

Board Meeting Agenda

2 June 2021

9:15 am to 5.00 pm

XRB Wellington office

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
10.30 am	Morning tea				
B: PUBLIC SESSION					
10.45 am	3	<u>Quality management and EQR objectivity</u>			Peyman
	3.1	Board meeting summary paper	Note	Paper	
	3.2	Issues paper	Consider	Paper	
	3.3	PES 3 Marked up from NZ ED	Approve	Paper	
	3.4	PES 4 Marked up from NZ ED	Approve	Paper	
	3.5	ISA (NZ) 220 (Revised) Marked up from NZ ED	Approve	Paper	
	3.6	PES 1 amendments: Objectivity of the EQR	Approve	Paper	
	3.7	Conforming amendments to ISAs (NZ)	Approve	Paper	
	3.8	Signing memorandum Quality Management	Approve	Paper	
	3.9	Signing Memorandum Objectivity	Approve	Paper	
	3.10	OAG memo relating to PES 3 (Confidential)	Note	Paper	
		Submissions			
	3.11	OAG submission (Non-public)	Note	Paper	
	3.12	EY NZ submission (Non-public)	Note	Paper	
12.00 pm	4	<u>Discussion with CAANZ</u>			
	4.1	Board meeting summary paper			
12:45 pm	Lunch				
1:45 pm	5	<u>Update from Lyn Provost</u>			
	5.1	Report on IAASB mid quarter Board calls	Note	Paper	
2.15 pm	6	<u>Non Assurance Services</u>			Sharon
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Issues Paper	Consider	Paper	
	6.3	Compelling Reason Test	Consider	Paper	
	6.4	Draft ITC	Approve	Paper	
	6.5	Proposed Revisions to PES 1: NAS	Approve	Paper	
	6.6	Summary of Prohibitions in Code	Note	Paper	
3.30 pm	Afternoon tea				

Est. Time	Item	Topic	Objective		Page
3.45 pm	7 7.1	<u>NZASB update Disclosure project</u> Memo: IASB's New Approach to Disclosure Requirements	Note	Paper	Gali
4.00 pm	8 8.1 8.2 8.3	<u>Conforming amendments to NZ AS 1</u> Board meeting summary paper Draft ITC and exposure draft Mark up of NZ AS 1	Note Approve Note	Paper Paper Paper	Misha
4.15 pm	9 9.1 9.2 9.3	<u>NZAuASB Implementation Plan 2021-2022</u> Board meeting summary paper NZAuASB Action plan 2021-2026 Implementation plan 2021/2022	Note Note Approve	Paper Paper Paper	Misha
4.45 pm	10 10.1 10.2	<u>Environmental scanning</u> International Update Domestic Update	Note Note	Paper Paper	Peyman
4.50 pm		<u>Closing</u>			

Next meeting: 1 September 2021, Virtual

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	2 June 2021
Subject:	New Zealand Quality Management Standards (including consequential amendments of PES 1)
Date:	20 May 2021
Prepared by:	Peyman Momenan

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

1. The objective of this agenda item is to APPROVE New Zealand quality management standards and conforming and consequential amendments to other ISAs (NZ) as well as proposed amendments to PES 1.

Background

2. The Board approved the following New Zealand quality management standards in February 2021 for exposure and consultation:
 - i. Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
 - ii. Professional and Ethical Standard 4: *Engagement Quality Reviews*;
 - iii. ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*; and
 - iv. *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*.
3. The scope of the New Zealand quality management ED was limited to NZ proposed changes to the IAASB quality management standards.
4. Agenda item 3.2 summarises the result of the consultation and responses to address the feedback received from the NZ constituents (including additional changes to New Zealand QM standards).

5. The Board also considered proposed changes to PES 1 in February 2021. The NZAuASB sought feedback from constituents on the IESBA proposals concurrently with the IESBA exposure. No submissions were received. The Board did not identify any compelling reason to amend the proposed changes to PES 1. Agenda item 3.6 includes the final amendments to PES 1 for the Board's approval. There have been no changes to the version reviewed by the Board in February 2021. Agenda item 3.9 includes the signing memorandum for amended PES 1.

Action requested

6. The NZAuASB is asked to APPROVE the NZ quality management standards, amendments to PES 1, conforming amendments to other ISA (NZ) and the corresponding signing memorandums.

Material Presented

3.1	Board meeting summary paper
3.2	Issue paper
3.3	PES 3, Marked up from the NZ ED
3.4	PES 4, Marked up from the NZ ED
3.5	ISA (NZ) 220 (Revised), Marked up from the NZ ED
3.6	PES 1 amendments: Objectivity of the EQR
3.7	Conforming Amendments <i>to ISAs (NZ)</i>
3.8	Signing memorandum Quality Management
3.9	Signing Memorandum Objectivity
3.10	OAG memo
3.11	OAG submission
3.12	EY NZ submission

Issue paper: Changes made to the conditionally approved Quality Management Standards for the Board's consideration and approval.

Background and objective of this issue paper.

- 1) In February 2021, the Board approved the new quality management standards (being PES 3 and PES 4) and the related revisions of ISA (NZ) 220 (Revised) subject to addressing:
 - the Office of Auditor-General (OAG) concerns raised in relation to perceived challenges in applying PES 3 in the public sector audit space.
 - Any issues raised in submissions received from New Zealand constituents responding to the [NZAuASB ED 2021-2](#) including NZ specific amendments to quality management standards.
- 2) Since February 2021, we met with OAG staff on multiple occasions and our interactions resulted in some proposed amendments to PES 3, which are discussed under paragraphs 6 to 10 of this agenda item.
- 3) We have also received two submission in response to the NZ ED (which only sought feedback in relation to NZ amendments to ISQM 1, ISQM 2 and ISA 220 (Revised)) from the OAG and from EY New Zealand. These submissions are analysed in paragraph 11 of this paper.
- 4) This issue paper summarises the proposed changes to the standards approved by the board in February 2021 and the reasons behind these changes. Marked up versions of the standards (from the February 2021 meeting) are included in Agenda items 3.3 to 3.5.
- 5) We are seeking the Board's feedback and approval of the amended standards.

Proposed changes made to address public sector considerations in applying PES 3

- 6) The OAG, in their submission to the IAASB in 2019, explained that the (then) proposed ISQM 1 does not contemplate the business model used by the New Zealand Auditor-General (enabled by the Public Audit Act 2001). Specifically, the proposed standard does not address how it should be applied by supreme audit institutions, which engage firms to complete audits on their behalf using the resources of that firm. In their submission to the IAASB, the OAG recommended the IAASB consider including public sector considerations with respect to the definition used in ISQM 1 for a "firm".
- 7) In our interactions with the OAG, subsequent to the Board's feedback in February 2021, the OAG informed us that the IAASB has not adequately addressed their concerns. The OAG would therefore find it challenging to implement PES 3 as the definition of the "firm" lacks clarity in the context of NZ public sector audits. They noted that if the definition is not clarified, there is a risk that the proposed definition of firm may be interpreted to include private firms contracted by the A-G to undertake an engagement on his behalf.
- 8) The above situation triggers a compelling reason for the NZAuASB to amend ISQM 1 (PES 3 in New Zealand) as the New Zealand specific legal and regulatory arrangements underpinning the business model of the Auditor-General (A-G) are not contemplated by the IAASB in ISQM1.¹

¹ Paragraph 11 of the XBR's [Principles of Convergence to International Standards](#) states that:

Issue paper: Changes made to the conditionally approved Quality Management Standards for the Board's consideration and approval.

Accordingly, we consulted further with the OAG to formulate the needed amendments to enable the public sector auditor to comply with the requirements of PES 3.

- 9) The outcome of our discussions with the OAG was that clarifying the definition of firm in PES 3 (and the associated definition of Partner) would enable the A-G's compliance with the proposed PES 3. (Agenda item 3.10 includes an explanatory document prepared by the OAG to explain the basis of the A-G's proposed amendments to PES 3). The proposed clarified definitions are:

(i) Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent. (Ref: Para. A18)

[NZ] Considerations Specific to the Public Sector

In the Public Sector Firm means the Auditor-General and all personnel of the Auditor-General.

(m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

Considerations specific to the Public sector

[NZ] 'Partner' means a person employed by the Auditor-General who carries out audits on the Auditor-General's behalf.

- 10) In our view including the above modification to PES 3 does not result in a standard that conflicts with, or results in lesser requirements than the international standard and we therefore recommend the Board to approve the above modifications to be included in PES 3.

Proposed changes made to PES 3 in response to feedback received in submissions to the NZ EDs.

- 11) We received two submissions to the NZAuASB ED 2021-2, from the OAG (Agenda item 3.11) and EY New Zealand (Agenda item 3.12). The feedback in the OAG's submission is the same as matters discussed in paragraphs 6 to 10 of this agenda item. The EY submission raised three key points:

- i. There are New Zealand domiciled entities which are listed on overseas exchanges such as ASX² that are not FMC reporting entities. These entities prepare their financial statements in accordance with NZ IFRS³ and their audits are carried out in accordance with the NZAuASB auditing and ethical and professional standards⁴. In New Zealand, the NZAuASB has

¹Where the international standard does not reflect, or is not consistent with the New Zealand regulatory arrangements, the following criteria have to be met before the standard is modified:

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

² Unlisted foreign companies may also apply to ASX for listing under the general admission category. Foreign companies wishing to list on ASX need to register as a foreign company with ASIC and appoint an Australian local agent, which may be a firm or individual.

³ Under the ASX Listing Rules, accounts to be provided to the ASX must be prepared based on Australian accounting standards, or on the basis of other standards agreed to by the ASX. Revised Guidance Note 4 adds Bermuda, Canada, Cayman Islands, New Zealand and South Africa to the list of jurisdictions whose accounting standards will be recognised by the ASX for these purposes.

⁴ Under the ASX Guidance Note 4 the audit/review standards applied to any audited/reviewed accounts that are required to be lodged with ASX must be Australian Auditing Standards or other standards agreed to by ASX. ASX will accept

Issue paper: Changes made to the conditionally approved Quality Management Standards for the Board's consideration and approval.

extended the IAASB requirements applicable to listed entities to FMC Reporting entities with higher public accountability. However, existence of NZ companies ONLY listed in an overseas exchange that are not FMC HPAs, would mean that the NZAuASB standards are ISA minus as they do not impose the same requirements applied by the IAASB to all listed entities. It is therefore appropriate to clarify that the requirements applicable to the FMC HPA would also apply to these listed entities. We ask for the Board's views and feedback about the best method to achieve this objective. Potential options to address this include:

- a. Adding footnotes to FMC HPA requirements to explain that those requirements would apply to these listed entities.
 - b. Amend the definition of FMC HPA to include these entities for the purposes of our standards or including a footnote to the definition to explain that.
 - c. Issue non-authoritative guidance (for example an FAQ) to explain that all the requirements applicable to FMC HPAs are applicable to NZ entities ONLY listed in overseas exchanges.
- ii. The definition of Related Services from XRB Au 1 should be included in PES 3. We have added the definition of Related Services to PES 3 to address this feedback.
 - iii. As currently drafted, EY is concerned that the scope of application of PES 3 could be misinterpreted. While paragraph 5 of PES 3 refers in a footnote to XRB Au1, the definitions themselves in XRB Au1 do not exclude the services detailed in appendix 6 of XRB Au1 from the XRB mandate. EY recommends that it should be made clearer which services are excluded from the scope of PES 3 by detailing that the scope of PES 3 only applies to those standards the XRB has issued. While PES 3 as exposed is factually correct, we agree that further clarification may help the assurance practitioners to better understand the application scope of PES 3. Accordingly, we have incorporated the following amendment to paragraph 5 of PES 3:

“This PES applies to all firms performing engagements governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services⁵ engagements) (i.e., if the firm performs any of these engagements, this PES applies and the system of quality management that is established in accordance with the requirements of this PES enables the consistent performance by the firm of all such engagements).

Proposed changes made to PES 3 in harmonising with the AUASB.

- 12) The term “professional services engagement” included in the definition of partner in paragraph 16 (m) of PES 3, is amended by the AUASB as it is not defined within Australia and has been replaced with the words audit, review, other assurance engagement or related services engagement.
- 13) It seems appropriate for New Zealand to amend this definition as the NZAuASB mandate, similar to that of AUASB, is narrower and more specific than the IAASB's. We are proposing the definition to be amended in PES 3 as follows:

International Standards on Auditing or US Auditing Standards as acceptable standards for these purposes. ASX recognises the NZAuASB standards as acceptable standards.

⁵ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*

Issue paper: Changes made to the conditionally approved Quality Management Standards for the Board's consideration and approval.

"Partner – Any individual with authority to bind the firm with respect to the performance of an professional services engagement engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services⁶ engagements)."

Does the Board agree with the staff recommended amendments to PES 3 highlighted in this agenda item? Are there any concerns around incorporating these changes to PES 3?

⁶ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

PROFESSIONAL AND ETHICAL STANDARD 3

Quality Managements for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements (PES 3)

Systems of quality management in compliance with this Professional and Ethical Standard are required for application from 15 December 2022.

This Standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

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~~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

CONTENTS

	Paragraph
Introduction	
Scope of this Professional and Ethical Standard	1–5
The Firm's System of Quality Management.....	6–11
Authority of this Professional and Ethical Standard	12
Effective Date	13-NZ13.1
Objective	14–15
Definitions	16-NZ16.3
Requirements	
Applying, and Complying with, Relevant Requirements.....	17–18
System of Quality Management.....	19–22
The Firm's Risk Assessment Process.....	23–27
Governance and Leadership.....	28
Relevant Ethical Requirements.....	29
Acceptance and Continuance of Client Relationships and Specific Engagements.....	30
Engagement Performance	31
Resources.....	32
Information and Communication.....	33
Specified Responses.....	34
Monitoring and Remediation Process.....	35–47
Network Requirements or Network Services.....	48–52
Evaluating the System of Quality Management.....	53–56
Documentation	57–60
Application and Other Explanatory Material	
Scope of this Professional and Ethical Standard	A1–A2
The Firm's System of Quality Management.....	A3–A5

Authority of this Professional and Ethical Standard	A6–A9
Definitions	A10–A28
Applying, and Complying with, Relevant Requirements.....	A29
System of Quality Management.....	A30–A38
The Firm's Risk Assessment Process.....	A39–A54
Governance and Leadership.....	A55–A61
Relevant Ethical Requirements.....	A62–A66
Acceptance and Continuance of Client Relationships and Specific Engagements.....	A67–A74
Engagement Performance.....	A75–A85
Resources.....	A86–A108
Information and Communication.....	A109–A115
Specified Responses.....	A116–A137
Monitoring and Remediation Process.....	A138–A174
Network Requirements or Network Services.....	A175–A186
Evaluating the System of Quality Management.....	A187–A201
Documentation	A202–A206

~~Proposed~~ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, should be read in conjunction with the External Reporting Board Standard Au 1 *Application of Auditing and Assurance Standards*

Introduction

Scope of this Professional and Ethical Standard

1. This Professional and Ethical Standard (PES) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
2. Engagement quality reviews form part of the firm's system of quality management and:
 - (a) This PES deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
 - (b) ~~Proposed~~ PES 4¹ deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
3. Other pronouncements of the New Zealand Auditing and Assurance Standards Board (NZAuASB):
 - (a) Are premised on the basis that the firm is subject to ~~proposed~~ PES 3 and ~~proposed~~ PES 4 or to national requirements that are at least as demanding;² and
 - (b) Include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, ~~proposed~~ ISA (NZ) 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. (Ref: Para. A1)
4. This PES is to be read in conjunction with relevant ethical requirements. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this PES. (Ref: Para. A2)
5. This PES applies to all firms performing audits or reviews of financial statements, or other assurance or related services³ engagements (i.e., if the firm performs any of these engagements, this PES applies and the system of quality management that is established in accordance with the requirements of this PES enables the consistent performance by the firm of all such engagements).

