Improving engagement with	<p>Seeking to improve engagement with assurance practitioners that are small firms and sole practitioners, by:</p>


³ CAANZ, CPA, FMA, IOD, NZX and others




assurance practitioners in small firms.	Specifically targeting this group when consulting about relevant standards using customised consulting approaches.
<i>Awareness raising activities: ensuring assurance practitioners and assurance users (where relevant) understand the auditing and assurance standards that apply when performing assurance engagements required by law.</i>	
Action 4.4 promoting understanding of the auditing and assurance standards and engagements	<p>Undertake activities throughout the life-cycle of developing standards to promote an increased understanding of auditing and assurance standards by:</p> <ol style="list-style-type: none"> a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness: <ul style="list-style-type: none"> • of assurance practitioners about new and revised auditing and assurance standards; • of assurance users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility; b. Promoting awareness of the IAASB and the IESBA implementation support activities.
<i>Sector facilitation: encouraging, facilitating and supporting other relevant organisations to provide appropriate training and professional development activities relating to financial reporting; and working with other agencies to ensure the linkages between the work of relevant agencies in the financial reporting area are identified and gaps addressed.</i>	
Action 4.5: Support the XRB to promote Understanding of the Factors that Affect Audit Quality	<ol style="list-style-type: none"> a. Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the Brydon report and the Australian Parliamentary Inquiry. b. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality; c. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform all participants in the external reporting supply chain about the factors that affect audit quality.

4. NZAuASB Strategic Action Plan Summary

The NZAuASB's planned strategic actions are summarised in the table below.

	Specific Strategy	Action
	Specific Strategy 1: Standards are Fit-for-Purpose – Part A: Maintain Existing Suite of Standards (Business as Usual)	Action 1A.1: Contributing to International Due Process
		Action 1A.2: Maintaining New Zealand Standards

	<p>The primary responsibility of the NZAuASB is to maintain and enhance the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners); and</p> <p>to continue the convergence and harmonisation approach (where relevant) for auditing and assurance standards.</p>	Action 1A.3: Monitoring the Assurance Environment
	<p>Specific Strategy 1: Standards are Fit-for-Purpose – Part B: Address Critical Issues</p> <p>This strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting.</p> <p>The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.</p>	Action 1B.1: Developing an Assurance Standard on the Examination of Prospective Information
		Action 1B.2: Consider what further guidance is needed on the use of the XRB auditing and assurance standards and relevant assurance products and develop guidance where identified
		Action 1B.3: Developing a Review Standard on Service Performance Information
		Action 1B.4: Developing an Engagement Standard/Guidance for smaller NFPs
		Action 1B.5: Performing a post implementation review jointly with the AUASB on the Compliance Engagement Standard
		Action 1 B6: Reviewing the compelling reason test and the harmonisation policy jointly with the AUASB
		Action 1B.7: Performing a post implementation review of NZ AS 1 <i>The Audit of Service Performance Information</i> three years post implementation
		Action 1 B.8: Considering and addressing the implications of the XRB mandate

	<p>Specific Strategy 2: Standards are Evidenced-Informed as to User Needs</p> <p>A key objective of the XRB is to ensure that auditing and assurance standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.</p> <p>This strategy involves undertaking 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, to respond to developments in reporting and to provide thought leadership.</p>	<p>Action 2.1: Undertaking and considering user needs research as appropriate</p> <p>Action 2.2: Developing relationships with academia and other “think tanks”</p> <p>Action 2.3: Promoting an evidence informed standard setting strategy</p>
	<p>Specific Strategy 3: High Quality Standards Applicable in New Zealand</p> <p>The NZAuASB strategy is to seek to influence the work of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) during the early stages of standards development, through the establishment of “influencing strategies” specific to each international board.</p>	<p>Action 3.1: Building Relationships with the IAASB</p> <p>Action 3.2: Increasing the International Visibility of the NZAuASB</p> <p>Action 3.3: Supporting Lyn Provost in her role as IAASB member.</p> <p>Action 3.4: Building Relationships with the IESBA</p> <p>Action 3.5: Consider digitisation of the NZAuASB standards</p> <p>Action 3.6 Collaborating with other NSSs to ensure global standards are fit for purpose at jurisdictional levels.</p>
	<p>Specific Strategy 4: Standards developed Collaboratively with Constituency</p> <p>A key aspect of the NZAuASB’s standard setting strategy is to ensure that standards are developed with constituents in a collaborative manner, through outreach, awareness raising</p>	<p>Action 4.1: Enhancing Due Process Consultation</p> <p>Action 4.2: Undertaking On-Going Dialogue</p> <p>Action 4.3: Improving engagement with assurance practitioners in small firms.</p>

	activities and sector facilitation. This strategy also includes maintaining relationships with major user constituent groups ⁴ and all participants in the financial “reporting process” groups to monitor any emerging issues.	Action 4.4: Promoting understanding of the auditing and assurance standards and engagements
		Action 4.5: Supporting the XRB in Promoting Understanding of the Factors that Affect Audit Quality

APPENDIX A: Summary of the XRB’s Strategic Priorities for the 2020-2025 Period

The XRB’s strategies aim to contribute to building trust and confidence in the reporting by New Zealand organisations across all sectors⁵.

In the period from 1 July 2020 to 30 June 2025, the XRB plans to further develop the standards frameworks (including accounting and auditing & assurance standards⁶ and, as appropriate extended external or integrated reporting) to ensure they are fit-for-purpose and continue to:

- engender confidence in New Zealand external reporting across all sectors;
- assist New Zealand entities to communicate their performance;
- enhance entities’ accountability to stakeholders; and
- support a high performing and accountable public sector

thereby contributing to sustainable and inclusive economic goals of New Zealanders and intergenerational wellbeing.

Strategic Priorities – 2020-2025

The XRB’s outcome goal in the period 2020-2025 will be achieved through several specific strategies, as set out below:

Overarching Strategy – Broad strategic approach	
<ul style="list-style-type: none"> • Maintaining the existing financial reporting strategy including the two-sector, multi-standards, multi-tier Accounting Standards Framework • Continuing, as appropriate, the convergence and harmonisation approach for both accounting and auditing & assurance standards • Responding to the changing international environment and external reporting landscape • Work with stakeholders to consider the mandate of the XRB in the setting of EER standards and guidance 	
Specific Strategy	To be achieved by....
Specific Strategy 1: Standards are Fit-for-Purpose	Enduring policy of sector-specific standards and Tier Structure. Maintaining a financial reporting strategy and standards frameworks that are: <ul style="list-style-type: none"> • Reliable and require infrequent changes; • Consistent with NZ’s legislative frameworks; and • Responsive to legislative changes and stakeholder input

⁴ CAANZ, CPA, FMA, IOD, NZX and others

⁵ The underlying foundations of the XRB’s strategic plan are set out in detail in the XRB’s [Strategic Plan 1 July 2014 to 30 June 2019](#) and in subsequent Strategic Plans.

⁶ Auditing & assurance standards, including ethics standards.

	<p>Appropriate policy of international convergence/harmonisation.</p> <p>Maintaining existing accounting and auditing & assurance standards (and associated pronouncements) so that:</p> <ul style="list-style-type: none"> • They are of high quality; • They remain consistent with international standards, as appropriate; and • There is local relevance and acceptance. <p>Enhancing existing financial reporting and auditing & assurance standards (and associated pronouncements) by:</p> <ul style="list-style-type: none"> • Identifying and addressing any New Zealand-specific deficiencies or gaps; and • Expanding, where necessary, the XRB’s legal mandate in relation to the issue of standards in order to provide for the integrated reporting of an entity’s performance or position in terms of both financial and non-financial information.,. <p>Ensuring transparent due process and consultation.</p> <p>Reviewing the existing “standard taker” policy, understanding the ramifications of change and discussing with policy makers.</p>
<p>Specific Strategy 2: Standards are Evidenced- Informed as to User Needs</p>	<p>Undertaking organised research into the financial and non-financial information needs of users of our standards:</p> <ul style="list-style-type: none"> • as a basis for enhancing the financial reporting framework or specific standards; • to inform efforts to influence the work of the international standard setting boards; • to respond to developments in extended external reporting; and • to provide thought leadership. <p>Undertaking a Targeted Review of the accounting standards frameworks in the period 2019-2020</p>
<p>Specific Strategy 3: High Quality Global Standards Applicable in New Zealand</p>	<p>Seeking to influence the work of the international boards during appropriate stages of standards development to ensure high quality global standards that are both applicable in New Zealand and in the public interest:</p> <ul style="list-style-type: none"> • Using targeted “influencing strategies” specific to each international board; and • By participating, building relationships, and, where appropriate, being represented on international boards. <p>Anticipating, monitoring and responding to major disruptions and developments in the international standard setting structures and environment, particularly in the audit market, and ensuring that stakeholders are well informed. The XRB remains alert to the need for any resultant changes in strategies and/or actions.</p> <p>Maintaining and enhancing regional relationships with like-minded countries, to ensure New Zealand’s influence in the region.</p> <p>Re-considering the most effective investment of resources in respect of our influencing strategies, whether this be at the commencement of the standard setting process, the end of the standard setting process or working more closely with regional groups. This activity needs to be sustainable and in the public interest in a constrained resource environment..</p>
<p>Specific Strategy 4:</p>	<p>Developing standards in a collaborative manner with the constituency by:</p>

<p>Standards Developed Collaboratively with Constituency</p>	<ul style="list-style-type: none"> • Implementing new engagement strategies (perhaps “labs” or “think tanks” to enhance the depth and breadth of constituency engagement (including all participants in the financial “reporting process”); and • Increasing awareness raising activities across all participants of the financial “reporting process” throughout the life-cycle of developing standards including detailing “why” the change. <p>Promoting the awareness, understanding and implementation of EER among New Zealand constituents by:</p> <ul style="list-style-type: none"> • maintaining a proactive approach to EER, considering investor versus broader stakeholder requirements; <p>continuing to respond to demands for EER by working with stakeholders to consider the mandate of the XRB in the setting of EER standards and guidance. Working with other agencies, including other standard-setters, to ensure any external reporting and assurance gaps are identified, understood, researched if necessary and addressed. In particular, investigating the opportunity to extend the mandate as envisioned by S17(2) of the FRA in order to provide for the integrated reporting of an entity’s performance or position in terms of both financial and non-financial information.</p> <p>The XRB and the technical boards working together to create the power of “one voice” and the full utilisation of our “levers” in the constituent’s awareness of the legislative nature of the standards ensuring consistent, timely and effective implementation.</p> <p>Providing a thought leadership role involving bold thinking, being proactive and facilitating meetings with key stakeholders to make a difference.</p> <p>Encouraging, facilitating and supporting other relevant organisations to provide appropriate training and professional development activities relating to external reporting.</p>
<p>Specific Strategy 5: Capable, High-Performing and Financially Prudent Organisation</p>	<p>Maintaining a high-performance culture to achieve the XRB’s outcome goals in a rapidly changing environment.</p> <p>Operating in a financially prudent manner with particular focus on developing a robust Vote for bid for the 2021/22 financial year as the XRB runs down its reserves to ensure a new level of funding to support the functions of the XRB to effectively contribute to its stated outcome goals..</p> <p>Establish clear milestone and funding needs if the XRB mandate should be extended</p> <p>Establishing and maintaining the necessary level of capability (both Board and staff) needed to deliver the outputs.</p> <p>Strengthening, widening and improving the relationship matrix.</p> <p>Seek specialist digital capability to provide timely and expert advice on technological improvements to the XRB’s output.</p>

Strategic Plan 2021-2026

November 2020



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Introduction



This document sets out the External Reporting Board's (XRB's) Strategic Plan for the five-year period from 1 July 2021 to 30 June 2026.

The XRB's strategy aims to contribute to New Zealand's goal to create a sustainable, inclusive and prosperous economy. High-quality information to ensure that decision making that impacts the wellbeing of New Zealand and New Zealanders are well informed is critical.

Our strategy recognises that high quality information is more than financial information and includes non-financial elements of performance including; value creation, sustainability and the wider impacts an organisation has on society and the environment. Combined, this information spans the natural, human, social, and financial capitals that support intergenerational wellbeing.

The importance of consultation, and communication and engagement with a broad cross section of stakeholders, and the consideration of a Te Ao Māori world view into our work, cannot be understated. The importance of this is reflected in this document and will underpin how we deliver this strategy.

Equally, we will continue to focus on maintaining and building strong international connections. This is central to our role of taking international standards and making them relevant and applicable for a New Zealand context. Our focus on this recognises the importance of comparable information, and that adopting internationally recognised standards remains paramount. Alongside this, we want to maintain our role as a credible influencer on the global standard setting stage. Relative to our size, New Zealand punches well above its weight in this area. We have a credible voice and a reputation for being fair and even handed in our approach. In the years ahead, we intend to maintain and build on our international standing.

Our purpose



Enable the highest quality decision making for resource allocation for the benefit of Aotearoa New Zealand and New Zealanders.

How we deliver value



We enable high quality, trusted and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

Our context



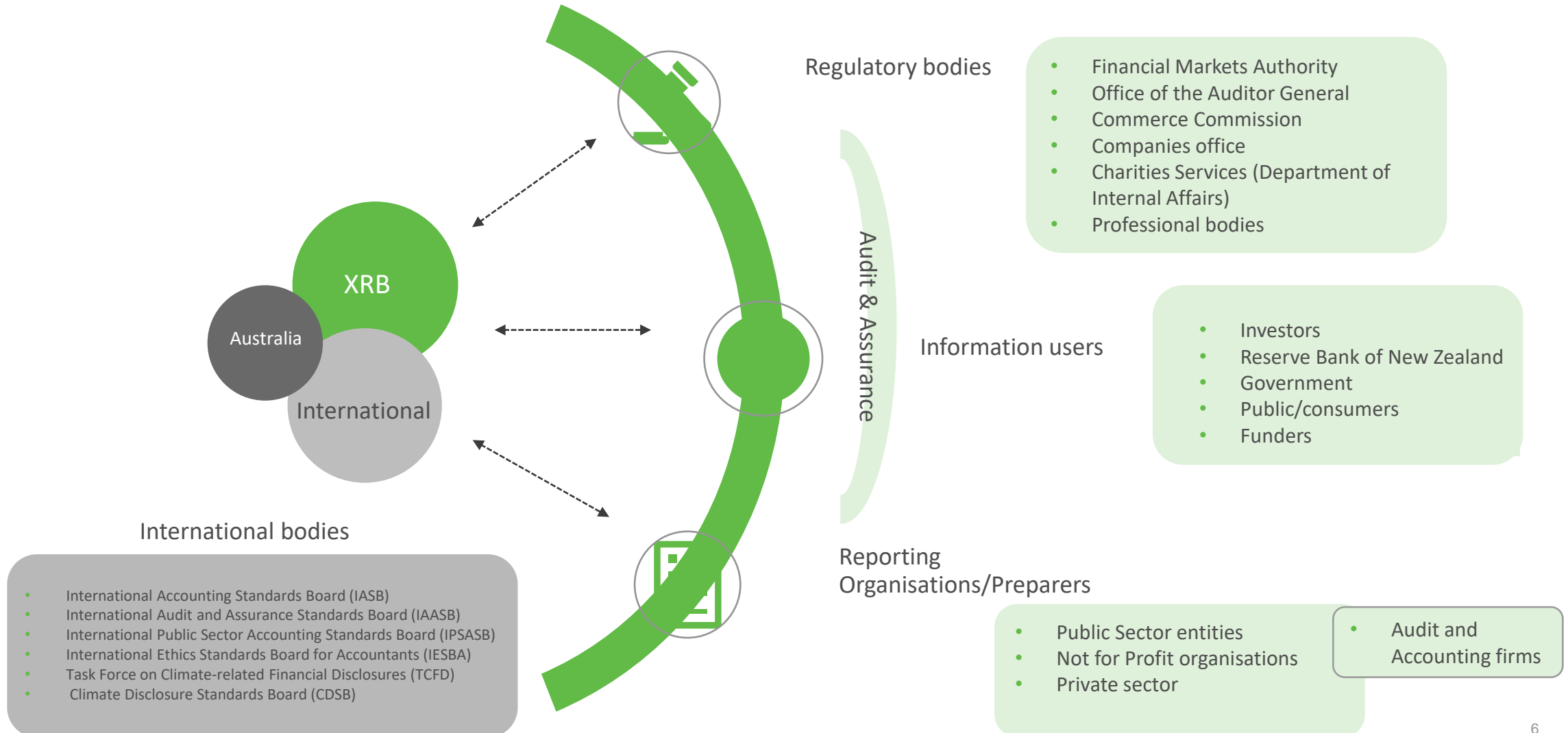
The XRB has an enduring focus on ensuring frameworks and standards respond promptly to local and international external reporting developments. But it's a changing world. The range of stakeholders for whom reporting standards applies is broadening. Information users are increasingly demanding richer information (beyond financial reporting), and the disruptive short and long-term impacts of COVID-19, and climate change cannot be ignored. These challenges in and of themselves, heighten the need to ensure decision making is reinforced by information that supports resilience and long-term sustainability and that the interests of future generations are safeguarded.