The Firm's System of Quality Management

6. A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this PES, a system of quality management addresses the following eight components: (Ref: Para. A3)
 - (a) The firm's risk assessment process;
 - (b) Governance and leadership;
 - (c) Relevant ethical requirements;

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

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

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

Commented [A1]: EY submission raises concern that this may require further clarification. An alternative would be to state that:

This PES applies to all firms performing engagements governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services engagements".

- (d) Acceptance and continuance of client relationships and specific engagements;
 - (e) Engagement performance;
 - (f) Resources;
 - (g) Information and communication; and
 - (h) The monitoring and remediation process.
7. This PES requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: Para. A4)
8. The risk-based approach is embedded in the requirements of this PES through:
- (a) Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this PES and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
 - (b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.
 - (c) Designing and implementing responses to address the quality risks. The nature, timing and extent of the firm's responses to address the quality risks are based on and are responsive to the reasons for the assessments given to the quality risks.
9. This PES requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 14(a) and (b), are being achieved. (Ref: Para. A5)

Scalability

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

Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalised system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.

Networks and Service Providers

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

Commented [A2]: The AUASB has amended this to "agreed upon procedures" as the example used in ISQM 1 references Compilation Engagements. The AUASB does not issue a Compilation Engagement standard. The NZAuASB did consider this in their last meeting and concluded that no change is needed. However, I would like to ask the Board's view on this in light of the AUASB decision and as part of our harmonization.

- (a) Belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in the performance of engagements; or
- (b) Uses resources from a service provider in the system of quality management or in the performance of engagements.

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

Authority of this Professional and Ethical Standard

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

Effective Date

13. Systems of quality management in compliance with this PES are required to be designed and implemented by 15 December 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of this PES is required to be performed within one year following 15 December 2022.
- NZ13.1 This Standard supersedes PES 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued in 2013.

Objective

14. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.
15. The public interest is served by the consistent performance of quality engagements. The design, implementation and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a)

and (b), are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and, when applicable to the type of engagement, exercising professional scepticism.

Definitions

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

- (a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in this PES) – This exists when: (Ref: Para. A10, A159–A160)
 - (i) A quality objective required to achieve the objective of the system of quality management is not established;
 - (ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11)
 - (iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or
 - (iv) Any other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this PES has not been addressed. (Ref: Para. A12)
- (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).
- (c) Engagement partner⁴ – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- (e) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert⁵ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13)
- (g) External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A14)

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

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

- (h) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: Para. A15–A17)
- (i) Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent. (Ref: Para. A18)

Considerations Specific to the Public Sector

[NZ] In the Public Sector Firm means the Auditor-General and all personnel of the Auditor-General.

- (j) Listed entity – [Deleted by the NZAuASB. Refer to NZ16.2]]
- (k) Network firm – A firm or entity that belongs to the firm’s network.
- (l) Network – A larger structure: (Ref: Para. A19)
 - (i) That is aimed at cooperation; and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (m) Partner – [Deleted by the NZAuASB. Refer to NZ16.3]
- (n) Personnel – Partners and staff in the firm. (Ref: Para. A20–A21)
- (o) Professional judgement – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.
- (p) [Amended by the NZAuASB. Refer to NZ16.3]
- (q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.
- (r) Quality risk – A risk that has a reasonable possibility of:
 - (i) Occurring; and
 - (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.
- (s) Reasonable assurance – In the context of the ~~proposed~~ PES 3 and ~~proposed~~ PES 4, a high, but not absolute, level of assurance.
- (t) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to assurance practitioners when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the Professional and Ethical Standard 1⁶ related to audits or reviews of

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

financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A22–A24, A62)

- (u) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s): (Ref: Para. A25–A27, A50)
 - (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.
- (v) Service provider (in the context of this PES) – An individual or organisation external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm’s network, other network firms or other structures or organisations in the network. (Ref: Para. A28, A105)
- (w) Staff – Professionals, other than partners, including any experts the firm employs.
- (x) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:
 - (i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

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

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

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

NZ16.3 Partner – Any individual with authority to bind the firm with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services⁷ engagements).

Considerations specific to the Public sector

[NZ] ‘Partner’ means a person employed by the Auditor-General who carries out audits on the Auditor-General’s behalf.

NZ16.3-4 Professional standards – The standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

⁷ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*

NZ 16.5 Related services – services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

Requirements

Applying, and Complying with, Relevant Requirements

17. The firm shall comply with each requirement of this PES unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)
18. The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this PES, including the application and other explanatory material, to understand the objective of this PES and to apply its requirements properly.

System of Quality Management

19. The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgement, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management. (Ref: Para. A30–A31)

Responsibilities

20. The firm shall assign: (Ref: Para. A32–A35)
 - (a) Ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
 - (b) Operational responsibility for the system of quality management;
 - (c) Operational responsibility for specific aspects of the system of quality management, including:
 - (i) Compliance with independence requirements; and (Ref: Para. A36)
 - (ii) The monitoring and remediation process.
21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (Ref: Para. A37)
 - (a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A38)
 - (b) Understands their assigned roles and that they are accountable for fulfilling them.
22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process, have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

The Firm's Risk Assessment Process

23. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. (Ref: Para. A39–A41)
24. The firm shall establish the quality objectives specified by this PES and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A42–A44)
25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:
 - (a) Obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, including: (Ref: Para. A45–A47)
 - (i) With respect to the nature and circumstances of the firm, those relating to:
 - a. The complexity and operating characteristics of the firm;
 - b. The strategic and operational decisions and actions, business processes and business model of the firm;
 - c. The characteristics and management style of leadership;
 - d. The resources of the firm, including the resources provided by service providers;
 - e. Law, regulation, professional standards and the environment in which the firm operates; and
 - f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.
 - (ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:
 - a. The types of engagements performed by the firm and the reports to be issued; and
 - b. The types of entities for which such engagements are undertaken.
 - (b) Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions in paragraph 25(a) may adversely affect the achievement of the quality objectives. (Ref: Para. A48)
26. The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in paragraph 34. (Ref: Para. A49–A51)
27. The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A52–A53)

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

Governance and Leadership

28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:

- (a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognises and reinforces: (Ref: Para. A55–A56)
 - (i) The firm's role in serving the public interest by consistently performing quality engagements;
 - (ii) The importance of professional ethics, values and attitudes;
 - (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behaviour; and
 - (iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.
- (b) Leadership is responsible and accountable for quality. (Ref: Para. A57)
- (c) Leadership demonstrates a commitment to quality through their actions and behaviours. (Ref: Para. A58)
- (d) The organisational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management. (Ref: Para. A32, A33, A35, A59)
- (e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: Para. A60–A61)

Relevant Ethical Requirements

29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)

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

- (b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:
 - (i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A22, A24, A65)
 - (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.

Acceptance and Continuance of Client Relationships and Specific Engagements

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

Engagement Performance

31. The firm shall establish the following quality objectives that address the performance of quality engagements:
- (a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75)
 - (b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77)
 - (c) Engagement teams exercise appropriate professional judgement and, when applicable to the type of engagement, professional scepticism. (Ref: Para. A78)
 - (d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A79–A81)
 - (e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the

firm's system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)

- (f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. (Ref: Para. A83–A85)

Resources

- 32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)

Human Resources

- (a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)
 - (i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or
 - (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.
- (b) Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognised through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)
- (c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements. (Ref: Para. A94)
- (d) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A88–A89, A95–A97)
- (e) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.

Technological Resources

- (f) Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. (Ref: Para. A98–A101, A104)

Intellectual Resources

- (g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A102–A104)

Service Providers

- (h) Human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in the performance of engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g). (Ref: Para. A105–A108)

Information and Communication

- 33. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A109)
 - (a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: Para. A110–A111)
 - (b) The culture of the firm recognises and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112)
 - (c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including: (Ref: Para. A112)
 - (i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements; and
 - (ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
 - (d) Relevant and reliable information is communicated to external parties, including:
 - (i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them; and (Ref: Para. A113)
 - (ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management. (Ref: Para. A114–A115)

Specified Responses

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

- (a) The firm establishes policies or procedures for:
 - (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)
 - (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)
- (b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.
- (c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures established in accordance with this PES. (Ref: Para. A120–A121)
- (d) The firm establishes policies or procedures that address circumstances when:
 - (i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)
 - (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)
- (e) [Amended by the NZAuASB]
- NZ34(e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)
 - (i) Require communication with those charged with governance when performing an audit of financial statements of FMC reporting entities considered to have a higher level of public accountability about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129)
 - (ii) Address when it is otherwise appropriate to communicate with external parties about the firm’s system of quality management; and (Ref: Para. A130)
 - (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132)
- (f) [Amended by the NZAuASB]
- NZ34(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with ~~proposed~~ PES 4, and require an engagement quality review for:
 - (i) Audits of financial statements of FMC reporting entities considered to have a higher level of public accountability;

- (ii) Audits or other engagements for which an engagement quality review is required by law or regulation⁸; and (Ref: Para. A133)
- (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)

Monitoring and Remediation Process

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

Designing and Performing Monitoring Activities

36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies.
37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)
- (a) The reasons for the assessments given to the quality risks;
 - (b) The design of the responses;
 - (c) The design of the firm’s risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144)
 - (d) Changes in the system of quality management; (Ref: Para. A145)
 - (e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm’s system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A146–A147)
 - (f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm’s policies or procedures established in accordance with this PES, information from external inspections and information from service providers. (Ref: Para. A148–A150)
38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall: (Ref: Para. A141, A151–A154)
- (a) Take into account the matters in paragraph 37;

⁸ [In New Zealand, the Auditor Regulation Act \(Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms\) Notice 2020 require an engagement quality review for all FMC Reporting Entities including FMC Reporting Entities with lower public accountability.](#)

- (b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; and
 - (c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.
39. The firm shall establish policies or procedures that:
- (a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
 - (b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A155–A156)

Evaluating Findings and Identifying Deficiencies

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

Evaluating Identified Deficiencies

41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by: (Ref: Para. A161, A163–A164)
- (a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), the firm shall take into account the nature of the identified deficiencies and their possible severity. (Ref: Para. A165–A169)
 - (b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

Responding to Identified Deficiencies

42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A170–A172)
43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:
- (a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and
 - (b) Implemented to address previously identified deficiencies are effective.
44. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.

Findings About a Particular Engagement

45. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm's response shall include: (Ref: Para. A173)

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

Ongoing Communication Related to Monitoring and Remediation

46. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management: (Ref: Para. A174)

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

47. The firm shall communicate the matters described in paragraph 46 to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.

Network Requirements or Network Services

48. When the firm belongs to a network, the firm shall understand, when applicable: (Ref: Para. A19, A175)

- (a) The requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements);
- (b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm's system of quality management (i.e., network services); and
- (c) The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A176)

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

49. Based on the understanding obtained in paragraph 48, the firm shall:

- (a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management, including how they are to be implemented; and (Ref: Para. A178)
- (b) Evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A179–A180)

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

50. In circumstances when the network performs monitoring activities relating to the firm's system of quality management, the firm shall:
- (a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm's monitoring activities performed in accordance with paragraphs 36–38;
 - (b) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and
 - (c) As part of evaluating findings and identifying deficiencies in paragraph 40, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A181)

Monitoring Activities Undertaken by the Network Across the Network Firms

51. The firm shall:
- (a) Understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;
 - (b) At least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and: (Ref: Para. A182–A184)
 - (i) Communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and
 - (ii) Consider the effect of the information on the firm's system of quality management.

Deficiencies in Network Requirements or Network Services Identified by the Firm

52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A185)
- (a) Communicate to the network relevant information about the identified deficiency; and
 - (b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: Para. A186)

Evaluating the System of Quality Management

53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A187–A189)
54. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude, on behalf of the firm, one of the following: (Ref: Para. A190, A195)
 - (a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (Ref: Para. A191)
 - (b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. A192)
 - (c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: Para. A192–A194)
55. If the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A196)
 - (a) Take prompt and appropriate action; and
 - (b) Communicate to:
 - (i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A197)
 - (ii) External parties in accordance with the firm’s policies or procedures required by paragraph 34(e). (Ref: Para. A198)
56. The firm shall undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, and the individual(s) assigned operational responsibility for the system of quality management. In doing so, the firm shall take into account the evaluation of the system of quality management. (Ref: Para. A199–A201)

Documentation

57. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A202–A204)
 - (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and the performance of engagements;

- (b) Support the consistent implementation and operation of the responses; and
 - (c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.
58. In preparing documentation, the firm shall include:
- (a) The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management;
 - (b) The firm's quality objectives and quality risks; (Ref: Para. A205)
 - (c) A description of the responses and how the firm's responses address the quality risks;
 - (d) Regarding the monitoring and remediation process:
 - (i) Evidence of the monitoring activities performed;
 - (ii) The evaluation of findings, and identified deficiencies and their related root cause(s);
 - (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and
 - (iv) Communications about monitoring and remediation; and
 - (e) The basis for the conclusion reached pursuant to paragraph 54.
59. The firm shall document the matters in paragraph 58 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 49(b). (Ref: Para. A206)
60. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation.

Application and Other Explanatory Material

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

- A1. Other pronouncements of the NZAuASB, including ISRE (NZ) 2400 (Revised)⁹ and ISAE (NZ) 3000 (Revised),¹⁰ also establish requirements for the engagement partner for the management of quality at the engagement level.
- A2. Professional and Ethical Standard 1 contains requirements and application material for assurance practitioners that enable assurance practitioners to meet their responsibility to act in the public interest. As indicated in paragraph 15, in the context of engagement

⁹ International Standard on Review Engagements (ISRE) (NZ) 2400 (Revised), *Engagements to Review Historical Financial Statements*

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

performance as described in this PES, the consistent performance of quality engagements forms part of the assurance practitioner's responsibility to act in the public interest.