The XRB is well placed to respond to change. We are a small organisation with an important remit, and we have advantages we can leverage such as the ability to be agile and adapt to events at pace. The way in which we responded during COVID -19 is a good example of our agility. We were prompted to be braver in our approach as we pivoted from our usual standard taker role, to that of standard maker by issuing going concern accounting standards, supporting guidance and FAQs on emerging accounting and assurance matters, and increasing our media presence and profile to support their use. These actions were a critical step towards maintaining trust, confidence and transparency during a time of disruption and uncertainty.

Our size also means we have good relationships with regulators, policy makers, and the wider business and Not for Profit communities. Similarly, yet despite New Zealand being a small country, the XRB has developed a strong standing and voice internationally and maintaining this credibility will be an enduring focus. This will be critical in the coming years as New Zealand leads the way on developing and implementing Climate-Related Financial Disclosures (CRFD). We realise however that rising to the challenge an extended mandate to develop standards on CRFD brings, that we must develop stronger and deeper relationships with a broader group of stakeholders – including Māori.

Our strategy will enable us to build on our strengths so that we can harness the opportunities that are inherent to challenge and create long term value for Aotearoa New Zealand.

Reporting Ecosystem Overview



New Zealand prospers through effective decision making informed by high-quality, trusted, and integrated reporting.

Our Outcomes



TRUSTED

High quality reporting and assurance that maintains confidence in New Zealand's reporting and promotes transparency and accountability across all sectors of the economy.

INFORMATIVE

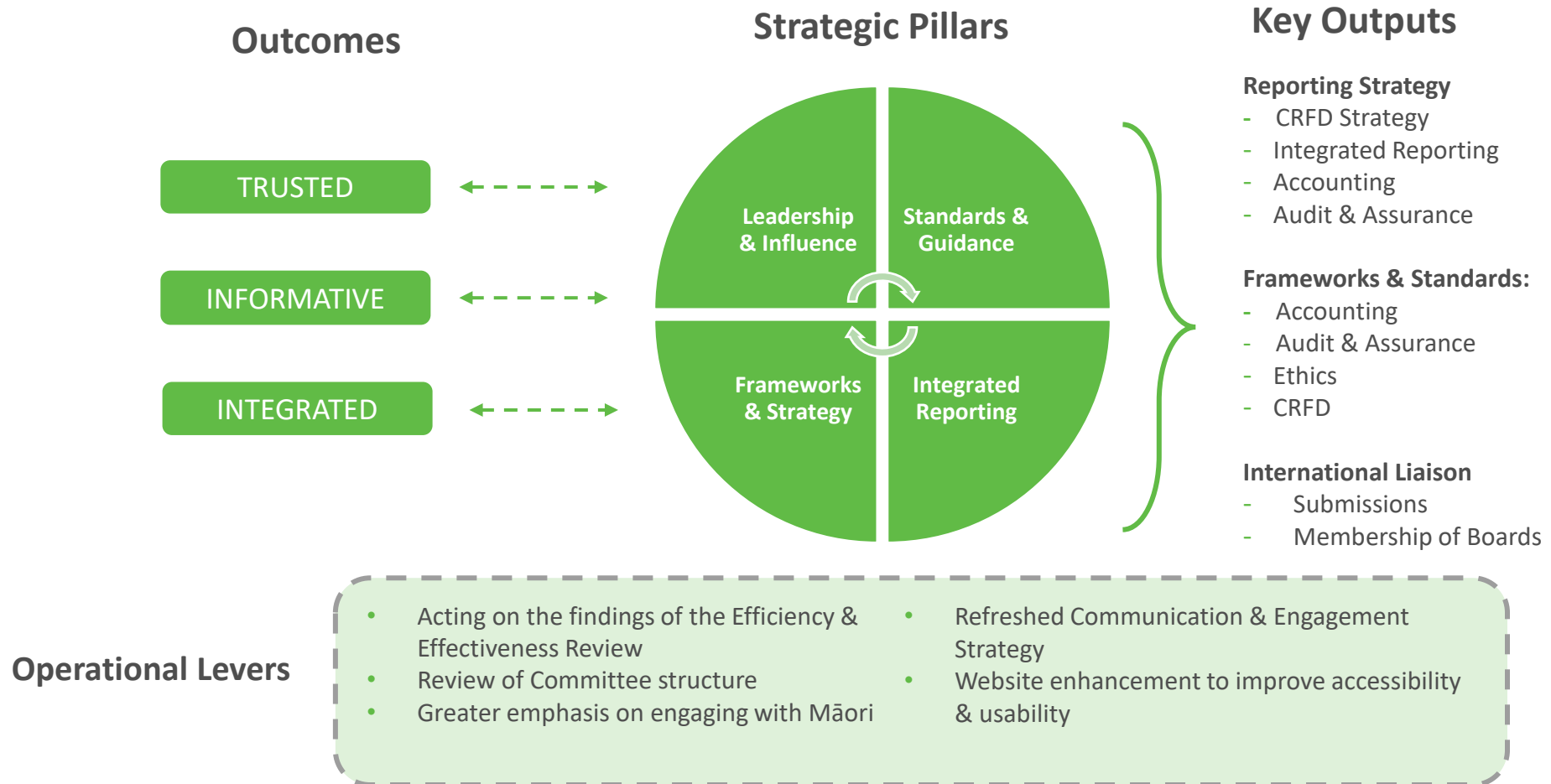
Reporting that generates relevant information to support informed decision making and better outcomes for New Zealand.

INTEGRATED

Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

Strategy at a glance

Vision New Zealand prospers through effective decision making informed by high quality, trusted, and integrated reporting.



Priority focus areas

Climate Related Financial Disclosures

Development of a strategy and guidance which encompasses a broad range of stakeholder views.

Audit & Assurance

Strong leadership & voice to influence delivery of high- quality audit and assurance services

Engagement & Influence

Stimulate dialogue to inform domestic standard setting and give New Zealand a credible and influential voice on the international standards setting stage.



- Consult on and amend Professional and Ethical Standard 1 for the provision of Non- Assurance Service and Fees
- Issue an alternative engagement standard for small not-for-profits
- Issue a review standard on Service Performance Information
- Monitor outcome of stakeholder collaboration on audit quality and amend auditing standards where necessary
- Post-implementation Review of Tier 3 and Tier 4 Standards
- Influencing the IPSASB's Projects on: Revenue and Transfer Expenses, Measurement, and Leases
- Developing a public sector insurance standard
- Provide input into IASB's 2021 consultation on its future work plan
- Promote awareness of the new standard on service performance reporting (PBE FRS 48)
- Influence IAASB projects, consult on and issue the proposed international auditing standards on:
 - ISA 600 Group Audits (Revised) Special Considerations – Audits of Group Financial Statements
 - Less Complex Entities
 - ISA 500 (Revised) Audit Evidence
 - Fraud and Going Concern matters

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	8 April 2021
Subject:	Audit/review alternative for small charities
Date:	24 March 2021
Prepared by:	Peyman Momenan

Action Required

For Information Purposes Only

Agenda Item Objectives

The objective of this agenda item is for the Board to:

- NOTE the update on the progress of the audit/review alternative for small charities project.

Background

1. In February 2019, the NZAuASB considered the recommendation from the working group on a possible approach for an alternative engagement (other than an audit or review) for small not-for-profits.
2. The working group held its third meeting on 18 March 2021 to explore the next steps of the project. The working group recommendations, discussions as well the expected next steps of the project are included in the Agenda item 7.2. The initial outline of the engagement is included in the Agenda item 7.3.

Recent developments

3. You may be aware that the Incorporated Societies Act has been introduced¹ in parliament and that it sets the financial reporting requirements for Incorporated Societies. The Bill requires all incorporated societies to prepare annual financial statements however different GAAP and non-GAAP standards may apply depending mainly on the size of the incorporated society. As the bill stands, societies, other than large societies, have no requirements to have their annual financial statements audited. Large societies are defined with reference to large entities in Financial Reporting Act 2013.²

¹ You can access the Bill here: <https://legislation.govt.nz/bill/government/2021/0015/latest/LMS100809.html?src=qs> And here is where you can follow its progress: https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_109429/incorporated-societies-bill

² an entity (other than an overseas company or a subsidiary of an overseas company) is large in respect of an accounting period if at least 1 of the following paragraphs applies:

(a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed \$60 million:
(b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds \$30 million.

4. It is therefore very likely that the engagement currently being developed will be of interest to those incorporated societies with no statutory audit requirement who are looking for increasing confidence in their interactions with their external stakeholders.

Action

5. For the Board to NOTE the update and progress of the project, and to provide feedback on the proposed direction of the project and the recommendations of the Working Group.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	The minutes of the working group second meeting
Agenda item 8.3	The initial outline of the engagement

Summary of Recommendations:

On 18 March 2021, the Working Group held its third meeting to explore the next steps of the project.

A Summary of the Working Group recommendations is as follows.

- Support for the general outline of the engagement including:
 - The prompt for the practitioner to consider their competency and objectivity (independence) before accepting an engagement.
 - The prompt to engage with those charged with governance to understand why they are requesting the engagement.
 - The modular design of the engagement.
 - The readiness assessment being the first step after accepting the engagement.
- To require the practitioner undertaking the engagement to describe in the report why they are sufficiently competent to undertake the engagement.
- A long format report, focusing on describing undertaken procedures and factual findings is to be used.
- Seek feedback from Charities Services on the proposed engagement including what modules are best to be included, what are the possibilities in relation to information available on the charities register etc.
- Engage with professional bodies (CA ANZ and CPA Australia), specifically their charities auditor special interest groups, to receive feedback and recommendation on the engagement including the recommended procedures.

Minutes of the Working Group discussions:

The Working Group considered the following matters:

- a) The competency and independence requirements for practitioners undertaking the engagement. This will be outside the XRB mandate and will require corresponding responses from Charities Services and Professional Bodies. However, to have meaningful engagement with those bodies, a better description of competency and independence requirement is needed. The Working Group opinion was mixed in relation to using the term independence with Karen suggesting to use “objectivity” instead of independence. Karen noted that independence is a term defined in Professional and Ethical Standard 3 (PES 3). David’s view was that independence is a term understood by the intended users and using other terms such as objectivity may be confusing to the users.
- b) Quality management aspects of the engagement. The Working Group discussed that on the one hand this engagement has to be affordable for small charities and on the other hand inadequate (or no) quality controls over the engagement may render it unfit for purpose. If accreditation is required, this would require working closely with bodies that will handle the accreditation of potential practitioners. The Working Group asked staff to contact Charities Services and professional bodies to obtain their views and feedback on this issue.
- c) Feasibility of “foundations” (refer agenda item 7.3). In particular, whether this is an unreasonable burden being placed on small charities. The Working Group supported the approach to start the engagement by considering key foundations required for undertaking the engagement. The Working Group feedback was that such an assessment should be part of the engagement and where that assessment shows inadequate foundations, the practitioner should write their report highlighting their findings and including recommendations as how the charity can address the identified shortcomings.

- d) Whether reasonable criteria exist for proposed initial modules. The Working Group agreed that appropriate criteria for small charities exists. However, there is a need to work with Charities Services to ensure that such criteria are updated and closely aligned with the objectives of the proposed engagement over the module.
- e) Proposed reporting style. The Working Group supported a long format report focusing on describing the work done by the practitioner and their factual findings (similar to AUP).
- f) The design and direction of the proposed example engagement. The Working Group supported the example but noted that this is only a very rough outline of such an engagement and staff will need to engage with audit experts in this area in order to come up with an appropriate set of procedures.

Project's next step:

- Engage with Charities Services to seek their feedback and views for the proposed engagement.
- Engage with professional bodies to seek their feedback and views for the proposed engagement.
- Tthe Working group to consider the project progress in June 2021.

Questions for the Board's consideration

Does the Board agree with the recommendations of the Working Group?

Are there any other matters we should consider that has not been addressed?

Who can undertake the engagement?

- 1) Appropriately independent: should not:
 - a. be involved in day to day running of the charity,
 - b. contribute to decisions made by the charity (e.g. an officer) (Can it be a past officer? If not involved for a certain number of years?)
 - c. be a beneficiary of the Charity with significant reliance on the Charity (it is difficult to come up with a clear line when it comes to members of a charity. A member of a sport club's objectivity and independence who does not know the club's TCWG on a personal level may not be fundamentally compromised given the nature of the relationship. However, a member of a faith-based organisation may have high loyalty and commitment to the organisation (including a very high level of trust and respect for those who run it) thus may not be objective in their assessment)
 - d. be friendly with TCWG or the charity's executives.
- 2) Appropriately competent: The level of competency can vary with the complexity level of the engagement. At a minimum they should understand key controls over payments and receipts, key record keeping procedures and controls (e.g. bank reconciliation, chart of accounts, management accounts etc) and the entity's annual performance report. (Could we have a knowledge assessment self-test to help? Like on a webpage where you go and answer a series of question?)

Starting point of the engagement:

As supported by the Working Group, a modular approach (for e.g. pick and choose from an available range of modules, either a single one or a hybrid of these modules) which can be applied to ensure that the charity's needs are best served.

The first step in this direction would be determining why the charity is requiring the engagement. This would require knowing:

- the intended user(s) (e.g. external funding organisations, government or other service procurers, members of the charity, its beneficiaries, general donors, etc.)
- the objectives the charity's officers want to achieve (demonstrating their fitness for receiving funding, meeting contractual obligations with, providing transparency and confidence in their performance reports, etc.)

The very first step of arranging for an engagement should be for the practitioner and TCWG to have a clear understanding of what is expected/needed from the engagement and to choose what best suits the charity's needs.

Examples of modules that can be included

Such an engagement can potentially include the following modules:

- 1) Financial record keeping (including bookkeeping) systems against best practice.
- 2) Internal controls over financial affairs (with strong emphasis over prevention of fraud) against recommended internal controls for small charities.
- 3) Annual performance reports.

Charities Services has already published best practices and guidance about all of the above. However, it is important that such guidance and best practices are updated (as some may are

relatively old now). We will need to work closely with the Charities Services to ensure that the engagement and its underlying criteria are appropriately aligned together.

Description of an example engagement that can comprise elements of the three modules (can be titled something like a review of financial management fitness).

The engagement's objectives

The objectives of the engagement can include establishing whether:

- 1) The charity has appropriate processes and procedures in place to ensure money in and money out are identified, authorised and recorded in the charity's bookkeeping system.
- 2) The charity has fundamental controls in place to ensure that the entity's accounting records are complete and agree with the underlying source documents.
- 3) The charity's annual performance reports agree with the underlying accounting reports.

The key foundations of such an engagement

- 1) *Appropriate authorisation of financial transactions*
 - a. The charity has an appropriate authorisation process for payment methods used by the charity (e.g. two signatures for online banking, review of expenditure of credit or EFTPOS cards by someone other than the card holder etc.)
 - b. The charity has an appropriate set of controls over receipt methods used by the charity (e.g. receipt books are used, all receipts are via online banking etc)
- 2) *Monitoring and oversight from those charged with governance over the financial activities of the charity:*
 - a. Those charged with governance of the charity monitor the financial activities of the entity on a regular basis (e.g. in each board meeting).
 - b. Such monitoring and oversight is documented in retrospectively verifiable manner.
 - c. It may be advisable that payments and receipts for the period are reviewed and confirmed by the Board.
- 3) *Regular reconciliation of financial records against source documents*
 - a. Financial reports presented to TCWG in 1 above, are reconciled to key source evidence (at a minimum bank statements).
 - b. Such reconciliation is appropriately prepared and reviewed. (e.g. reviewed by a board member not involved in the financial affairs of the charity) and documented in a retrospectively verifiable manner.
- 4) *Appropriate management of conflict of interest and related parties*
 - a. The Charity has an appropriate mechanism for identifying and managing conflict of interest and transactions with the related parties. (e.g. an interest register and a prompt for declaration of conflict of interest at every meeting)

The need for an "engagement readiness" assessment

- 1) Before an initial engagement the practitioner will need to assess the status of the charity's readiness for undertaking the engagement. The engagement readiness procedures will be directly linked to the four key foundations discussed above (but only limited to inquiry from TCWG and asking them to complete self-assessment questionnaires or something similar).

(Alternatively, the readiness assessment can be done by the charity before approaching a practitioner, e.g. the self-assessment can be done via a tool available on the Charities Services website). Such a readiness assessment may have the following outcomes.

- a. The foundations are not in an acceptable condition. In such circumstances, the practitioner report will focus on the findings that resulted in such conclusion. The report would include recommendations as how the identified shortcomings can be addressed (e.g. by directing the charity to useful resources for the charity to improve its foundations).
- b. The foundations are not in an acceptable condition. The practitioner will share the outcome of the assessment with TCWG, highlighting the shortcomings, how these may be addressed and the impact these have on the practitioner's report should the charity want to continue to the engagement.
- c. The foundations are in an acceptable condition. The charity is ready for the engagement.

The engagement scope and procedures.

The practitioner aim to report whether:

- 1) The charity has appropriate financial authorisation over its payments and oversight over its receipts (including obligations if any for such receipts)
- 2) TCWG of the charity has appropriate oversight over its financial affairs.
- 3) The charity has an appropriate record keeping practice in place.
- 4) The charity's performance reports agree to the underlying records.
- 5) The charity's information on the Charities Register website is correct and up to date.

An AUP like report where the practitioner explains what procedures they have undertaken and associated outcomes and findings is likely to be most suitable format of reporting.