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

- A3. The firm may use different terminology or frameworks to describe the components of its system of quality management.
- A4. Examples of the interconnected nature of the components include the following:
- The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management.
 - The governance and leadership component establishes the environment that supports the system of quality management.
 - The resources and information and communication components enable the design, implementation and operation of the system of quality management.
 - The monitoring and remediation process is a process designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process.
 - There may be relationships between specific matters, for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
- A5. Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 14(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management. Such limitations include that human judgement in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behaviour or failures in information technology (IT) applications.

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

- A6. The objective of this PES provides the context in which the requirements of this PES are set, establishes the desired outcome of this PES and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.
- A7. The requirements of this PES are expressed using "shall."
- A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- Explain more precisely what a requirement means or is intended to cover; and
 - Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this PES. Where appropriate, additional considerations specific to public sector audit organisations are included within the application and other explanatory material. These additional considerations assist in the

application of the requirements in this PES. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this PES.

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

Definitions

Deficiency (Ref: Para. 16(a))

- A10. The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.
- A11. When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the response(s) to address such quality risk(s) may also be absent, or not appropriately designed or implemented.
- A12. The other aspects of the system of quality management consist of the requirements in this PES addressing:
- Assigning responsibilities (paragraphs 20–22);
 - The firm’s risk assessment process;
 - The monitoring and remediation process; and
 - The evaluation of the system of quality management.

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

- The firm’s risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives, or modify the quality risks or responses.
- The firm’s monitoring and remediation process is not designed or implemented in a manner that:
 - Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
 - Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
- The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not undertake the annual evaluation of the system of quality management.

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

A13. ~~Proposed~~ ISA (NZ) 220 (Revised)¹¹ provides guidance in applying the definition of engagement team in the context of an audit of financial statements.

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

A14. In some circumstances, an external oversight authority may undertake other types of inspections, for example, thematic reviews that focus on, for a selection of firms, particular aspects of audit engagements or firm-wide practices.

Findings (Ref: Para. 16(h))

A15. As part of accumulating findings from monitoring activities, external inspections and other relevant sources, the firm may identify other observations about the firm’s system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management. Paragraph A158 explains how other observations may be used by the firm in the system of quality management.

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

A17. Monitoring activities include monitoring at the engagement level, such as inspection of engagements. Furthermore, external inspections and other relevant sources may include information that relates to specific engagements. As a result, information about the design, implementation and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.

Firm (Ref: Para. 16(i))

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

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

A19. Networks and the firms within the network may be structured in a variety of ways. For example, in the context of a firm’s system of quality management:

- The network may establish requirements for the firm related to its system of quality management, or provide services that are used by the firm in its system of quality management or in the performance of engagements;
- Other firms within the network may provide services (e.g., resources) that are used by the firm in its system of quality management or in the performance of engagements; or
- Other structures or organisations within the network may establish requirements for the firm related to its system of quality management, or provide services.

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

¹¹ ~~Proposed~~ ISA (NZ) 220 (Revised), paragraphs A15–A25

Personnel (Ref: Para. 16(n))

A20. In addition to personnel (i.e., individuals in the firm), the firm may use individuals external to the firm in performing activities in the system of quality management or in the performance of engagements. For example, individuals external to the firm may include individuals from other network firms (e.g., individuals in a service delivery centre of a network firm) or individuals employed by a service provider (e.g., a component auditor from another firm not within the firm's network).

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

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

A22. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term "assurance practitioner" may be defined in relevant ethical requirements. For example, the PES 1 defines the term "assurance practitioner" and further explains the scope of provisions in the PES 1 that apply to individual assurance practitioners in public practice and their firms.

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

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

- Part 2 of PES 1 applies to individuals who are assurance practitioners in public practice when they are performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner, and may be relevant in the context of the performance of engagements.
- Certain requirements in Parts 3 and 4 of PES 1 also apply to individuals who are assurance practitioners in public practice when they are performing professional activities for clients.

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

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

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

- Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

For example, circumstances may arise when, in performing an engagement, an individual considers that the engagement partner or another senior member of the engagement team has pressured them to breach the fundamental principles.

Response (Ref: Para. 16(u))

A25. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams), or through their restraint from taking actions that would conflict with the firm's policies.

A26. Procedures may be mandated, through formal documentation or other communications, or may result from behaviours that are not mandated but are rather conditioned by the firm's culture. Procedures may be enforced through the actions permitted by IT applications, or other aspects of the firm's IT environment.

A27. If the firm uses individuals external to the firm in the system of quality management or in the performance of engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals. ~~Proposed~~ ISA (NZ) 220 (Revised)¹² provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of financial statements.

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

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

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

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

- The firm is a sole practitioner. For example, the requirements addressing the organisational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant.
- The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

System of Quality Management

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

A30. Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities and business processes. As a result, designing the system of quality management and the firm's operational activities and business processes in an integrated manner may promote a

¹² ~~Proposed~~ ISA (NZ) 220 (Revised), paragraphs A23–A25

harmonious approach to managing the firm, and enhance the effectiveness of quality management.

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

- Considering the source, relevance and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements; and
- Being open and alert to a need for further investigation or other action.

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

A32. The governance and leadership component includes a quality objective that the firm has an organisational structure and assignment of roles, responsibilities and authority that is appropriate to enable the design, implementation and operation of the firm's system of quality management.

A33. Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 20, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with paragraphs 53 and 54, although the firm assigns the evaluation of the system of quality management and conclusion thereon to the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the firm is responsible for the evaluation and conclusion.

A34. An individual(s) assigned responsibility for the matters in paragraph 20 is typically a partner of the firm so that they have appropriate influence and authority within the firm, as required by paragraph 21. However, based on the legal structure of the firm, there may be circumstances when an individual(s) may not be a partner of the firm but the individual(s) has the appropriate influence and authority within the firm to perform their assigned role because of formal arrangements made by the firm or the firm's network.

A35. How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities. An individual(s) assigned responsibility for a matter(s) in paragraph 20 may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities. However, an individual(s) assigned responsibility for a matter(s) in paragraph 20 remains responsible and accountable for the responsibilities assigned to them.

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

- In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process.

- In a more complex firm, there may be multiple levels of leadership that reflect the organisational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in paragraph 20(c), such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line.

A36. Compliance with independence requirements is essential to the performance of audits, or reviews of financial statements, or other assurance engagements, and is an expectation of stakeholders relying on the firm's reports. The individual(s) assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.

A37. Law, regulation or professional standards may establish additional requirements for an individual assigned responsibility for a matter(s) in paragraph 20, such as requirements for professional licensing, professional education or continuing professional development.

A38. The appropriate experience and knowledge for the individual(s) assigned operational responsibility for the system of quality management ordinarily includes an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.

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

A39. How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organised.

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

- In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks and responses may be less extensive than for a more complex firm (e.g., it may be documented in a single document).
- In a more complex firm, there may be a formal risk assessment process, involving multiple individuals and numerous activities. The process may be centralised (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralised (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks and responses to be included in the firm's system of quality management.

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

- In identifying and assessing quality risks, the firm may determine that an additional quality objective(s) needs to be established.
- When designing and implementing responses, the firm may determine that a quality risk was not identified and assessed.

A41. Information sources that enable the firm to establish quality objectives, identify and assess quality risks and design and implement responses form part of the firm's information and communication component and include:

- The results of the firm's monitoring and remediation process (see paragraphs 42 and A171).
- Information from the network or service providers, including:
 - Information about network requirements or network services (see paragraph 48); and
 - Other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 50–51).

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

- Information regarding complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this PES.
- The results of external inspections.
- Information from regulators about the entities for whom the firm performs engagements which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial statements or non-compliance with securities regulation).
- Changes in the system of quality management that affect other aspects of the system, for example, changes in the firm's resources.
- Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider.

Establish Quality Objectives (Ref: Para. 24)

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

A43. The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives.

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

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

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

A46. A risk arises from how, and the degree to which, a condition, event, circumstance, action or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk. Professional judgement assists the firm in determining whether a risk is a quality risk, which is based on the firm’s consideration of whether there is a reasonable possibility of the risk occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

<i>Examples of the firm’s understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i>	<i>Examples of quality risks that may arise</i>
<ul style="list-style-type: none"> The strategic and operational decisions and actions, business processes and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this PES. 	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritises the services not within the scope of this PES and may negatively affect the quality of engagements within the scope of this PES. Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in the performance of engagements within the scope of this PES.
<ul style="list-style-type: none"> The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority. 	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Leadership’s responsibilities and accountability for quality are not clearly defined and assigned. The actions and behaviours of leadership that do not promote quality are not questioned.
<ul style="list-style-type: none"> The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm. 	<p>In the context of resources, this may give rise to a number of quality risks including:</p> <ul style="list-style-type: none"> Technological resources used by the two merged firms may be incompatible.

	<ul style="list-style-type: none"> Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.
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A47. Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions or inactions that result in further quality risks. For example, the firm may implement a resource (e.g., a technological resource) to address a quality risk, and quality risks may arise from the use of such resource.

A48. The degree to which a risk, individually, or in combination with other risks may adversely affect the achievement of a quality objective(s) may vary based on the conditions, events, circumstances, actions or inactions giving rise to the risk, taking into account, for example:

- How the condition, event, circumstance, action or inaction would affect the achievement of the quality objective.
- How frequently the condition, event, circumstance, action or inaction is expected to occur.
- How long it would take after the condition, event, circumstance, action or inaction occurred for it to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action or inaction.
- How long the condition, event, circumstance, action or inaction would affect the achievement of the quality objective once it has occurred.

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

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

A49. The nature, timing and extent of the responses are based on the reasons for the assessment given to the quality risks, which is the considered occurrence and effect on the achievement of one or more quality objectives.

A50. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level.

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

The firm establishes policies or procedures for consultation which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when

matters for consultation occur and initiating consultation, and implementing the conclusions from consultation.¹³

A51. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.

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

A52. *Scalability example to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary*

- In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual(s) responsible for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is able to identify such information in the normal course of their activities.
- In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements. This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm's internal and external environment.

A53. Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with paragraph 42.

A54. The firm may have established quality objectives in addition to those specified by this PES. The firm may also identify information that indicates that additional quality objectives already established by the firm are no longer needed, or need to be modified.

Governance and Leadership

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

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

- Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability.
- A commitment to teamwork.
- Maintaining an open mind to new ideas or different perspectives in the professional environment.
- Pursuit of excellence.

¹³ ISA 220 (Revised), paragraphs 35

- A commitment to continual improvement (e.g., setting expectations beyond the minimum requirements and placing a focus on continual learning).
- Social responsibility.

A56. The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialisation or new service offerings. The firm's financial and operational priorities may directly or indirectly affect the firm's commitment to quality, for example, the firm may have incentives that are focused on financial and operational priorities that may discourage behaviours that demonstrate a commitment to quality.

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

A57. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 56.

A58. Although leadership establishes the tone at the top through their actions and behaviours, clear, consistent and frequent actions and communications at all levels within the firm collectively contribute to the firm's culture and demonstrates a commitment to quality.

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

A59. The organisational structure of the firm may include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralise processes or activities in a service delivery centre, and engagement teams may include personnel from the firm's service delivery centre who perform specific tasks that are repetitive or specialised in nature.

Resources (Ref: Para. 28(e))

A60. The individual(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management is in most cases able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how those resources are allocated or assigned, including the timing of when they are used.

A61. As resource needs may change over time it may not be practicable to anticipate all resource needs. The firm's resource planning may involve determining the resources currently required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.

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

A62. PES 1 sets out the fundamental principles of ethics that establish the standards of behaviour expected of an assurance practitioner and establishes the International Independence Standards (New Zealand). The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. PES 1 also specifies the approach that an assurance practitioner is required to apply to comply with the fundamental principles and, when applicable, the International Independence Standards (New Zealand). In addition, PES 1 addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions

addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.

A63. In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.

Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements

- The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
- The firm sets rotation periods for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members.

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

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

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including:
 - The firm communicating the independence requirements to all personnel and others subject to independence requirements.
 - Personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence, or breaches of relevant ethical requirements.
- As part of the resources component, the firm may:
 - Assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
 - Use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

A65. The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management, or in the performance of engagements.

Examples of relevant ethical requirements that apply to others

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, PES 1 includes independence requirements that apply to network firms.
- Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who performs assurance procedures on the engagement (e.g., a component auditor or a service provider engaged to attend a physical inventory count at a remote location).

Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.

- The principle of confidentiality may apply to the firm's network, other network firms or service providers, when they have access to client information obtained by the firm.

Public Sector Considerations

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

Acceptance and Continuance of Client Relationships and Specific Engagements

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

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

- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors;
- The nature of the entity, for example, its operations, organisational structure, ownership and governance, its business model and how it is financed; and
- The nature of the underlying subject matter and the applicable criteria, for example, in the case of integrated reporting:
 - The underlying subject matter may include social, environmental or health and safety information; and
 - The applicable criteria may be performance measures established by a recognised body of experts.

A68. The information obtained to support the firm's judgements about the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance.

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

- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.

- Indications of a client-imposed limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.

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

- In the case of an existing client, information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client.
- In the case of a new client, inquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements.
- Discussions with other third parties, such as bankers, legal counsel and industry peers.
- Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search.

A70. Information that is obtained during the firm's acceptance and continuance process may often also be relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, ~~proposed~~ ISA (NZ) 220 (Revised)¹⁴ requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.

A71. Professional standards or applicable legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA (NZ) 300¹⁵ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. PES 1 also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements.

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

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

- The availability of appropriate resources to perform the engagement;

¹⁴ ~~Proposed~~ ISA (NZ) 220 (Revised), paragraph 23

¹⁵ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 13(b)

- Having access to information to perform the engagement, or to the persons who provide such information; and
- Whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements.

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

- The circumstances of the engagement and the reporting deadline.
- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having:
 - Individuals to take overall responsibility for directing and supervising the engagement;
 - Individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements; and
 - Individuals to perform audit procedures on the financial information of a component for purposes of an audit of group financial statements.
- The availability of experts, if needed.
- If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in ~~proposed~~ PES 4.
- The need for technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity's data.
- The need for intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

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

- A73. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialisation or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values).
- A74. There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. PES 1 addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.

Engagement Performance

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

A75. Professional standards or applicable legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, ~~proposed~~ ISA (NZ) 220 (Revised) deals with the overall responsibility of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement, including having responsibility for appropriate direction and supervision of the engagement team and review of their work.

A76. *Examples of direction, supervision and review*

- Direction and supervision of the engagement team may include:
 - Tracking the progress of the engagement;
 - Considering the following with respect to members of the engagement team:
 - Whether they understand their instructions; and
 - Whether the work is being carried out in accordance with the planned approach to the engagement;
 - Addressing matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
 - Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- A review of work performed may include considering whether:
 - The work has been performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
 - Significant matters have been raised for further consideration;
 - Appropriate consultations have been undertaken and the resulting conclusions have been documented and implemented;
 - There is a need to revise the nature, timing and extent of planned work;
 - The work performed supports the conclusions reached and is appropriately documented;
 - The evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and
 - The objectives of the engagement procedures have been achieved.

A77. In some circumstances, the firm may use personnel from a service delivery centre in the firm or individuals from a service delivery centre in another network firm to perform procedures on the engagement (i.e., the personnel or other individuals are included in the engagement team). In such circumstances, the firm's policies or procedures may specifically address the direction and supervision of the individuals and review of their work, such as:

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

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

A78. Professional scepticism supports the quality of judgements made on an assurance engagement and, through these judgements, the overall effectiveness of the engagement team in performing the assurance engagement. Other pronouncements of the NZAuASB may address the exercise of professional judgement or professional scepticism at the engagement level. For example, ~~Proposed~~ ISA (NZ) 220 (Revised)¹⁶ provides examples of impediments to the exercise of professional scepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional scepticism, and possible actions that the engagement team may take to mitigate such impediments.

Consultation (Ref: Para. 31(d))

A79. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialised expertise, on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.

A80. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions are to be agreed and implemented.

A81. ~~Proposed~~ ISA (NZ) 220 (Revised)¹⁷ includes requirements for the engagement partner related to consultation.

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

A82. The firm may encourage that differences of opinion are identified at an early stage, and may specify the steps to be taken in raising and dealing with them, including how the matter is to be resolved and how the related conclusions should be implemented and documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.

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

A83. Law, regulation or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of engagements conducted under the ISAs (NZ), ISAEs

¹⁶ ~~Proposed~~ ISA (NZ) 220 (Revised), paragraphs A34–A36

¹⁷ ~~Proposed~~ ISA (NZ) 220 (Revised), paragraph 35

(NZ) or SAEs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

- A84. The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented or deleted without authorisation to do so, or if it is permanently lost or damaged.
- A85. Law, regulation or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ISAs (NZ), ISAEs (NZ) or SAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

Resources (Ref: Para. 32)

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

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

Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing and maintaining the firm's human resources, technological resources and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.

- A87. Resources may be internal to the firm, or may be obtained externally from the firm's network, another network firm or service provider. Resources may be used in performing activities within the firm's system of quality management, or in the performance of engagements as part of operating the system of quality management. In circumstances when a resource is obtained from the firm's network or another network firm, paragraphs 48–52 form part of the responses designed and implemented by the firm in achieving the objectives in this component.

Human Resources

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

- A88. Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes.

Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.

A89. Law, regulation or professional standards may establish requirements addressing competence and capabilities, such as requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.

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

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

- Recruiting individuals who have, or are able to develop, appropriate competence.
- Training programs focused on developing the competence of personnel and continuing professional development.
- Evaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures.
- Compensation, promotion and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm's system of quality management.

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

A91. Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, such as in the case of firms with fewer personnel.

A92. Positive actions or behaviours demonstrated by personnel may be recognised through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.

A93. The manner in which the firm holds personnel accountable for actions or behaviours that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm's responses as designed, may depend on the nature of the action or behaviour, including its severity and frequency of occurrence. Actions the firm may take when personnel demonstrate actions or behaviours that negatively affect quality may include:

- Training or other professional development.
- Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of those involved.
- Disciplinary action, if appropriate.

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

A94. Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, ~~Proposed~~ ISA (NZ) 220 (Revised)¹⁸ addresses the responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm's policies or procedures.

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

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

- The firm, including assigning personnel from a service delivery centre in the firm.
- The firm's network or another network firm when the firm uses individuals from the firm's network or another network firm to perform procedures on the engagement (e.g., a component auditor or a service delivery centre of the network or another network firm).
- A service provider when the firm uses individuals from a service provider to perform procedures on the engagement (e.g., a component auditor from a firm that is not within the firm's network).

A96. ~~Proposed~~ ISA (NZ) 220 (Revised)¹⁹ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. ISA (NZ) 600²⁰ expands on how ~~proposed~~ ISA (NZ) 220 (Revised) is to be applied in relation to an audit of group financial statements. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address:

- Information that may be obtained by the engagement partner and factors to consider in determining that the engagement team members assigned to the engagement, including those assigned by the firm's network, another network firm or service provider, have the competence and capabilities to perform the engagement.
- How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm's network, another network firm or service provider, may be resolved.

A97. The requirements in paragraphs 48–52 are also applicable when using individuals from the firm's network or another network firm on an engagement, including component auditors (see, for example, paragraph A179).

¹⁸ ~~Proposed~~ ISA (NZ) 220 (Revised), paragraph 25

¹⁹ ISA 220 (NZ) (Revised), paragraph 26

²⁰ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 19

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

A98. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

A99. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this PES are:

- Technological resources that are directly used in designing, implementing or operating the firm's system of quality management;
- Technological resources that are used directly by engagement teams in the performance of engagements; and
- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

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

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorising access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and may comprise:
 - Multiple IT applications, including custom developed applications or applications developed by the firm's network, such as:
 - IT applications used by engagement teams (e.g., engagement software and automated audit tools).
 - IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements).
 - The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.

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

- The data inputs are complete and appropriate;
- Confidentiality of the data is preserved;
- The IT application operates as designed and achieves the purpose for which it is intended;
- The outputs of the IT application achieve the purpose for which they will be used;
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate;
- The need for specialised skills to utilise the IT application effectively, including the training of individuals who will use the IT application; and
- The need to develop procedures that set out how the IT application operates.

A101. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances when the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through

considering the matters in paragraph A100. ~~Proposed~~ ISA (NZ) 220 (Revised)²¹ addresses the engagement partner's responsibilities for engagement resources.

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

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

Examples of intellectual resources

Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardised documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements).

A103. Intellectual resources may be made available through technological resources, for example, the firm's methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.

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

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

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

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

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

Examples of resources from a service provider

²¹ ISA 220 (Revised), paragraphs 25–28

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

A106. In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, which includes conditions, events, circumstances, actions or inactions relating to service providers. In doing so, the firm may consider the nature of the resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm (e.g., the varying types of other professional services firms that are used), in order to identify and assess quality risks related to the use of such resources.

A107. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or in the performance of engagements, the firm may obtain information about the service provider and the resource they provide from a number of sources. Matters the firm may consider include:

- The related quality objective and quality risks. For example, in the case of a methodology from a service provider, there may be quality risks related to the quality objective in paragraph 32(g), such as a quality risk that the service provider does not update the methodology to reflect changes in professional standards and applicable legal and regulatory requirements.
- The nature and scope of the resources, and the conditions of the service (e.g., in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the service provider addresses confidentiality of data).
- The extent to which the resource is used across the firm, how the resource will be used by the firm and whether it is suitable for that purpose.
- The extent of customisation of the resource for the firm.
- The firm's previous use of the service provider.
- The service provider's experience in the industry and reputation in the market.

A108. The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively, or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.

Information and Communication (Ref: Para. 33)

A109. Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication is pervasive to all components of the system of quality management.

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

A110. Reliable and relevant information includes information that is accurate, complete, timely and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.

A111. The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases may be embedded within the firm's responses for other components. In addition, digital records may replace or supplement physical records.

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

Less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.

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

A112. The firm may recognise and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and with one another by establishing communication channels to facilitate communication across the firm.

Examples of communication among the firm, personnel and engagement teams

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.
- The firm communicates changes to the system of quality management to personnel and engagement teams, to the extent that the changes are relevant to their responsibilities and enables personnel and engagement teams to take prompt and appropriate action in accordance with their responsibilities.
- The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate to the firm information about:
 - The client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement.

- The operation of the firm's responses (e.g., concerns about the firm's processes for assigning personnel to engagements), which in some cases, may indicate a deficiency in the firm's system of quality management.
- Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation.
- Group engagement teams communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.
- The individual(s) assigned operational responsibility for compliance with independence requirements communicates to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes.

Communication with External Parties

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

A113. In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network, a network firm or a service provider that supports the firm in the design, implementation and operation of its system of quality management.

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

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

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

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

- The firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances.
- Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report.
- Securities law or regulation requires the firm to communicate certain matters to those charged with governance.

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

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

- Privacy or secrecy law or regulation prohibits disclosure of certain information.

- Law, regulation or relevant ethical requirements include provisions addressing the duty of confidentiality.

Specified Responses (Ref: Para. 34)

A116. The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (e.g., personnel's commitment to quality), relevant ethical requirements and governance and leadership. The specified responses alone are not sufficient to achieve the objectives of the system of quality management.

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

A117. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be addressed. For example, PES 1 provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.

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

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

- The communication of breaches of the relevant ethical requirements to appropriate personnel;
- The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;
- The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;
- Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and
- Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.

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

A120. Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in:

- Identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm's commitment to quality; or

- Identifying deficiencies in the system of quality management.

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

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

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

- Have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement and the firm was not aware of such information; or
- Relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.

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

- Undertaking consultation within the firm or with legal counsel.
- Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement.
- Discussing with the appropriate level of the client’s management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances.
- When it is determined that withdrawal is an appropriate action:
 - Informing the client’s management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal.
 - Considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

A123. In some circumstances, jurisdictional law or regulation may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be appointed through statutory provisions.

Example of matters addressed in the firm’s policies or procedures in circumstances when the firm is obligated to accept or continue an engagement or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement

- The firm considers the effect of the information on the performance of the engagement.

- The firm communicates the information to the engagement partner, and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work.
- The firm assigns more experienced personnel to the engagement.
- The firm determines that an engagement quality review should be performed.

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

A124. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable and transparent communication by the firm about the activities that it has undertaken to address quality, and the effectiveness of those activities.

A125. External parties who may use information about the firm's system of quality management, and the extent of their interest in the firm's system of quality management, may vary based on the nature and circumstances of the firm and its engagements.

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

- Management or those charged with governance of the firm's clients may use the information to determine whether to appoint the firm to perform an engagement.
- External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction and in understanding the work of firms.
- Other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) may have requested such information.
- Other users of the firm's engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information.

A126. The information about the system of quality management provided to external parties, including information communicated to those charged with governance about how the system of quality management supports the consistent performance of quality engagements, may address such matters as:

- The nature and circumstances of the firm, such as the organisational structure, business model, strategy and operating environment.
- The firm's governance and leadership, such as its culture, how it demonstrates a commitment to quality, and assigned roles, responsibilities and authority with respect to the system of quality management.
- How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence.
- Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators.

- The results of the firm’s monitoring activities and external inspections, and how the firm has remediated identified deficiencies or is otherwise responding to them.
- The evaluation undertaken in accordance with paragraphs 53–54 of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved and the conclusion thereon, including the basis for the judgements made in undertaking the evaluation and concluding.
- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes.
- The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms.

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

A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm’s policies or procedures and the circumstances of the engagement.

A128. [Amended by the NZAuASB]

NZA128.1 ISA (NZ) 260 (Revised) deals with the auditor’s responsibility to communicate with those charged with governance in an audit of financial statements, and addresses the auditor’s determination of the appropriate person(s) within the entity’s governance structure with whom to communicate²² and the communication process.²³ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than FMC reporting entities considered to have a higher level of public accountability (or when performing other engagements), for example, entities that may have public interest or public accountability characteristics, such as:

- Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds.
- Entities with a high public profile, or whose management or owners have a high public profile.
- Entities with a large number and wide range of stakeholders.

Public sector considerations

A129. The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm’s system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity

²² ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

²³ ISA 260 (Revised), paragraphs 18–22

of the public sector entity, the range of its stakeholders, the nature of the services it provides, and the role and responsibilities of those charged with governance.

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

A130. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgement and may be influenced by matters such as:

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

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

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

A131. The firm may consider the following attributes in preparing information that is communicated to external parties:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimise the potential that such information becomes overly standardised and less useful over time.
- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the

communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).

- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm's website).

A132. [Amended by the NZAuASB]

NZA132.1 The firm uses professional judgement in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of FMC reporting entities considered to have a higher level of public accountability, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of form of communication to external parties

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

Engagements Subject to an Engagement Quality Review

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

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

- Are public interest entities as defined in a particular jurisdiction;
- Operate in the public sector or which are recipients of government funding, or entities with public accountability;
- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds);
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

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

A134. The firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, as required by paragraph 25(a)(ii), relates to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses to address one or more quality risk(s), the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.

Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response

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

- Engagements that involve a high level of complexity or judgement, such as:
 - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern.
 - Assurance engagements that require specialised skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements.
- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- Engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, and that may involve a higher degree of judgement, such as pro forma financial information to be included in a prospectus.

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

- Entities in emerging industries, or for which the firm has no previous experience.
- Entities for which concerns were expressed in communications from securities or prudential regulators.
- Entities other than FMC reporting entities considered to have a higher level of public accountability that may have public interest or public accountability characteristics, for example:
 - Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation.
 - Entities with a high public profile, or whose management or owners have a high public profile.
 - Entities with a large number and wide range of stakeholders.

A135. The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial

statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgements, by personnel who have specialised technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

A136. In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).

Public sector considerations

A137. The nature and circumstances of public sector entities (e.g., due to their size and complexity, the range of their stakeholders, or the nature of the services they provide) may give rise to quality risks. In these circumstances, the firm may determine that an engagement quality review is an appropriate response to address such quality risks. Law or regulation may establish additional reporting requirements for the auditors of public sector entities (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements). In such cases, the firm may also consider the complexity of such reporting, and its importance to users, in determining whether an engagement quality review is an appropriate response.

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

A138. In addition to enabling the evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. For example:

- Given the inherent limitations of a system of quality management, the firm's identification of deficiencies is not unusual and it is an important aspect of the system of quality management, because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner, and contributes to a culture of continual improvement.
- The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.

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

A139. The firm's monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.

A140. Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor that an aspect of the system of quality management is designed, implemented and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature

to an inspection of in-process engagements (e.g., reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity will guide its design and implementation, and where it fits within the system of quality management (i.e., whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).

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

- The size, structure and organisation of the firm.
- The involvement of the firm's network in monitoring activities.
- The resources that the firm intends to use to enable monitoring activities, such as the use of IT applications.

A142. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.

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

A143. How the firm's risk assessment process is designed (e.g., a centralised or decentralised process, or the frequency of review) may affect the nature, timing and extent of the monitoring activities, including monitoring activities over the firm's risk assessment process.

A144. How the firm's monitoring and remediation process is designed (i.e., the nature, timing and extent of the monitoring and remediation activities, taking into account the nature and circumstances of the firm) may affect the monitoring activities undertaken by the firm to determine whether the monitoring and remediation process is achieving the intended purpose as described in paragraph 35.

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

- In a less complex firm, the monitoring activities may be simple, since information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results.
- In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies.

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

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

- Changes to address an identified deficiency in the system of quality management.

- Changes to the quality objectives, quality risks or responses as a result of changes in the nature and circumstances of the firm and its engagements.