The engagement procedures

- 1) Assess whether they are independent and competent to perform the engagement.
- 2) Ensure the charity does not have to have a statutory audit or review.
- 3) Obtain an understanding of the charity by:
 - a. Reviewing the charity's founding documents (e.g. its Rules or Constitution)
 - b. Inquiring appropriate individuals (e.g. an officer) about the charities objectives, operations and organisational structure.
 - c. Obtaining a description of the payment methods (e.g. online banking, EFTPOS and credit cards, etc.) and receipt methods that the charity uses and associated payment and receipt procedures. Consider whether the charity has had sound payment and receipt procedures and practices in place during the year. (Please refer to Appendix 1 Summary of payment and receipt reports for an example template to use to obtain this understanding.).
 - d. Requesting TCWG to compare the entity's actual financial performance of the year with the previous year's financial performance and the budget and discussing the reasons for deviations with TCWG.
- 4) Obtain:
 - a. The payment and receipt reports presented to TCWG (or the alternative oversight body/individual within the charity) during the financial year (e.g. as attached to the minutes of meetings of TCWG). This report should cover all different payment

methods the entity uses (i.e. if they use various methods such as cash, online banking and credit cards there should be separate reports for each source. This would be very easy to produce if the charity is using an accounting package such as Xero or MYOB or similar. Where such records are maintained in a spreadsheet or by using other similar methods, the practitioner may need to consider whether such reports can be produced as part of their “readiness assessment”.)

- b. The bank reconciliations and bank statements (could be obtained in a digital format, where the practitioner could be provided view only access to the charity’s bank account where online banking facilities are used).

And ensure that:

- c. For bank accounts: bank reconciliations are appropriately prepared (i.e. balances agree to statements and the entity’s accounting records, reconciling items are legitimate and authentic etc.) and reviewed by someone without involvement in the day to day financial affairs of the charity.
 - d. For credit cards: CC statements reconciliations are prepared and that CC expenditure is reviewed and approved by someone other than the CC holder.
 - e. For cash receipts and payments: transactions are reconciled to the underlying cash register (or alternatives used by the entity). Where cash receipts are a significant method of receiving cash for the entity, particular attention may be directed towards how the charity ensures that all cash receipts are actually received.
 - f. The payments and receipts reports agree to the movements as per the charity’s bank statements (An example template is included for this test). (The objective of this test is to ensure the integrity of the charity’s cash transactions by ensuring that all bank transactions are recorded and have been subject to a minimum level monitoring by TCWG).
 - g. Review the minutes to ensure no unusual matter is noted by TCWG in reviewing and approving these expenditures. Ask TCWG about any complaints or concerns regarding payments made (e.g. whether the amount paid for a service has been excessive) that they are aware of that is not included in the minutes.
- 5) For charities with accrual accounts, obtain a copy of the entity’s annual performance report and agree it to the charity’s trial balance.
 - 6) Ensure that the balances and movements in the charities trial balance agree to corresponding management reports presented to TWCG during the financial year. (Please refer to Appendix 3 for an example template to show how this test may be undertaken)
 - 7) Documentation requirements of the practitioner?

Appendix 1: Example template to use to obtain an understanding of the entity's processes: Summary of payment and receipt reports

1) What payment methods the organisation uses?

Cash payments

- Cash payments funded by bank withdrawal when the entity does not have any significant cash receipts
- Cash payments from cash receipts

Payments through NZ Banking system

- Cards:
 - [EFTPOS card](#)
 - [Debit card](#)
 - [Credit card](#)
- Electronic payments:
 - Payment methods that require pre-authorisation and once authorised will continue unless cancelled:
 - Direct Debits
 - [Automatic Payments](#)
 - Payment methods requiring authorisation every time a payment is made:
 - Paying individual accounts (bill payments or one-off payments)
 - Bulk paying (paying more than one account in a single payment transaction)
- Cheques

Online payment services

- Paypal
- Google pay
- Apple pay etc

Buy Now Pay Later

2) What is the payment process for each different payment method? (i.e. who does what, what information is processed and what is being recorded and where). What specific controls the entity employs to ensure the integrity of the payment method?

3) What receipt methods the organisations use for receiving money?

Cash receipts:

- **Cash:** Of all the transactions that take place, cash transactions are the hardest to record and track, simply because the paper trail generated by a purely cash transaction is virtually non-existent.

Receipt through NZ Banking system

- Cards:
 - [EFTPOS card](#)
 - [Debit card](#)
 - [Credit card](#)
- Electronic receipts (e.g. online banking)
- **Cheque**

Appendix 1: Example template to use to obtain an understanding of the entity's processes: Summary of payment and receipt reports

- **Card processing at sales point (EFTPOS, Debit cards and Credit Cards).**
 - **Online payments**
 - **Cheque** – paying by cheque is becoming less common now that we have electronic payment methods. Cheques require more handling to process and can attract fees. They also take about 3 business days to clear.
 - **Money order payments** – a money order tells a bank, credit union, building society or post office to pay you money. Unlike cheques, money orders are prepaid. Because of this, they can't bounce due to insufficient funds. But they can bounce due to other problems, such as suspected fraud.
 - **Gift cards and vouchers**
- 4) **What is the receipt process for each different payment method? (i.e. who does what, what information is processed and what is being recorded and where).**

Appendix 1: Summary of payment and receipt reports

Types of payments made by a small charity and corresponding authorisation process

	Control objectives to achieve	Captured and documented
Purchase of goods and services- order basis (i.e. purchase is only made when needed) (e.g. stationary, Venue hire, groceries etc.)	<ul style="list-style-type: none"> • Ordering/buying a good or service (e.g. if formal purchase order is used). • Ensuring the quality and price of the goods/services is reasonable (e.g. does not exceed market rate). • Ensuring that good and services are actually received and are of the expected quality. • Ensuring that correct invoice is received and checked for accurate pricing • Ensuring that invoice is paid to the correct entity and on a timely basis. • Avoiding/or otherwise appropriately managing any conflicts of interest. 	<ul style="list-style-type: none"> • Proof of authorisation of the purchase (e.g. purchase order, noted in the minutes, etc) • Proof for the receipt of the goods or services (e.g. delivery note, email confirmation etc). • Proof for the value/amount of the goods or services (e.g. supplier invoice). • Proof for the payment of the invoice (e.g. invoice marked as paid with relevant references captured) • Any conflict of interest/related party noted in the conflict of interest register and/or list of related party transactions.
Purchase of goods and services-recurring and on a contract basis (e.g. utility, rent, Insurance, software licenses, IT contractors, Admin contractors, accounting services etc).	<ul style="list-style-type: none"> • Entering into a new contract • Ensuring the quality and price of the goods/services is reasonable (e.g. does not exceed market rate). • Ensuring that related goods/services are actually received and are of the expected quality and in accordance with the agreement/contract. • Ensuring that correct invoice is received and checked for accurate pricing • Ensuring that invoice is paid to the correct entity and on a timely basis. • Avoiding/or otherwise appropriately managing any conflicts of interest. 	<ul style="list-style-type: none"> •
Payroll and other payments to employees (including PAYE, KiwiSaver, ACC and other payroll related payments).	<ul style="list-style-type: none"> • Employing a new staff • Recording time worked (e.g. timesheets for people on wages, leaves, overtime etc.) 	<ul style="list-style-type: none"> •

Appendix 1: Summary of payment and receipt reports

	<ul style="list-style-type: none"> • Annual salary adjustment and other changes to salary or pay rates. • Preparing Payroll • Paying Employees and Payroll Taxes <p>Avoiding/or otherwise appropriately managing any conflicts of interest.</p>	
Payments to officers of the entity (including reimbursement of out-of-pocket expenses such as travel and where applicable fees paid to officers)	<ul style="list-style-type: none"> • Ensuring that such payments are in accordance with the entity's rules and any associated policies and procedures. • Avoiding/or otherwise appropriately managing any conflicts of interest. • Ensuring that payments made are reasonable and not more than the market rate. 	•
Payments to volunteers (e.g., for services, out of pocket expenditure, appreciation gifts etc)	<ul style="list-style-type: none"> • Ensuring that such payments are in accordance with the entity's rules and any associated policies and procedures. • Recording time worked (e.g. timesheets). • Ensuring that such payments are reasonable. 	•
Purchase of large item assets	<ul style="list-style-type: none"> • Ensuring that such purchases are in accordance with the entity's rules and any associated policies and procedures. • Ensuring the best price and quality for of the goods/services (e.g. by formal quotes from established suppliers). • Ensuring an appropriate contract is in place with the selected supplier with reasonable terms and conditions that protects the charity's interests. • Ensuring that good and services are actually received and are of the expected quality. 	•

Appendix 1: Summary of payment and receipt reports

Interest paid, debt servicing costs and bank fees	<ul style="list-style-type: none"> • Ensuring that debt financing is allowed by the entity's rules and any associated policies and procedures before a debt is incurred. • Ensuring fair and reasonable terms for the debt in a debt agreement. • Avoiding/or otherwise appropriately managing any conflicts of interest. • Ensuring debt agreement is complied with. • Ensuring any offered collateral or security is appropriately accounted for. 	•
Payments to IRD (e.g. GST, Income Tax etc)	<ul style="list-style-type: none"> • Ensure that taxes (e.g. GST, income tax etc) are properly accounted for. • Ensuring that taxes due (e.g. GST, income tax etc.) are paid on a timely basis. 	
Expenses related to public fundraising		
Grants and donations paid (e.g. grants paid, donations, scholarship paid, payment to beneficiaries etc)		

Appendix 3: Template for agreeing the bank payments and receipts to the underlying source documents.