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm's monitoring activities may include monitoring of those areas of change.

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

A146. The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.

A147. Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.

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

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

- Information communicated by the firm's network in accordance with paragraphs 50(c) and 51(b) about the firm's system of quality management, including the network requirements or network services that the firm has included in its system of quality management.
- Information communicated by a service provider about the resources the firm uses in its system of quality management.
- Information from regulators about the entities for whom the firm performs engagements, which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial statements).

A149. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing and extent of the monitoring activities.

A150. External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing and extent of the monitoring activities.

Engagement Inspections (Ref: Para. 38)

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

- In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks:

- The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement.
- The types of entities for which engagements are undertaken, for example:
 - Entities that are FMC reporting entities considered to have a higher level of public accountability.
 - Entities operating in emerging industries.
 - Entities operating in industries associated with a high level of complexity or judgement.
 - Entities operating in an industry that is new to the firm.
- The tenure and experience of engagement partners.
- The results of previous inspections of completed engagements, including for each engagement partner.
- In relation to other relevant information:
 - Complaints or allegations about an engagement partner.
 - The results of external inspections, including for each engagement partner.
 - The results of the firm's evaluation of each engagement partner's commitment to quality.

A152. The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining:

- Which completed engagements to select for inspection;
- Which engagement partners to select for inspection;
- How frequently to select an engagement partner for inspection; or
- Which aspects of the engagement to consider when performing the inspection of completed engagements.

A153. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to.

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

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

- Set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial

statements once every three years, and for all other engagement partners, once every five years;

- Set out the criteria for selecting completed engagements, including that for an engagement partner performing audits of financial statements, the engagement(s) selected include an audit engagement;
- Address selecting engagement partners in a manner that is unpredictable; and
- Address when it is necessary or appropriate to select engagement partners more, or less, frequently than the standard period set out in the policy, for example:
 - The firm may select engagement partners more frequently than the standard period set out in the firm's policy when:
 - Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners.
 - The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgement.
 - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
 - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
 - The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction.
 - The firm may defer the selection of the engagement partner (e.g., deferring for a year beyond the standard period set out in the firm's policy) when:
 - Engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in the firm's policy; and
 - The results of the other monitoring activities provide sufficient information about the engagement partner (i.e., performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner).

A154. The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (e.g., the firm's policies and procedures in respect of engagement performance), have been implemented as designed and are operating effectively.

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

A155. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs:

- An inspection of an engagement was:
 - In the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or
 - For all other engagements, an engagement team member or the engagement quality reviewer of that engagement.
- Another type of monitoring activity had participated in designing, executing or operating the response being monitored.

A156. In some circumstances, for example, in the case of a less complex firm, there may not be personnel who have the competence, capabilities, time or objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.

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

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

A158. Information accumulated by the firm from the monitoring activities, external inspections and other relevant sources may reveal other observations about the firm's system of quality management, such as:

- Actions, behaviours or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or
- Similar circumstances where no findings were noted (e.g., engagements where no findings were noted, and the engagements have a similar nature to the engagements where findings were noted).

Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.

A159. The firm exercises professional judgement in determining whether findings, individually or in combination with other findings give rise to a deficiency in the system of quality management. In making the judgement, the firm may need to take into account the relative importance of the findings in the context of the quality objectives, quality risks, responses or other aspects of the system of quality management to which they relate. The firm's judgements may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.

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

Quality Risks and Responses

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

Nature of the Findings and Their Pervasiveness

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

Extent of Monitoring Activity and Extent of Findings

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections.
- The extent of the findings in relation to the selection covered by the monitoring activity, and in relation to the expected deviation rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the expected deviation rate set by the firm.

A161. Evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of an identified deficiency, including investigating the root cause(s) of an identified deficiency, are part of an iterative and non-linear process.

Examples of how the process of evaluating findings and identifying deficiencies, evaluating identified deficiencies, including investigating the root cause(s) of identified deficiencies, is iterative and non-linear

- In investigating the root cause(s) of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances where there were findings that were not considered a deficiency. As a result, the firm adjusts its evaluation of the other findings and classifies them as a deficiency.
- In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.

A162. The results of monitoring activities, results of external inspections and other relevant information (e.g., network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process. For example, the results of external inspections may provide information about the system of quality management that has not been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.

Evaluating Identified Deficiencies (Ref: Para. 41)

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

- The nature of the identified deficiency, including the aspect of the firm's system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation or operation of the system of quality management;
- In the case of identified deficiencies related to responses, whether there are compensating responses to address the quality risk to which the response relates;
- The root cause(s) of the identified deficiency;
- The frequency with which the matter giving rise to the identified deficiency occurred; and
- The magnitude of the identified deficiency, how quickly it occurred and the duration of time that it existed and had an effect on the system of quality management.

A164. The severity and pervasiveness of identified deficiencies affects the evaluation of the system of quality management that is undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

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

A165. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:

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

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

A166. The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:

- The complexity and operating characteristics of the firm.
- The size of the firm.
- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralises its processes or activities.

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

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

A167. In investigating the root cause(s) of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the identified deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.

Example of when a deficiency did not arise in other circumstances of a similar nature, and how this information assists the firm in investigating the root cause(s) of identified deficiencies

The firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.

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

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

The firm may identify that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates where management's assumptions have a high degree of subjectivity. While the firm notes that these engagement teams are not exercising appropriate professional scepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to question individuals with greater authority or insufficient direction, supervision and review of the work performed on the engagements.

A169. In addition to investigating the root cause(s) of identified deficiencies, the firm may also investigate the root cause(s) of positive outcomes as doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.

Responding to Identified Deficiencies (Ref: Para. 42)

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

- The root cause(s).
- The severity and pervasiveness of the identified deficiency and therefore the urgency with which it needs to be addressed.
- The effectiveness of the remedial actions in addressing the root cause(s), such as whether the firm needs to implement more than one remedial action in order to effectively address the root cause(s), or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions.

A171. In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.

A172. In circumstances when the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the firm may also:

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

The firm is responsible for addressing the effect of the identified deficiency related to a resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from recurring with respect to the firm's system of quality management. However, the firm is not ordinarily responsible for remediating the identified deficiency on behalf of the service provider or further investigating the root cause of the identified deficiency at the service provider.

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

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

- Consulting with appropriate individuals regarding the appropriate action.
- Discussing the matter with management of the entity or those charged with governance.

- Performing the omitted procedures.

The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings to identify deficiencies and when a deficiency exists, investigating the root cause(s) of the identified deficiency.

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

A174. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be communicated on an ongoing basis or periodically. The individual(s) may use the information in multiple ways, for example:

- As a basis for further communications to personnel about the importance of quality.
- To hold individuals accountable for their roles assigned to them.
- To identify key concerns about the system of quality management in a timely manner.

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

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

A175. In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm’s system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that belong to the network. The extent to which the network will provide the firm with quality objectives, quality risks and responses that are common across the network will depend on the firm’s arrangements with the network.

Examples of network requirements

- Requirements for the firm to include additional quality objectives or quality risks in the firm’s system of quality management that are common across the network firms.
- Requirements for the firm to include responses in the firm’s system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, or resources, such as network developed methodologies for the performance of engagements or IT applications.
- Requirements that the firm be subject to the network’s monitoring activities. These monitoring activities may relate to network requirements (e.g., monitoring that the firm has implemented the network’s methodology appropriately), or to the firm’s system of quality management in general.

Examples of network services

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

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

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

- The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management.
- The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology.

A177. The firm's understanding of the network requirements or network services and the firm's responsibilities relating to the implementation thereof may be obtained through inquiries of, or documentation provided by, the network about matters such as:

- The network's governance and leadership.
- The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or network services.
- How the network identifies and responds to changes that affect the network requirements or network services or other information, such as changes in the professional standards or information that indicates a deficiency in the network requirements or network services.

How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms' monitoring activities, and the network's processes for remediating identified deficiencies.

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

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

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

The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardised across the network. This may give rise to a quality risk that the IT application does not address matters in local law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.

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

<i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i>	
Network Requirement or Network Service	How the Firm Adapts or Supplements the Network Requirement or Network Service
The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks.	As part of identifying and assessing quality risks, the firm includes the quality risks that are required by the network. The firm also designs and implements responses to address the quality risks that are required by the network.
The network requires that the firm design and implement certain responses.	As part of designing and implementing responses, the firm determines: <ul style="list-style-type: none"> • Which quality risks the responses address. • How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and its engagements (e.g., tailoring a methodology to include matters related to law or regulation).
The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.	The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.

A180. In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.

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

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

- A description of the monitoring activities, including their nature, timing and extent;
- Findings, identified deficiencies, and other observations about the firm's system of quality management (e.g., positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management); and
- The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the identified deficiencies and recommended remedial actions.

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

A182. The information from the network about the overall results of the network's monitoring activities undertaken across the network firms' systems of quality management may be an aggregation or summary of the information described in paragraph A181, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:

- Be used by the firm:
 - In identifying and assessing quality risks.
 - As part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management.
- Be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (e.g., common quality objectives, quality risks and responses).

A183. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm's system of quality management that affects the firm. The network may also gather information from network firms regarding the results of external inspections over network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other network firms or may restrict the specificity of such information.

A184. In circumstances when the network does not provide the information about the overall results of the network's monitoring activities across the network firms, the firm may take further actions, such as:

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

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

A185. As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this PES regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.

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

A network may undertake monitoring activities at a network level for a common methodology. The firm also monitors the application of the methodology by engagement team members through performing engagement inspections.

A186. In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may:

- Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and
- Consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root cause(s), such as when:
 - The network has not taken appropriate remedial actions; or
 - The network's remedial actions will take time to effectively address the identified deficiency.

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

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

A188. The point in time at which the evaluation is undertaken may depend on the circumstances of the firm, and may coincide with the fiscal year end of the firm or the completion of an annual monitoring cycle.

A189. The information that provides the basis for the evaluation of the system of quality management includes the information communicated to the individual(s) assigned ultimate responsibility and accountability for the system of quality management in accordance with paragraph 46.

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

- In a less complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management.
- In a more complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may need to establish processes

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

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

A190. In the context of this PES, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may, in using the results of the monitoring and remediation process, consider the following:

- The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management;
- Whether remedial actions have been designed and implemented by the firm, and whether the remedial actions taken up to the time of the evaluation are effective; and
- Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 45.

A191. There may be circumstances when identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

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

- The deficiency affects several components or aspects of the system of quality management.
- The deficiency is confined to a specific component or aspect of the system of quality management, but is fundamental to the system of quality management.
- The deficiency affects several business units or geographical locations of the firm.
- The deficiency is confined to a business unit or geographical location, but the business unit or location affected is fundamental to the firm overall.
- The deficiency affects a substantial portion of engagements that are of a certain type or nature.

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

The firm identifies a deficiency in a smaller regional office of the firm. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behaviour of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and
- Not pervasive, because it is limited to the smaller regional office.

A193. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances when identified deficiencies are severe and pervasive, actions taken to remediate the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.

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

The firm identifies a deficiency in a regional office, which is the largest office of the firm and provides financial, operational and technical support for the entire region. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behaviour of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and
- Pervasive, because the regional office is the largest office and provides support to many other offices, and the non-compliance with firm policies or procedures may have had a broader effect on the other offices.

A194. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished and it may be determined that the identified deficiencies are still severe, but no longer severe and pervasive. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

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

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

A196. In circumstances when the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the prompt and appropriate action taken by the firm may include:

- Taking measures to support the performance of engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm

are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams.

- Obtaining legal advice.

A197. In some circumstances the firm may have an independent governing body that has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.

A198. *Examples of circumstances when it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management*

- When the firm belongs to a network.
- When other network firms use the work performed by the firm, for example, in the case of a group audit.
- When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.
- When law or regulation requires the firm to communicate to an oversight authority or a regulatory body.

Performance Evaluations (Ref: Para. 56)

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

- The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm's monitoring activities against those targets.
- The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.

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

- In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm's monitoring activities may provide an indication of the performance of the individual.
- In a more complex firm, the performance evaluations may be undertaken by an independent non-executive member of the firm's governing body, or a special committee overseen by the firm's governing body.

A200. A positive performance evaluation may be rewarded through compensation, promotion and other incentives that focus on the individual's commitment to quality, and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives.

Public Sector Considerations

A201. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the results of the performance evaluation, given the nature of the individual's appointment. Nevertheless, performance evaluations may still be undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.

Documentation (Ref: Para. 57–59)

A202. Documentation provides evidence that the firm complies with this PES, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organisational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgement made, about its system of quality management. Furthermore, compliance with this PES may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.

A203. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the firm's judgements about the form, content and extent of documentation, including how often documentation is updated, may include:

- The complexity of the firm and the number of offices;
- The nature and complexity of the firm's practice and organisation;
- The nature of engagements the firm performs and the nature of the entities for whom engagements are performed;
- The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgements relating to the matter; and
- The frequency and extent of changes in the system of quality management.

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

A204. In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, PES 1 requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.

A205. The firm is not required to document the consideration of every condition, event, circumstance, action or inaction for each quality objective, or each risk that may give rise to

a quality risk. However, in documenting the quality risks and how the firm's responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (i.e., the considered occurrence and effect on the achievement of one or more quality objectives), in order to support the consistent implementation and operation of the responses.

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

Accompanying Attachment: Similarity to International and Australian Standards on Quality Control

This conformity statement accompanies but is not part of PES 3.

Conformity with International Standards on Quality Control

This Professional and Ethical Standard conforms with International Standard on Quality Management (ISQM) 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, issued by the International Auditing and Assurance Standards Board (IAASB), and independent standard-setting board of the International Federation of Accountants (IFAC) in respect of audits and reviews of financial statements, and other assurance engagements.

Requirements and application material that has been added to or amended from this Professional and Ethical Standard (and do not appear / appear differently in/from the text of the equivalent ISQM 1) are identified with the prefix “NZ”.

The following introductory paragraphs and definitions are additional to or have been amended from ISQM 1:

Paragraph	Summary of Change
<u>NZ 16.1 to NZ 16.3</u>	<u>Additional to ISQM 1, to include definitions of ‘Assurance practitioner’, ‘FMC reporting entity considered to have a higher level of public accountability’ and ‘Professional standards’, within PES 3.</u>
<u>NZ 16 (i) [NZ] and NZ 16 (m) [NZ]</u>	<u>Additional to ISAQM 1 to include public sector specific definitions within PES 3 that applies to New Zealand public sector audits.</u>

This Professional and Ethical Standard incorporates terminology and definitions used in New Zealand. Requirements that apply to listed entities have been broadened to apply to FMC reporting entities considered to have a higher level of public accountability in New Zealand. This applies to the engagement quality management review requirements. (Ref: Para NZ34(e) ~~and~~, NZ34(f), NZA128.1 and NZA132.1)

Compliance with this Professional and Ethical Standard enables compliance with ISQM 1, to the extent that ISQM 1 applies to audits and reviews of financial statements, and other assurance and related services engagements.