	Q1 2020			Q2 2020			Q3 2020			Q4 2020			Total for the year 2020		
	Opening Balance as per 2019 FS	Movement for the period		Opening Balance	Movement for the period		Opening Balance	Movement for the period		Opening Balance	Movement for the period		Opening Balance	Movement for the period	
		Dr	Cr		Dr	Cr		Dr	Cr		Dr	Cr		Dr	Cr
Assets															
Bank Acc001															
Bank Acc002															
Cash at hand															
Debtors															
Prepayments															
Property, Plant and Equipment															
Liabilities															
Creditors															
GST															
Equity															
Accumulated surplus (opening balance)															
Income															
Grants															
Membership fees															
Donations															
Other															
Expenses															
Utility															
Salaries and wages															
Total															

- 1) These are summarised of financial information received, reviewed and monitored by the Board in their meeting. The frequency of this can of course vary (every 6 month, every 2-month etc) according to the Board's decision
- 2) A copy of the financial reports presented to the Board must be approved and be included with the minutes of the meeting in which they were reviewed.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 26 March 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 February and March 2021.

International Federation of Accountants (IFAC)

1. In [this](#) article, IFAC reviewed two companion academic articles recently published in the Institutional Perspectives section of the Journal of International Financial Management and Accounting that together provide a contemporaneous and comprehensive assessment of the Extended External Reporting (EER) assurance landscape. The articles clearly document considerable current momentum related to EER and its assurance. The articles are intended to inform all interested parties, including assurance practitioners, EER users, standard-setters, regulators, and academics regarding major developments and insights of interest learned from a review of the burgeoning academic literature.
2. Together with ICAEW, The International Federation of Accountants (IFAC) today released the sixth installment in its ***Anti-Money Laundering: The Basics*** educational series: ***Installment 6: Businesses in Difficulty***. 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 six looks at businesses experiencing financial difficulties and the increased risk a professional accountant may face to inadvertently facilitate money laundering.

The installment series, with its focus on accessibility and ease of use, will be a resource for Small and Medium Practices (SMPs,) and accountants less familiar with AML, while also providing guidance for those looking for a quick refresher or reference.

3. IFAC supports steps announced today by the IFRS Foundation in its ongoing consideration of whether to establish a new Sustainability Standards Board (SSB) alongside the IASB and under the existing governance structure of the IFRS Foundation. IFAC welcomes the engagement of IOSCO in this important initiative, as outlined in the IFRS Trustee statement as well as in IOSCO's February 24 media release.

We agree with the Trustees' strategic views that the new SSB should focus on information material to decisions of investors and other providers of capital and that the new board would initially focus

its efforts on climate-related reporting, while also working toward meeting the information needs of investors on other ESG (environmental, social and governance) matters.

Likewise, we agree that a building blocks approach facilitates both the use of existing standards and frameworks (including TCFD) and the flexibility for coordination on reporting requirements that capture wider sustainability impacts, as IFAC articulated in its [Way Forward](#) roadmap.

4. IFAC completed its inaugural series—[Exploring the IESBA Code](#)—a unique, educational resource developed in collaboration with the staff of the International Ethics Standards Board for Accountants (IESBA). Launched in November 2019, each installment of the series highlights important concepts and topics in the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#).

The [final installment](#), released today, explains the “building blocks” structure of the Code and its interconnected nature.

5. As an increasing number of businesses around the world implement integrated reporting as a route to long-term value creation and sustainable development, the demand for assurance services on such reports is expected to rise accordingly. To help meet this demand, and to increase confidence in integrated reporting, the International Federation of Accountants (IFAC) and the International Integrated Reporting Council (IIRC) are launching a new joint initiative, *Accelerating Integrated Reporting Assurance in the Public Interest* (“the Initiative”).

The Initiative recognizes that new thinking is required to determine what comprises integrated report assurance and how to best deliver it, given integrated reporting’s broad and forward-looking focus on value creation. The Initiative, which will be rolled out in installments, is designed to heighten awareness of key issues, drive constructive conversation with and among key stakeholders, and encourage providers and users of assurance services in particular to lend their voices to the effort. The [first installment](#) was released in February 2021 and sets out what integrated reporting assurance involves for organizations, auditors, and others. This installment also addresses the difference between the two types of assurance - limited and reasonable - and what is required of auditors and organizations to strive for reasonable integrated reporting assurance.

6. The accountancy profession, like all professions, is going through a period of appraisal of its future position as a result of numerous changes in culture, technology and the world of work. In particular, the profession is witnessing a threat to its future viability as a result of three broad challenges. I will call these: the challenge of attraction; the challenge of relevance; and the challenge of change. Read more [here](#).

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. At its March 2021 meeting last week, the IAASB approved *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements*. This guidance marks a significant step forward in supporting the evolving field of assurance for non-financial reporting. To help stakeholders understand the role of both the guidance and ISAE 3000 (Revised), which is the IAASB’s authoritative pronouncement, IAASB Chair Tom Seidenstein has [published a new article](#) detailing the guidance and how it supports the application of ISAE 3000 (Revised), growing demands for non-financial information reporting and assurance thereon, and the IAASB’s ongoing commitment to the consistent performance of quality engagements. The guidance will be published in April.

[Read more on the IAASB website.](#)

International Ethics Standards Board for Accountants (IESBA)

1. The March, 2021 Edition of The IESBA eNews has been released and is available [HERE](#). The 2-page newsletter includes highlights of the various activities going on in and around the IESBA. In this edition, learn more about the search for the next IESBA Chair, the upcoming virtual Board Meetings, and much more.
2. IESBA announced it is holding two global webinars focused on its recently released Exposure Draft: [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED).
Please click below to register and join us for one of the 60-minute webinars (both will cover the same information and are being offered to accommodate different time zones).
 - [Thursday, March 25, 2021, 4:00 AM - 5:00 AM EDT](#)
 - [Monday, March 29, 2021 9:00 AM - 10:00 AM EDT](#)

Accountancy Europe (AE) (former FEE)

1. Hilde Blomme, Accountancy Europe Deputy CEO & professional expertise team leader, presented Accountancy Europe's recommendations to reinforce the financial reporting ecosystem with respect to fraud and going concern to IWP's members. These recommendations were originally set out in two papers published on Accountancy Europe's website ([Going concern](#) and [Fraud](#)). Read more by downloading the [full article](#).

Public Interest Oversight Board of IFAC (IPIOB)

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

International Integrated Reporting Council (IIRC)

1. A major driver behind the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) [plans to merge into a unified organization](#), the Value Reporting Foundation, is to address this gap – enabling companies to report on the range of resources and relationships they use to create value.
Across the globe, increasing numbers of organizations are leveraging the complementary benefits of the International Integrated Reporting Framework and SASB Standards, such as Itaú Unibanco, Arcelor Mittal, CEMEX, Diageo, TEPCO, and SK Telecom.

Global Reporting Initiative (GRI)

1. GRI sees clear alignment with EU's sustainability standard setting efforts – and is ready to assist Recommendations for the creation of European sustainability reporting standards would require large companies in the EU to disclose their external impacts in a way that meets the needs of multiple stakeholders while building on the standard setting of global bodies, such as GRI. A [report published on Monday](#) by the European Financial Reporting Advisory Group (EFRAG) provides the European Commission with recommendations on establishing an EU sustainability reporting framework. A second report proposes reforms to EFRAG's governance structure in order to take on a sustainability standard setting role. (read more [here](#)).

IFRS proposals on corporate sustainability are a step in right direction
An update on the IFRS sustainability standards consultation process offers encouraging signs that their changes can strengthen financial reporting by companies, which alongside sustainability reporting with both on an equal footing, would improve transparency on sustainability risks and opportunities – according to GRI. (read more [here](#)).

International Forum of Independent Audit Regulators (IFIAR)

1. In March 2021, IFIAR released its ninth annual survey of inspection findings arising from its member regulators' individual inspections of audit firms affiliated with the six largest global audit firm networks.
Please click [here](#) to access the 2020 Inspection Findings Survey and related documents.

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 24th of March 2021 published its statement on [Going Concern Assessments and Disclosures during the COVID-19 Pandemic](#).
2. IOSCO sees an urgent need to improve the consistency, comparability, and reliability of sustainability reporting, with an initial focus on climate change-related risks and opportunities, which would subsequently be broadened to other sustainability issues. Since the publication of its report, Sustainable Finance and the Role of Securities Regulators and IOSCO, in April 2020, the STF has made progress in its work on securities issuers' sustainability disclosures, asset managers' disclosures and investor protection, and the role of ESG data and ratings providers. (read more [here](#)).

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. The Chair introduced the discussion about the proposed Australian modifications to the planned AUASB Quality Management Standards (ASQM 1, ASQM 2 and ASA 220), noted that the matters addressed in the AUASB Board papers would be dealt with on an 'exceptions' basis and any discussions about the implications of the Quality Management Standards themselves would be deferred until the March 2021 AUASB meeting.

The AUASB Technical staff described how the full suite of the Quality Management Standards, associated conforming amendments to other ASA's and other relevant documents (such as the Basis of Conclusions) would be presented to the AUASB for review and approval at the March 2021 AUASB meeting. However, to ensure the final versions of the Quality Management Standards can be compiled for inclusion in the March 2021 AUASB Board papers, feedback was sought from AUASB members on the proposed 'Aus' amendments to each standard.

Board members raised a number of queries about the method technical staff had applied to incorporate modifications to the proposed Quality Management Standards arising from the Corporations Act 2001 (the Act). Specifically, AUASB members wanted to ensure there was consistency in how the relevant elements of the Act are referenced in the standards, particularly in relation to the Independence requirements. Different options were discussed, with a number of AUASB members expressing support for there being a singular reference to the Act in each Quality Management Standard, rather than having multiple references spread through the application material as had been originally proposed and as currently incorporated through the extant ASQC 1 Standard in accordance with existing AUASB drafting conventions.

The AUASB Technical staff presented alternative methods by which they consider this could be achieved. A number of AUASB members expressed support for including a single, up front reference to the requirements of the Act in the introductory section of each standard, whilst others considered this would be better addressed by making changes to the AUASB Preamble. The Technical staff were directed to review each option to determine which would be the best approach to apply in response to this issue in the final versions of the Quality Management Standards to be presented at the March 2021 AUASB Meeting. AUASB members also considered whether multiple references to specific requirements of the Act should be retained in the

application guidance of the Quality Management Standards, specific to laws and regulations (not independence related, for example documentation retention).

Again, there were mixed views on this issue expressed by AUASB members, so the Technical staff were again directed to consider this matter further with the input of the AUASB Chair and determine a preferred response for the AUASB to consider. In addition to the Australian modifications relating to the Act the AUASB also:

- Discussed and agreed the approach the Technical staff had proposed to amend and include various definitions throughout the proposed Quality Management Standards. The AUASB agreed in principle with the proposals, however the AUASB wanted this reviewed to ensure there is consistency as to how these modifications are applied to each individual standard;
 - Supported that various public sector specific references in the extant version of ASQC 1 do not need to be carried forward to the revised Quality Management Standards given in particular that the new standards all contain public sector-specific application material. The AUASB noted that in New Zealand the NZAuASB has asked its staff to consult with the Office of the Auditor-General about whether that new material removes the need to carry forward any of the public sector-related NZ paragraphs in the extant standard; and that the same process could be expected to be undertaken by ACAG in Australia;
 - Noted the work that had been performed to date with the APESB to align the approach of both boards when developing and issuing the revised Quality Management Standards, including in relation to the requirement for engagement quality reviews in ISQM 2; and
 - Discussed how deletion of text from the IAASB versions of the Quality Management Standards are appropriately communicated and disclosed to ensure transparency once the final AUASB versions of the standards are finalised.
2. The AASB-AUASB Managing Director led the AUASB through a session that firstly described the current operational conditions faced by the AUASB and secondly described potential future changes to the AUASB that may arise due to changes in government policy or prevailing economic conditions. AUASB members were then asked to comment on a series of questions relating to the current and future strategy settings of the organisation. AUASB members provided positive feedback on the AUASB's recent performance and current strategic approach, but also identified additional opportunities the AUASB could explore and threats that may impact the AUASB's ability to meeting its objectives going forward. There was also a brief discussion about how well the AUASB engages with its stakeholders and other regulatory bodies and how this could be further enhanced. The matters discussed by the AUASB in this session will be considered as part of the planning for the upcoming AASB/AUASB joint meeting scheduled to be held on 2 March 2021.
 3. An AUASB member raised a query whether the AUASB are planning to provide a response to the current exposure draft issued by the IESBA in relation to 'Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code'. This matter will be discussed by the AUASB Technical staff with representatives from the APESB and added to the Agenda for discussion by board members at the March 2021 AUASB meeting.

United Kingdom

FRC

1. The FRC on 25 March 2021 published a new report [Our Approach to Audit Supervision](#), which sets out what firms can expect from the FRC in the course of supervision with a focus on audit quality and firm resilience.

A link to the report is available [here](#).

2. FRC welcomes the consultation launched in March 2021 by the Department for Business, Energy and Industrial Strategy (BEIS) - [Restoring trust in audit and corporate governance](#) to reform the UK's audit, corporate reporting and corporate governance system.
3. PODCAST: In this episode, Kate O'Neill, the FRC's Director of Stakeholder Engagement and Corporate Affairs, sits down with members of the FRC's new Supervision division to discuss why challenge of management and a challenge culture is critical to high quality audit.

Kate is joined by Jo Morgan (Audit Firm Supervision), Helen Gale (Audit Market Supervision) and Alex Jennings (Audit Quality Review) to discuss the FRC's new approach to audit supervision. Further information about the FRC's AQR, AFS and AMS teams is below.

The full podcast is available [here](#) (15mins).

4. On 9 February 2021 the FRC delivered its Initial Investigation Report (IIR) in connection with its investigation opened in February 2019 into certain aspects of KPMG's audit of the financial statements of Carillion plc for the year ended 31 December 2013.

This is the second IIR that the FRC has delivered in connection with its investigations of KPMG's audits of Carillion plc's financial statements. On 21 September 2020 the FRC [announced that it had delivered its first IIR](#), regarding its investigation opened in January 2018 into KPMG's audit of the financial statements of Carillion plc for the years ended 31 December 2014, 2015 and 2016 and additional audit work carried out during 2017.

5. In February 2020 FRC published principles for [operational separation of the audit practices](#) of the 'Big 4' firms in July 2020. The FRC asked the firms to submit their implementation plans by 23 October 2020. The FRC has reviewed these plans and discussed them with the firms individually and is now content for the firms to move to the next stage of implementation. The firms' progress will continue to be closely monitored against the milestones in their plans and the FRC will provide feedback and challenge to the firms on their arrangements.

The FRC has made some changes to the principles following our analysis of the firms' implementation plans:

- To clarify that services provided to non-audited entities should be commissioned by those charged with governance at the entity or be assurance services for third party recipients.
- To increase the minimum proportion of revenue within the ring-fence that must be derived from audit.
- To confirm that the audit practice should not receive fees for introducing business to other parts of the firm and that partners in the audit practice should not be incentivized for sales passed to other parts of the firm.

The updated principles are available [here](#).

6. A new FRC Lab report, [Virtual and Augmented Reality](#) in corporate reporting, was released in February 2021 and considers how virtual and augmented reality are and might be used to expand the scope and audience for corporate reporting. The report includes examples of current practice and highlights some possible future uses. The report is the final deep dive from the Lab's Digital Future series.

Institute of Chartered Accountants in England and Wales

7. "A significant package of reform" is how Sir Jon Thompson, CEO of the FRC, framed the BEIS White Paper 'Restoring trust in audit and corporate governance' in virtual conversation with Michael Izza, CEO of ICAEW.

"These changes are not just about auditors," said Sir Jon, "which is why the consultation document is now called '[Restoring trust in audit and corporate governance](#)'".

Speaking on Wednesday to ICAEW Chief Executive Michael Izza as part of a virtual event (which can be viewed [here](#)), Thompson pointed to the four parties comprising the system that is subject to change under the proposals.

8. ICAEW has set out key recommendations for developing a meaningful Audit and Assurance Policy that helps better inform their stakeholders.

ICAEW's [Developing a meaningful Audit and Assurance Policy](#) report follows the much-anticipated [BEIS consultation](#) on audit and corporate governance reform, which proposes sweeping changes for auditors and company directors.

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)

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

American Institute of Certified Public Accountants (AICPA)

1. **NEW YORK (February 25, 2021)** – The [American Institute of CPAs \(AICPA\)](#) [Auditing Standards Board \(ASB\)](#) has issued the exposure draft (ED) [Proposed Statement on Auditing Standards \(SAS\) Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations \(NOCLAR\)](#) to amend SAS No. 122, as amended, section 210, *Terms of Engagement*.