Comparison with Australian Standards on Quality Control

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Auditing Standard ASQM 1 *Quality Management for Firms that perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

ASQM 1 also conforms with ISQM 1.

The equivalent requirements and related application and other explanatory material included in ISQM 1 and PES 3 in respect of relevant ethical requirements, are included in another Auditing

Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, rather than ASAE 3410. There is no international or New Zealand equivalent to ASA 102.

Also, ASQM1 is amended where there is reference to direct assistance by internal which is prohibited in Australia. There are no such amendments in PES 3 as New Zealand requirements for assistance from internal auditors align with the IAASB standards.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

PROFESSIONAL AND ETHICAL STANDARD 4

Engagement Quality Reviews

Engagement Quality Reviews in compliance with this Professional and Ethical Standard are required for application from 15 December 2022.

This Standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

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PROPOSED PROFESSIONAL AND ETHICAL STANDARD 4
ENGAGEMENT QUALITY REVIEWS
CONTENTS

	Paragraph
Introduction	
Scope of this Professional and Ethical Standard	1–4
The Firm’s System of Quality Management and Role of Engagement Quality Reviews	5–9
Authority of this Professional and Ethical Standard	10
Effective Date	11
Objective	12
Definitions	13
Requirements	
Applying, and Complying with, Relevant Requirements	14–16
Appointment and Eligibility of Engagement Quality Reviewers	17–23
Performance of the Engagement Quality Review	24–27
Documentation	28–30
Application and Other Explanatory Material	
Appointment and Eligibility of Engagement Quality Reviewers	A1–A24
Performance of the Engagement Quality Review	A25–A49
Documentation	A50–A53

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

Introduction

Scope of this Professional and Ethical Standard

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

Scalability

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

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

5. PES 3 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks.³ The specified responses in PES 3 include establishing policies or procedures addressing engagement quality reviews in accordance with this PES.
6. The firm is responsible for designing, implementing and operating the system of quality management. Under PES 3, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
 - (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.⁴

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

² PES 3, paragraph 34(f)

³ PES 3, paragraph 26

⁴ PES 3, paragraph 14

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

Authority of this Professional and Ethical Standard

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

Effective Date

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

Objective

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

⁵ PES 3, paragraph 15

⁶ PES 3, paragraphs 12 and A6–A9

Definitions

13. For purposes of this PES, the following terms have the meanings attributed below:
- (a) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
 - (b) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
 - (c) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to an assurance practitioner when undertaking the engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A12–A15)

Requirements

Applying, and Complying with, Relevant Requirements

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

Appointment and Eligibility of Engagement Quality Reviewers

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

- (c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)
19. The firm's policies or procedures established in accordance with paragraph 18(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17–A18)
20. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:
- (a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: Para. A19)
 - (b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: Para. A20–A21)
21. The firm shall establish policies or procedures that:
- (a) Require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review; and
 - (b) Address the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work. (Ref: Para. A22)

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

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

Performance of the Engagement Quality Review

24. The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:
- (a) The engagement quality reviewer's responsibilities to perform procedures in accordance

- with paragraphs 25–26 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon;
- (b) The responsibilities of the engagement partner in relation to the engagement quality review, including that the engagement partner is precluded from dating the engagement report until notification has been received from the engagement quality reviewer in accordance with paragraph 27 that the engagement quality review is complete; and (Ref: Para. A25–A26)
 - (c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgement give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A27)
25. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A28–A33)
- (a) Read, and obtain an understanding of, information communicated by: (Ref: Para. A34)
 - (i) The engagement team regarding the nature and circumstances of the engagement and the entity; and
 - (ii) The firm related to the firm’s monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgements made by the engagement team.
 - (b) Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgements made in planning, performing and reporting on the engagement. (Ref: Para. A35–A38)
 - (c) Based on the information obtained in (a) and (b), review selected engagement documentation relating to the significant judgements made by the engagement team and evaluate: (Ref: Para. A39–A43)
 - (i) The basis for making those significant judgements, including, when applicable to the type of engagement, the exercise of professional scepticism by the engagement team;
 - (ii) Whether the engagement documentation supports the conclusions reached; and
 - (iii) Whether the conclusions reached are appropriate.
 - (d) For audits of financial statements, evaluate the basis for the engagement partner’s determination that relevant ethical requirements relating to independence have been fulfilled. (Ref: Para. A44)
 - (e) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: Para. A45)
 - (f) For audits of financial statements, evaluate the basis for the engagement partner’s determination that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A46)

- (g) Review:
- (i) For audits of financial statements, the financial statements and the auditor's report thereon, including, if applicable, the description of the key audit matters; (Ref: Para. A47)
 - (ii) For review engagements, the financial statements or financial information and the engagement report thereon; or (Ref: Para. A47)
 - (iii) For other assurance and related services engagements, the engagement report, and when applicable, the subject matter information. (Ref: Para. A48)
26. The engagement quality reviewer shall notify the engagement partner if the engagement quality reviewer has concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed. (Ref: Para. A49)

Completion of the Engagement Quality Review

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

Documentation

28. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: Para. A50)
29. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 30, and that such documentation be included with the engagement documentation.
30. The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review. The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes: (Ref: Para. A51–A53)
- (a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
 - (b) An identification of the engagement documentation reviewed;
 - (c) The basis for the engagement quality reviewer's determination in accordance with paragraph 27;
 - (d) The notifications required in accordance with paragraphs 26 and 27; and

(e) The date of completion of the engagement quality review.

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

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

- A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:
- The responsibilities of an engagement quality reviewer;
 - The criteria in paragraphs 18 and 19 regarding the eligibility of engagement quality reviewers; and
 - The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team.
- A2. The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g., in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.
- A3. [Amended by the NZAuASB]

NZA3.1. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of FMC reporting entities considered to have a higher level of public accountability than for audits of non-FMC reporting entities considered to have a higher level of public accountability entities or other engagements, with different individuals responsible for each process.

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

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

Eligibility Criteria for the Engagement Quality Reviewer

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

- A5. PES 3 describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values and attitudes.⁷ Matters that

⁷ PES 3, paragraph A88

the firm may consider in determining that an individual has the necessary competence to perform an engagement quality review include, for example:

- An understanding of professional standards and applicable legal and regulatory requirements and of the firm's policies or procedures relevant to the engagement;
- Knowledge of the entity's industry;
- An understanding of, and experience relevant to, engagements of a similar nature and complexity; and
- An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm.

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

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

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

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

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

A9. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, by creating a culture of respect for the role of the engagement quality reviewer, the

⁸ PES 3, paragraph A134

engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the firm's policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

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

- The culture within the firm promotes respect for authority only of personnel at a higher level of hierarchy within the firm.
- The engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

Public Sector Considerations

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

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

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

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

Threats to the objectivity of the engagement quality reviewer

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

- A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgements made by the engagement team, in particular as the engagement partner or other engagement team member.
- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.

- An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).

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

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

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

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

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

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

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

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

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

- A20. The guidance in paragraph A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.
- A21. When the engagement quality reviewer is assisted by an individual external to the firm, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.
- A22. The firm's policies or procedures may include responsibilities of the engagement quality reviewer to:
- Consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review; and
 - Address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

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

- A23. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include:
- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review;
 - Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review; or
 - Notification from the engagement quality reviewer in accordance with paragraph 23.
- A24. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this PES with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances.

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

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

- A25. ISA (NZ) 220 (Revised)⁹ establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including:
- Determining that an engagement quality reviewer has been appointed;
 - Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so;

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

- Discussing significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
- Not dating the auditor's report until the completion of the engagement quality review.

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

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

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

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

A28. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgement in performing the review.

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

A30. [Amended by the NZAuASB]

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

- The reasons for the assessments given to quality risks,¹¹ for example, engagements performed for entities in emerging industries or with complex transactions.

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

¹¹ PES 3, paragraph A49

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

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

Group Audit Considerations

A32. The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. Paragraph 21(a) requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgements with key members of the engagement team other than the group engagement team (e.g., those responsible for performing audit procedures on the financial information of a component). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 20. The guidance in paragraph A22 may be helpful when the engagement quality reviewer for the group audit is using assistants.

A33. In some cases, an engagement quality reviewer may be appointed for an audit of an entity or business unit that is part of a group, for example, when such an audit is required by law, regulation or other reasons. In these circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the audit of that entity or business unit may help the group engagement quality reviewer in fulfilling the responsibilities in accordance with paragraph 21(a). For example, this may be the case when the entity or business unit has been identified as a component for purposes of the group audit and significant judgements related to the group audit have been made at the component level.

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

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

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

A35. For audits of financial statements, ISA 220 (NZ) (Revised)¹² requires the engagement partner to review audit documentation relating to significant matters¹³ and significant judgements, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached.

A36. For audits of financial statements, ISA 220 (NZ) (Revised)¹⁴ provides examples of significant judgements that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.

A37. For engagements other than audits of financial statements, the significant judgements made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an assurance engagement performed in accordance with ISAE (NZ) 3000 (Revised), the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgement.

A38. In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgements would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.

A39. The information obtained in accordance with paragraphs 25(a) and 25(b), and the review of selected engagement documentation, assists the engagement quality reviewer in evaluating the engagement team's basis for making the significant judgements. Other considerations that may be relevant to the engagement quality reviewer's evaluation include, for example:

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

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

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

- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgements made by the engagement team;
- Applying an unbiased view in evaluating responses from the engagement team; and
- Following up on inconsistencies identified in reviewing engagement documentation, or inconsistent responses by the engagement team to questions relating to the significant judgements made.

A40. The firm's policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgement in selecting additional engagement documentation to be reviewed relating to significant judgements made by the engagement team.

A41. Discussions about significant judgements with the engagement partner, and if applicable, other members of the engagement team, together with the engagement team's documentation, may assist the engagement quality reviewer in evaluating the exercise of professional scepticism, when applicable to the engagement, by the engagement team in relation to those significant judgements.

A42. For audits of financial statements, ISA (NZ) 220 (Revised)¹⁵ provides examples of the impediments to the exercise of professional scepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional scepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A49. The firm's policies or procedures may specify the individual(s) in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individual(s)

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

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

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

may include the individual assigned the responsibility for the appointment of engagement quality reviewers. With respect to such unresolved concerns, the firm's policies or procedures may also require consultation within or outside the firm (e.g., a professional or regulatory body).

Documentation (Ref: Para. 28–30)

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

Accompanying Attachment: Similarity to International and Australian Standards on Quality Control

This conformity statement accompanies but is not part of PES 4.

Conformity with International Standards on Engagement Quality Review

This Professional and Ethical Standard conforms with International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, issued by the International Auditing and Assurance Standards Board (IAASB), and independent standard-setting board of the International Federation of Accountants (IFAC) in respect of audits and reviews of financial statements, and other assurance engagements.

Requirements and application material that has been added to this Professional and Ethical Standard (and do not appear in the text of the equivalent ISQC 1) are identified with the prefix “NZ”.

This Professional and Ethical Standard incorporates terminology and definitions used in New Zealand. Requirements that apply to listed entities have been broadened to apply to FMC reporting entities considered to have a higher level of public accountability in New Zealand. (Ref: NZA3.1)

Compliance with this Professional and Ethical Standard enables compliance with ISQM 2, to the extent that ISQM 2 applies to audits and reviews of financial statements, and other assurance engagements.

Comparison with Australian Standards on Quality Control

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Auditing Standard ASQM 2 *Engagement Quality Reviews*.

The following introductory paragraphs and definitions are additional to or have been amended from ISQM 2 and PES 4:

<u>Paragraph</u>	<u>Summary of Change</u>
<u>Aus 2.1</u>	<u>Replaces ISQM 2 introductory paragraph 2, to introduce ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</u>
<u>Aus 2.2</u>	<u>Additional to ISQM 1 to serve as a reminder that it is the responsibility of the firm to ensure compliance with all relevant legal, regulatory or professional obligations.</u>
<u>Aus 13.1</u>	<u>Replaces ISQM 2 paragraph 13(c) definition of ‘Relevant ethical requirements’. Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i></u>

The equivalent requirements and related application and other explanatory material included in ISQM 2 and PES 4 in respect of relevant ethical requirements, are included in another Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international or New Zealand equivalent to ASA 102.



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 220

Quality Management for an Audit of Financial Statements (ISA (NZ) 220)

Effective for audits of historical financial statements for periods beginning on or after 15 December 2022.

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**PROPOSED INTERNATIONAL STANDARD ON AUDITING
(NEW ZEALAND) 220**

QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

CONTENTS

	Paragraph
Introduction	
Scope of this ISA (NZ)	1
The Firm's System of Quality Management and Role of Engagement Teams	2–9
Effective Date	10
Objective	11
Definitions	12
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on Audits	13–15
Relevant Ethical Requirements, Including Those Related to Independence	16–21
Acceptance and Continuance of Client Relationships and Audit Engagements	22–24
Engagement Resources	25–28
Engagement Performance	29–38
Monitoring and Remediation	39
Taking Overall Responsibility for Managing and Achieving Quality	40
Documentation	41
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1
The Firm's System of Quality Management and Role of Engagement Teams	A2–A14
Definitions.....	A15–A27
Leadership Responsibilities for Managing and Achieving Quality on Audits	A28–A37
Relevant Ethical Requirements, Including Those Related to Independence	A38–A48
Acceptance and Continuance of Client Relationships and Audit Engagements	A49–A58
Engagement Resources	A59–A79
Engagement Performance	A80–A108
Monitoring and Remediation	A109–A112
Taking Overall Responsibility for Managing and Achieving Quality	A113–A116
Documentation	A117–A120

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

Introduction

Scope of this ISA (NZ)

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

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

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

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

² ~~Proposed~~ PES 3, paragraph 14

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

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

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

Scalability

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

The Engagement Partner’s Responsibilities

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

Effective Date

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

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

Objective

11. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:
 - (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
 - (b) The auditor's report issued is appropriate in the circumstances.

Definitions

12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Engagement partner⁵ – The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
 - (b) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
 - (c) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
 - (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert⁶ and internal auditors who provide direct assistance on an engagement.⁷ (Ref: Para. A15–A25)
 - (e) Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent. (Ref: Para. A26)

Considerations Specific to the Public Sector

[NZ] In the Public Sector Firm means the Auditor-General and all personnel of the Auditor-General.

- (f) Network firm – A firm or entity that belongs to the firm's network. (Ref: Para. A27)
- (g) Network – A larger structure: (Ref: Para. A27)
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common

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

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

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

business strategy, the use of a common brand name, or a significant part of professional resources.

- (h) ~~Partner [Amended by the NZAuASB] Partner—Any individual with authority to bind the firm with respect to the performance of a professional services engagement.~~
- (i) Personnel – Partners and staff in the firm.
- (j) Professional standards [Amended by the NZAuASB]

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

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

NZ12.2 Partner – Any individual with authority to bind the firm with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services⁸ engagements).