The standard requires immediate past auditors and presumed successor auditors, once management consents to the past auditor responding, to communicate about potential NOCLAR situations. Examples of NOCLAR situations include, but are not limited to, noncompliance with tax or pension laws and regulations.

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

1. **February 17, 2021, Washington, D.C.** – Today, the Center for Audit Quality (CAQ) and the Association of International Certified Professional Accountants (the Association) released a new roadmap to provide audit practitioners with a blueprint to support companies in achieving their environmental, social, and governance (ESG) reporting goals. The CAQ and the Association are releasing the report at a watershed moment for public and private companies' ESG reporting: investors, consumers, and other stakeholders increasingly make decisions based on companies' ESG practices, companies increasingly report ESG information using established standards and frameworks, and the Biden Administration has made climate risk a focus of its policy agenda.

The roadmap, [ESG Reporting and Attestation: A Roadmap for Practitioners](#), provides tools to help independent auditors inform their clients' approach to ESG disclosures, help clients determine whether to seek an attestation report on ESG information, and help determine how to report ESG information in a Securities and Exchange Commission (SEC) submission.

Canada

Canadian Auditing and Assurance Standards Board (AASB)

1. AASOC is pleased to announce it has approved the appointment of Bob Bosshard, CPA, CA, ICD.D, as the new chair of the AASB. Bob will begin his three-year term as the AASB chair on July 1, 2021. Read more about his background and how it will serve the AASB as it navigates through this pivotal time.
2. The AASB discussed the Audits of LCEs Advisory Group's (Advisory Group) recent work. During the Board's previous activities, stakeholders identified several matters in archived CAS 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*, that were challenging to apply in audits of LCEs. The Advisory Group examined whether these matters would be addressed in extant CAS 315, *Identifying and Assessing Risks of Material Misstatement*, and the related implementation guidance CPA Canada is developing. The Board concluded that the matters will be addressed appropriately.

The AASB discussed the next steps it should take in Canada to address areas of the other CASs that are difficult to apply in audits of LCEs.

3. The AASB discussed elements of a possible project proposal to revise or replace Assurance and Related Services Guideline (AuG) 16, *Compilation of a Financial Forecast or Projection*, including the benefits of establishing a task force and a reference group to supplement the activities of a task force.

CPA Canada

4. CPA Canada published a podcast on Professional skepticism in a remote working environment: Advice for auditors. please listen to the [podcast](#).
[Apple Podcasts](#) | [Spotify](#)

Project	Overview of the project and its current status
<p data-bbox="204 293 432 322">Quality Control</p> <p data-bbox="204 349 432 421">No Update for the period</p>	<p data-bbox="459 293 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 936">The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul data-bbox="459 969 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 1205">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 1238 651 1267">QC-Firm Level</p> <p data-bbox="459 1301 1388 1644">In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p data-bbox="459 1677 1388 1845">In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul data-bbox="459 1879 1388 1980" style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

- the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details)
- the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220
- the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer
- the proposed requirements and application material in relation to the eligibility of the EQC reviewer.

The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.

In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.

The Board discussed the exposure draft (ED) of proposed ISQC 1 (Revised)1 and was supportive of the direction that the Quality Control Task Force was taking the standard, noting the improvement in the readability and understandability overall. The Board encouraged the Quality Control Task Force to consider whether there are further opportunities to address scalability, including further refinement and simplification of the standard, where possible. The Board also discussed changing the title of the standard

In finalizing the ED in December 2018, the Board discussed the definition of deficiencies and bringing more emphasis to positive findings from the firm’s monitoring activities and how they may be used in the system of quality management. The Board also discussed the requirement for the firm to establish additional quality objectives beyond those required by the standard and further clarifying the identification and assessment of quality risks. In addition, the Board suggested further simplification of the requirement addressing communication with external parties, although in general agreed to retain an explicit reference to transparency reports in the requirement. The Board also discussed network requirements or network services, and

adjusted the requirement to clearly reflect the expectations of the firm regarding the effect of network requirements or network services on the firm's system of quality management.

The Board supported the Quality Control Task Force's recommendations regarding matters to be addressed in the Explanatory Memorandum, including the proposed questions.

In September 2019, the Board discussed the comment letters received on certain areas of the Exposure Draft (ED) of ISQM 1 (ED-ISQM 1)3 relating to the quality management approach, implementation challenges, the components and structure of the standard and the firm's risk assessment process. The Board concurred that four significant themes had emerged from the comments: scalability; prescriptiveness; addressing firms who do not perform audit or assurance engagements; and challenges with implementation. The Board, in general, supported proposals to address the structure of the standard and clarify the nature of the components and how they interrelate. The Board also supported addressing the granularity of the quality objectives, introducing quality risk considerations, and refining the required responses. The Board agreed with the ISQM 1 Task Force's proposals to simplify the firm's risk assessment process, including addressing concerns about the threshold for the identification of quality risks. The Board did not support the proposal to develop a separate standard for quality management for related services engagements and encouraged exploration of other ways to address scalability concerns. The ISQM 1 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

In December 2019, the Board continued to discuss the key issues highlighted by respondents to the Exposure Draft (ED) of ISQM 13 (ED-ISQM 1) including the scalability, complexity and prescriptiveness of the standard. appropriate tailoring of the system of quality management for their circumstances and the making sure the standard that can be applied in all circumstances.

The Board supported the changes to the structure of the standard, adjusting the quality objectives and responses in the components to be more streamlined and the revisions to the drafting and presentation of the standard to simplify and improve the readability of the standard. The Board also agreed with proposed revisions to the firm's risk assessment process, including introducing factors to consider in identifying and assessing quality risks.

The Board supported the ISQM 1 Task Force's proposals to embed a risk-based approach in the monitoring and remediation component, improve the selection of engagements for inspection such that it is more risk-based, and further clarify the framework for evaluating findings and identifying deficiencies.

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

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

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

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

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

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

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>No Update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p>

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>No 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>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>No Update for the period</p>	<p>In March 2019 the Board discussed a proposed Discussion Paper (DP), <i>Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs</i>. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP's overall 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>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>No Update for the period</p>	<p>The Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence and the use of technology more broadly, and the possible actions to address the issues. The Board concurred that guidance should be developed on the effect of technology when applying certain aspects of the ISAs, and that this should be actioned expeditiously.</p> <p>The Board also indicated that more extensive information gathering and research need to be undertaken to understand the issues related to audit evidence, so that the Board is fully informed of the issues in determining the need for revisions to ISA 5005 and possibly other related standards.</p> <p>In September 2019, the Board was provided with an overview of the development of the Audit Evidence Workstream Plan. The Audit Evidence Working Group will accordingly undertake further information gathering and research, and develop recommendations for possible further actions to be presented to the Board in the first half of 2020.</p> <p>In June 2020, the Board discussed the outcome of the Audit Evidence Working Group's information gathering and targeted outreach activities.</p>

	<p>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>No 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 9.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 26 March 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 February and March 2021.

Financial Markets Authority (FMA)

1. The Financial Markets Authority (FMA) Board on 15 March 2021 announced that Chief Executive Rob Everett had resigned and would leave the organisation towards the end of the year.

FMA Chair Mark Todd said Mr Everett has done an outstanding job as the FMA's second Chief Executive, overseeing the implementation of the Financial Markets Conduct Act as well as helping to lead a national discussion around the need for conduct regulation in financial services.

2. The Financial Markets Authority welcomes the statement from the Minister of Commerce and Consumer Affairs Minister, David Clark, introducing the new regulatory regime for financial advice.

Under the new regime, anyone who gives regulated financial advice to retail clients must either hold, or operate under, a Financial Advice Provider licence. All providers of financial advice are now subject to the same obligation to place the interests of their clients first and must adhere to a new Code of Conduct.

3. New Zealand's peer-to-peer lending (P2P) and equity crowdfunding sectors experienced steady growth in the last year, according to data from the Financial Markets Authority (FMA).

The FMA in March 2021 released its fourth [statistical report](#) on the sectors for the year ended 30 June 2020. The report covers activity by licensed P2P and crowdfunding providers that provide annual information returns to the FMA.

The number of registered investors on P2P platforms is now more than 34,000. While the number of investors with open investments increased slightly to 12,800, the total

amount of outstanding loans on the lending platforms books was \$624 million, up 8% over the year from 2019-20. These numbers have increased substantially since 2017 when there were 8,000 open investments and approximately \$360 million in outstanding loans.

The New Zealand Institute of Chartered Accountants

1. The CAANZ published an article [Sustainability and non-financial reporting - are you up to date?](#)

CPA Australia

1. The CPA Australia published an article [building confidence in external audit](#).

The Institute of Directors (IoD)

1. No update for the period.