Considerations specific to the Public sector

[NZ] ‘Partner’ means a person employed by the Auditor-General who carries out audits on the Auditor-General’s behalf.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

13. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm’s culture and expected behaviour of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A28–A37)

⁸ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*

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

Relevant Ethical Requirements, Including Those Related to Independence

16. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A38–A42, A48)
17. The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A23–A25, A40–A44)
 - (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
 - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
 - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.⁹
18. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A43–A44)

⁹ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

19. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A45)
20. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A46)
21. Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A38 and A47)

Acceptance and Continuance of Client Relationships and Audit Engagements

22. The engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: Para. A49–A52, A58)
23. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs (NZ) and complying with the requirements of this ISA (NZ). (Ref: Para. A53–A56)
24. If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A57)

Engagement Resources

25. The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A59–A70, A73–A74, A79)
26. The engagement partner shall determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A62, A71–A74)
27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A75–A78)
28. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A63–A69)

Engagement Performance

Direction, Supervision and Review

29. The engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A80)
30. The engagement partner shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A81–A89, A94–A97)
 - (a) Planned¹⁰ and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements; and
 - (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.
31. The engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A90–A93)
 - (a) Significant matters;¹¹
 - (b) Significant judgements, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
 - (c) Other matters that, in the engagement partner’s professional judgement, are relevant to the engagement partner’s responsibilities.
32. On or before the date of the auditor’s report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: Para. A90–A94)
33. Prior to dating the auditor’s report, the engagement partner shall review the financial statements and the auditor’s report, including, if applicable, the description of the key audit matters¹² and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹³
34. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A98)

Consultation

35. The engagement partner shall: (Ref: Para. A99–A102)
 - (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Difficult or contentious matters and matters on which the firm’s policies or procedures require consultation; and

¹⁰ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 11

¹¹ ISA (NZ) 230, *Audit Documentation*, paragraph 8(c)

¹² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

¹³ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* or ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

- (ii) Other matters that, in the engagement partner's professional judgement, require consultation;
- (b) Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
- (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- (d) Determine that conclusions agreed have been implemented.

Engagement Quality Review

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

Differences of Opinion

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

Monitoring and Remediation

39. The engagement partner shall take responsibility for: (Ref: Para. A109–A112)
- (a) Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;

- (b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
- (c) Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

Taking Overall Responsibility for Managing and Achieving Quality

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

Documentation

41. In applying ISA (NZ) 230,¹⁴ the auditor shall include in the audit documentation: (Ref: Para. A117–A120)
- (a) Matters identified, relevant discussions with personnel, and conclusions reached with respect to:
 - (i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.
 - (ii) The acceptance and continuance of the client relationship and audit engagement.
 - (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented.
 - (c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

* * *

Application and Other Explanatory Material

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

- A1. This ISA (NZ) applies to all audits of financial statements, including audits of group financial statements. ISA (NZ) 600¹⁵ deals with special considerations that apply to an audit of group financial statements and when component auditors are involved. ISA (NZ) 600, adapted as

¹⁴ ISA (NZ) 230, paragraphs 8–11 and A6

¹⁵ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ISA (NZ) 600 may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

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

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

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

- A4. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with ~~proposed~~-PES 3, the firm is responsible for communicating information enables the engagement team to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake consultations with designated individuals in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).
- A5. Firm-level responses may include policies or procedures established by a network, or by other firms, structures or organisations within the same network (network requirements or network services are described further in ~~proposed~~-PES 3 within the "Network Requirements or Network Services" section).¹⁶ The requirements of this ISA (NZ) are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use an audit methodology developed for use by a network firm). Under ~~proposed~~-PES 3, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management.¹⁷
- A6. Some firm-level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ISA (NZ). For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this ISA (NZ) include:
- Personnel recruitment and professional training processes;

¹⁶ ~~Proposed~~-PES 3, paragraph 49(b)

¹⁷ ~~Proposed~~-PES 3, paragraph 49(a)

- The information technology (IT) applications that support the firm's monitoring of independence;
 - The development of IT applications that support the acceptance and continuance of client relationships and audit engagements; and
 - The development of audit methodologies and related implementation tools and guidance.
- A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises professional judgement in determining whether to design and implement responses, beyond those set forth in the firm's policies or procedures, at the engagement level to meet the objective of this ISA (NZ).¹⁸
- A8. The engagement team's determination of whether engagement level responses are necessary (and, if so, what those responses are) is influenced by the requirements of this ISA (NZ), the engagement team's understanding of the nature and circumstances of the engagement and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available.
- A9. The relative balance of the engagement team's efforts to comply with the requirements of this ISA (NZ) (i.e., between implementing the firm's responses and designing and implementing engagement specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement team's actions in complying with the engagement performance requirements of this ISA (NZ) may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).
- A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this ISA (NZ), unless:
- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
 - Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the firm's monitoring activities, external inspections or other relevant sources, indicates that the firm's policies or procedures are not operating effectively).
- A11. If the engagement partner becomes aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement or the engagement partner is unable to depend on the firm's policies or

¹⁸ ISA (NZ) 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 39(c) as such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program. See also paragraph A70 in respect of sufficient and appropriate resources.

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

A12. Complying with the requirements in other ISAs (NZ) may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ISA (NZ) 315 (Revised 2019)¹⁹ provides information that may be relevant to complying with the requirements of this ISA (NZ). Such information may be relevant to the determination of:

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

Scalability (Ref: Para. 2, 8)

A13. In a smaller firm, the firm's policies or procedures may designate an engagement partner, on behalf of the firm, to design many of the responses to the firm's quality risks, as doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management. Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.

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

¹⁹ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Definitions

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

- A15. The engagement team may be organised in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organised in groups by the activity they are performing. Regardless of how the engagement team is organised, any individual who performs audit procedures²⁰ on the audit engagement is a member of the engagement team.
- A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.²¹ Audit procedures comprise risk assessment procedures²² and further audit procedures.²³ As explained in ISA (NZ) 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.²⁴ Other ISAs (NZ) may also include specific procedures to obtain audit evidence, for example, ISA (NZ) 520.²⁵
- A17. Engagement teams include personnel and may also include other individuals who perform audit procedures who are from:
- (a) A network firm; or
 - (b) A firm that is not a network firm, or another service provider.²⁶
- For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.
- A18. Engagement teams may also include individuals from service delivery centres who perform audit procedures. For example, it may be determined that specific tasks that are repetitive or specialised in nature will be performed by a group of appropriately skilled personnel and the engagement team therefore includes such individuals. Service delivery centres may be established by the firm, the network, or by other firms, structures or organisations within the same network. For example, a centralised function may be used to facilitate external confirmation procedures.
- A19. Engagement teams may include individuals with expertise in a specialised area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's

²⁰ ISA (NZ) 500, *Audit Evidence*, paragraph A10

²¹ ISA (NZ) 200, paragraph A30

²² ISA (NZ) 315 (Revised 2019) provides requirements related to risk assessment procedures.

²³ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

²⁴ ISA (NZ) 500, paragraphs A14–A25

²⁵ ISA (NZ) 520, *Analytical Procedures*

²⁶ ~~Proposed~~ PES 3, paragraph 16(v)

involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A99–A102.

- A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.
- A21. An internal auditor providing direct assistance and an auditor's external expert whose work is used in the engagement are not members of the engagement team.²⁷ ISA (NZ) 610 (Revised) 2013 and ISA (NZ) 620 provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert, respectively. Compliance with these ISAs (NZ) requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance and perform audit procedures on the work of an auditor's expert.

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

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

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

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

²⁷ See ISA (NZ) 620, paragraphs 12–13 and ISA (NZ) 610 (Revised 2013), paragraphs 21–25.

through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs 19 and A38 of ISA (NZ) 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.

- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm’s training in respect of the firm’s policies or procedures for relevant ethical requirements. The firm’s policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm’s independence systems. The firm’s policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., consultation on a particular matter), it may be necessary for the firm’s related policies or procedures to be communicated to individuals who are not personnel. Such individuals are then able to alert the engagement partner if the circumstance arises, and this enables the engagement partner to comply with the firm’s policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation²⁸ under the group auditor’s policies or procedures, the component auditor is able to alert the group engagement team about the matter.

Firm (Ref: Para. 12(e))

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

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

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

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

Taking Overall Responsibility for Managing and Achieving Quality

A28. ~~[Proposed]~~ PES 3 requires the firm to establish quality objectives that address the firm’s governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement partner’s responsibility for managing and achieving

²⁸ See paragraph 35.

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

Scalability

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

Sufficient and Appropriate Involvement

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

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

Communication

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

- (a) The firm, (e.g., individuals performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management);
- (b) Others involved in the audit (e.g., internal auditors who provide direct assistance²⁹ or an auditor's external expert³⁰); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance or regulatory authorities).

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

²⁹ See ISA (NZ) 610 (Revised 2013), paragraph A41.

³⁰ See ISA (NZ) 620, paragraphs 11(c) and A30.

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

Professional Scepticism (Ref: Para. 7)

- A33. The engagement partner is responsible for emphasising the importance of each engagement team member exercising professional scepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with ISA (NZ) 300, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.
- A34. Impediments to the exercise of professional scepticism at the engagement level may include, but are not limited to:
- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities where technical expertise or specialised skills are needed for effective understanding, assessment of and responses to risks and informed questioning of management.
 - Tight deadlines, which may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review. For example, external time pressures may create restrictions to analysing complex information effectively.
 - Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
 - Insufficient understanding of the entity and its environment, its system of internal control and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions.
 - Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.
 - Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.
- A35. Unconscious or conscious auditor biases may affect the engagement team's professional judgements, including for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional scepticism, and therefore the reasonableness of the professional judgements made by the engagement team in complying with the requirements of this ISA (NZ), may include:
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.

- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

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

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

- More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom audit evidence may be sought.

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

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

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

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

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

NZ A38. ISA (NZ) 200³¹ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of listed entities. ISA (NZ) 600 includes additional requirements and guidance to those in this ISA (NZ) regarding communications about relevant ethical requirements with component auditors.

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

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

- Communicate the independence requirements to engagement teams.
- Provide training for engagement teams on relevant ethical requirements.

³¹ ISA (NZ) 200, paragraphs 14 and A16–A19

- Establish manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements.
- Assign personnel to manage and monitor compliance with relevant ethical requirements (e.g., ~~proposed~~ PES 3 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements.
- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to:
 - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
 - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
 - Promptly communicate any breaches of the relevant ethical requirements, including those related to independence.

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

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

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

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

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

A44. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, Professional and Ethical Standard 1 explains that a self-interest threat to compliance with the fundamental principle of professional

competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.³²

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

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

Taking Appropriate Action (Ref: Para. 20)

A46. Appropriate actions may include, for example:

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

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

A47. ISA (NZ) 700 (Revised) requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.³³ Performing the procedures required by paragraphs 16–21 of this ISA (NZ) provides the basis for these statements in the auditor's report.

Considerations Specific to Public Sector Entities

A48. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 16. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

³² PES 1, paragraph 330.3 A2

³³ ISA (NZ) 700 (Revised), paragraph 28(c)

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 22–24)

- A49. ~~Proposed~~ PES 3 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.
- A50. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:
- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
 - Whether sufficient and appropriate resources are available to perform the engagement;
 - Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;
 - Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement; and
 - Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.
- A51. Under ~~proposed~~ PES 3, for acceptance and continuance decisions, the firm is required to make judgements about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.
- A52. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
- A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA (NZ) and making informed decisions about appropriate courses of action. Such information may include:
- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
 - The entity's timetable for reporting, such as at interim and final stages;
 - In relation to group audits, the nature of the control relationships between the parent and its components; and
 - Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well

as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs (NZ), as well as this ISA (NZ), for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ISA (NZ) 210,³⁴
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA (NZ) 315 (Revised 2019) and ISA (NZ) 240;³⁵
- Understanding the group, its components and their environments, in the case of an audit of group financial statements in accordance with ISA (NZ) 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ISA (NZ) 620; and
- The entity's governance structure in accordance with ISA (NZ) 260 (Revised)³⁶ and ISA (NZ) 265.³⁷

A55. Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, Professional and Ethical Standard 1 requires that the predecessor auditor, on request by a proposed successor auditor, provide all relevant facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

A56. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

A57. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (e.g., the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

³⁴ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 9

³⁵ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³⁶ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

³⁷ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Considerations Specific to Public Sector Entities (Ref: Para. 22–24)

A58. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 22–24 and A49–A57 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 25–28)

A59. Under ~~proposed~~ PES 3, the resources assigned or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.³⁸ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A61. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

A62. Human resources include members of the engagement team (see also paragraphs A5, A15–A21) and, where applicable, an auditor's external expert and individuals from within the entity's internal audit function who provide direct assistance on the audit.

Technological Resources

A63. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological tools may allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional scepticism. Technological tools may also be used to conduct

³⁸ ISA (NZ) 600, paragraph 3

meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

- A64. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools to perform audit procedures and may require the involvement of individuals with specialised skills or expertise in evaluating or analysing the output.
- A65. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team's instructions.
- A66. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example by requiring:
- The engagement team to have appropriate competence and capabilities to use the IT application.
 - Testing the operation and security of the IT application.
 - Specific documentation to be included in the audit file.
- A67. The engagement partner may exercise professional judgement in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:
- Use and security of the IT application complies with the firm's policies or procedures.
 - The IT application operates as intended.
 - Personnel have the competence and capabilities required to use the IT application.

Intellectual Resources

- A68. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists or forms.
- A69. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 25)

A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform audit procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A71. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Expertise in specialised areas of accounting or auditing.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional scepticism and professional judgement.
- Understanding of the firm's policies or procedures.

A72. Internal auditors and an auditor's external expert are not members of the engagement team. ISA (NZ) 610 (Revised 2013)³⁹ and ISA (NZ) 620⁴⁰ include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external expert, respectively.

Project Management

A73. In situations where there are many engagement team members, for example in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialised skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A74. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to exercise professional scepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional scepticism;

³⁹ ISA (NZ) 610 (Revised 2013), paragraph 15

⁴⁰ ISA (NZ) 620, paragraph 9

- Facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,⁴¹ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- Facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 27)

- A75. ~~[Proposed]~~ PES 3 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognises and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. ~~[Proposed]~~ PES 3 also addresses the firm's responsibilities for planning for resource needs, and obtaining, allocating or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.
- A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.
- A77. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgement and is influenced by the requirements of this ISA (NZ) and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39(c). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.
- A78. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:
- Changing the planned approach to the nature, timing and extent of direction, supervision and

⁴¹ See ISA (NZ) 300, paragraph 9.

review (see also paragraph A94).

- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities (Ref: Para. 25–28)

A79. In the public sector, specialised skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

Scalability (Ref: Para. 29)

A80. When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

Direction, Supervision and Review (Ref: Para. 30)

A81. Under ~~proposed~~ PES 3, the firm is required to establish a quality objective that addresses the nature, timing and extent of the direction and supervision of engagement teams and review of their work. ~~proposed~~ PES 3 also requires that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.

A82. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement specific responses.

A83. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this ISA (NZ), and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.

A84. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision and review in accordance with paragraph 30.

Direction

A85. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
- Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional scepticism when gathering and evaluating audit evidence (see paragraph A35).
- Fulfilling relevant ethical requirements.
- The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.
- The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.
- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

Supervision

A86. Supervision may include matters such as:

- Tracking the progress of the audit engagement, which includes monitoring:
 - The progress against the audit plan;
 - Whether the objective of work performed has been achieved; and
 - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated.

- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A87. Review of the engagement team’s work provides support for the conclusion that the requirements of this ISA (NZ) have been addressed.

A88. Review of the engagement team’s work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion; and
- The objectives of the audit procedures have been achieved.

A89. The firm’s policies or procedures may contain specific requirements regarding:

- The nature, timing and extent of review of audit documentation;
- Different types of review that may be appropriate in different situations (e.g., review of each individual working paper or selected working papers); and
- Which members of the engagement team are required to perform the different types of review.

The Engagement Partner’s Review (Ref: Para. 30–34)

A90. As required by ISA (NZ) 230, the engagement partner documents the date and extent of the review.⁴²

A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner’s satisfaction on or before the date of the auditor’s report. The engagement partner need not review all audit documentation.

A92. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. The firm’s policies or procedures may specify certain

⁴² ISA (NZ) 230, paragraph 9(c)

matters that are commonly expected to be significant judgements. Significant judgements in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
 - Personnel using expertise in a specialised area of accounting or auditing;
 - The use of personnel from service delivery centres.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team.
- The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
 - The proposed overall group audit strategy and group audit plan;
 - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
 - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

A93. The engagement partner exercises professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.
- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

Nature, Timing and Extent

A94. The nature, timing and extent of the direction, supervision and review are required to be planned and performed in accordance with the firm's policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm's policies or procedures may include that:

- Work planned to be performed at an interim date is to be directed, supervised and reviewed at the same time as the performance of the procedures rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

Scalability

A95. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the area to be audited. For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
- The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater and the review of the related working papers may be more detailed.
- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.
- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.

- The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centres and the review of their work may:
 - Be more formalised and structured than when members of the engagement team are all situated in the same location; or
 - Use IT to facilitate the communication between the members of the engagement team.

A96. Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review. For example, if the assessed risk of material misstatement at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

A97. In accordance with paragraph 30(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged with Governance, or Regulatory Authorities (Ref: Para. 34)

A98. The engagement partner uses professional judgement in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: Para. 35)

A99. ~~Proposed~~ PES 3 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example for:

- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;
- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- Limitations imposed by management; and
- Non-compliance with laws or regulations.

A100. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm may be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and

- Have appropriate knowledge, seniority and experience.

A101. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies or commercial organisations that provide relevant quality control services.

A102. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.⁴³

Engagement Quality Review (Ref: Para. 36)

A103. ~~Proposed~~ PES 3 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with ~~proposed~~ PES 4, and requiring an engagement quality review for certain types of engagements.⁴⁴ ~~Proposed~~ PES 4 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: Para. 36(d))

A104. ISA (NZ) 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.⁴⁵ If applicable to the audit engagement, ~~proposed~~ PES 4 and this ISA (NZ) require that the engagement partner be precluded from dating the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgements made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.⁴⁶

A105. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

A106. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

⁴³ ISA (NZ) 701, paragraphs 9 and A14

⁴⁴ ~~Proposed~~ PES 3, paragraph 34(f)

⁴⁵ ISA (NZ) 700 (Revised), paragraph 49

⁴⁶ ~~Proposed~~ PES 4, paragraph 26

Differences of Opinion (Ref: Para. 37–38)

A107. ~~[Proposed]~~PES 3 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management. ~~[proposed]~~PES 3 also requires that differences of opinion are brought to the attention of the firm and resolved.

A108. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:

- Seeking legal advice; or
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Monitoring and Remediation (Ref: Para. 39)

A109. ~~[Proposed]~~PES 3 sets out requirements for the firm’s monitoring and remediation process. ~~[Proposed]~~PES 3 requires the firm to communicate to engagement teams information about the firm’s monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities.⁴⁷ Further, information provided by members of the engagement team may be used by the firm in the firm’s monitoring and remediation process, and exercising professional judgement and professional scepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

A110. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office or inspection results of previous audits of the entity.

A111. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor’s expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

A112. An identified deficiency in the firm’s system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and

⁴⁷ ~~[Proposed]~~PES 3, paragraph 47

applicable legal and regulatory requirements, or that the auditor's report was not appropriate in the circumstances.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 40)

A113. ~~Proposed~~ PES 3 requires the firm to establish a quality objective addressing the engagement team's understanding and fulfillment of their responsibilities in connection with the engagement. ~~Proposed~~ PES 3 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

A114. Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this ISA (NZ), given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner's involvement throughout the audit engagement, as described in paragraph A118.

A115. Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example:

- Lack of timely review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and the design of those responses to those risks.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work.

A116. If the engagement partner's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Updating and changing the audit plan;
- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 41)

A117. In accordance with ISA (NZ) 230,⁴⁸ audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is

⁴⁸ ISA (NZ) 230, paragraph A7

unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A118. Documentation of the performance of the requirements of this ISA (NZ), including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement partner's communications and other actions in respect of culture and expected behaviours that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement partner and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A119. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional scepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

A120. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement accompanies but is not part of ISA (NZ) 220 (Revised).

Conformity with International Standards on Auditing

This International Standard on Auditing (New Zealand) (ISA (NZ)) conforms to International Standard on Auditing ISA 220 (Revised) Quality Management for an Audit of a Financial Statements, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following definitions are additional to or have been amended from ISQM 1:

<u>Paragraph</u>	<u>Summary of Change</u>
<u>NZ 12.1</u>	<u>Additional to ISA 220 (Revised), to include definitions of ‘Professional standards’</u>
<u>NZ 12.2</u>	<u>The definition of “Partner” is amended from ISA 220 (Revised) due to narrower mandate of XRB.</u> <u>This definition also includes additional to ISA 220 (Revised) to include public sector specific definitions within ISA (NZ) 220 (Revised) that applies to New Zealand public sector audits.</u>

Compliance with this ISA (NZ) enables compliance with ISA 220 (Revised).

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

ASA 220 conforms to ISA 220.

The equivalent requirements and related application and other explanatory material included in ISA 220 in respect of “relevant ethical requirements”, have been included in another Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

REVISIONS TO PROFESSIONAL AND ETHICAL STANDARD 1: ADDRESSING THE OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

This Standard was issued on xx June 2021 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on xx July 2021.

The amendments in this Standard are effective:

- For Part 4A: audits and reviews of financial statements for periods beginning on or after 15 December 2022.
- For Part 4B: assurance engagements beginning on or after 15 December 2022.
- For all other engagements within the scope of Part 3: engagements beginning on or after 15 December 2022.

Early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of changes to the International Code of Ethics for Professional Accountants (*including International Independence Standards*).

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REVISIONS TO PROFESSIONAL AND ETHICAL STANDARD 1 ADDRESSING THE OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

CONTENTS

SECTION 300.....	4
SECTION 325.....	7
OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS.....	7
SECTION 540.....	10
LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT.....	10
EFFECTIVE DATE.....	Error!
Bookmark not defined.	

SECTION 300

Requirements and Application Material

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for an assurance practitioner ~~professional accountant~~ when undertaking a professional service:

(a) Self-interest Threats

- An assurance practitioner ~~professional accountant~~ having a direct financial interest in a client.
- An assurance practitioner ~~professional accountant~~ quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards ~~standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board~~ for that price.
- An assurance practitioner ~~professional accountant~~ having a close business relationship with a client.
- An assurance practitioner ~~professional accountant~~ having access to confidential information that might be used for personal gain.
- An assurance practitioner ~~professional accountant~~ discovering a significant error when evaluating the results of a previous professional assurance ~~service~~ performed by a member of the accountant's assurance practitioner's ~~firm~~.

(b) Self-review Threats

- An assurance practitioner ~~professional accountant~~ issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- An assurance practitioner ~~professional accountant~~ having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- An assurance practitioner ~~professional accountant~~ promoting the interests of, or shares in, a client.
- An assurance practitioner ~~professional accountant~~ acting as an advocate on behalf of a client in litigation or disputes with third parties.
- An assurance practitioner ~~professional accountant~~ lobbying in favour of legislation on behalf of a client.

(d) Familiarity Threats

- ~~An assurance practitioner~~ ~~professional accountant~~ having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- ~~An assurance practitioner~~ ~~professional accountant~~ being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- ~~An assurance practitioner~~ ~~professional accountant~~ feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- ~~An assurance practitioner~~ ~~professional accountant~~ being informed that a planned promotion will not occur unless the ~~accountant~~ assurance practitioner agrees with an inappropriate accounting treatment.
- ~~An assurance practitioner~~ ~~professional accountant~~ having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

...

Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed, or advise as necessary might address a self-review threat.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.

- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards (New Zealand)* describe certain threats that might arise during the course of performing professional services and include examples of actions that might address threats.

Appropriate Reviewer

300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner ~~professional accountant~~.

SECTION 325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

- 325.1 ~~Professional accountants~~ Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer.
- 325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 300.8 A4. Therefore, the application material in this section might apply in circumstances where an assurance practitioner ~~professional accountant~~ appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

General

- 325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. ~~ISQM 1~~ Professional and Ethical Standard 3¹ establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ~~ISQM 2~~ Professional and Ethical Standard 4².
- 325.5 A2 An engagement quality reviewer is a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Identifying Threats

- 325.6 A1 The following are examples of circumstances where threats to the objectivity of an assurance practitioner ~~professional accountant~~ appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
- Two engagement partners each serving as an engagement quality reviewer for the other's engagement.

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

² Professional and Ethical Standard 4, Engagement Quality Reviews

(b) Self-review threat

- An ~~assurance practitioner~~ ~~accountant~~ serving as an engagement quality reviewer on an audit engagement after previously serving as the engagement partner.

(c) Familiarity threat

- An ~~assurance practitioner~~ ~~accountant~~ serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

(d) Intimidation threat

- An ~~accountant~~ ~~assurance practitioner~~ serving as an engagement quality reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.

Evaluating Threats

325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

Addressing Threats

325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Cooling-off Period

325.8 A3 ~~ISQM 2~~ Professional and Ethical Standard 4 requires the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period of two years before the engagement partner can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements.

325.8 A4 The cooling-off period required by ~~ISQM 2~~ Professional and Ethical Standard 4 is distinct from, and does not modify, the partner rotation requirements in Section 540, which are designed to

address threats to independence created by long association with an audit client.

Consequential Amendments to Section 540

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit or review of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality review; or
- (c) Any other key audit or key assurance partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

...

Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.12 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 Professional and Ethical Standard 4 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner roles

...



CONFORMING AND CONSEQUENTIAL AMENDMENTS TO INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND) AND OTHER PRONOUNCEMENTS ARISING FROM THE QUALITY MANAGEMENT PROJECTS

This Standard was issued on ??? by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on ???.

An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2022. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to reflect conforming amendments necessary as a result of the approval of Quality Management Standards.

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CONTENTS

A: INTRODUCTION

B: CONFORMING AND CONSEQUENTIAL AMENDMENTS TO INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND) AND OTHER PRONOUNCEMENTS ARISING FROM THE QUALITY MANAGEMENT PROJECTS

C: EFFECTIVE DATE

Note: The footnote numbers and some paragraphs numbers within these amendments do not align with the actual footnote and paragraph numbers of the standards that will be amended, and reference should be made to those compiled standards.

A: INTRODUCTION

This Standard outlines conforming and consequential amendments to the International Standards on Auditing (New Zealand) and other pronouncements as a result of the revisions to Quality Management Standards.

These conforming amendments affect the following International Standards on Auditing (New Zealand) and other pronouncements and are arranged in the following manner:

ISA (NZ) 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i>	5
ISA (NZ) 210, <i>Agreeing the Terms of Audit Engagements</i>	6
ISA 230 (NZ), <i>Audit Documentation</i>	7
ISA (NZ) 250 (Revised), <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	10
ISA (NZ) 260 (Revised), <i>Communication with Those Charged with Governance</i>	11
ISA (NZ) 300, <i>Planning an Audit of Financial Statements</i>	12
ISA (NZ) 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>	18
ISA (NZ) 500, <i>Audit Evidence</i>	19
ISA (NZ) 540 (Revised), <i>Auditing Accounting Estimates and Related Disclosures</i>	20
ISA (NZ) 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	20
ISA (NZ) 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>	21
ISA (NZ) 620, <i>Using the Work of an Auditor’s Expert</i>	22
ISA (NZ) 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i>	26
ISA (NZ) 720 (Revised), <i>The Auditor’s Responsibilities Relating to Other Information</i>	28
ISA (NZ) 805 (Revised), <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>	29
IAPN (NZ) 1000, <i>Special Considerations in Auditing Financial Instruments</i>	29

CONFORMING AMENDMENTS TO NEW ZEALAND INTERNATIONAL STANDARDS ON AUDITING (ISA) (NZ) AND RELATED MATERIAL ARISING FROM THE QUALITY MANAGEMENT PROJECTS

ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Introduction

...

Requirements

Ethical Requirements Relating to an Audit of Financial Statements

14. The auditor shall comply with relevant ethical requirements, including those ~~pertainin~~related to independence, relating to financial statement audit engagements. (Ref: Para. A16–A19)

...

Application and Other Explanatory Material

Ethical Requirements Relating to an Audit of Financial Statements (Ref: Para. 14)

- A19. Professional and Ethical Standard 3,¹ or national requirements that are at least as demanding,² deal with the firm's responsibilities to ~~establish design, implement and maintain its~~operate a system of quality control for audit engagements. PES 3 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel ~~comply~~fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those ~~pertainin~~related to independence.³ ISA (NZ) 220 (Revised) sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence.⁴ ~~These include remaining alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have breached relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.~~⁵ ISA (NZ) 220 recognises that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control

¹ Professional and Ethical Standard 3, *Quality Control/Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements*

² ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraph 23

³ Professional and Ethical Standard 3, paragraphs 20–25~~29~~

⁴ ISA (NZ) 220 (Revised), paragraphs 16–21

⁵ ISA (NZ) 220, paragraphs 9–12

~~procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise. ISA (NZ) 220 (Revised) also describes when the engagement team may depend on the firm's policies or procedures in managing and achieving quality at the engagement level.~~⁶

...

Professional Judgement (Ref: Para. 16)

A27. The exercise of professional judgement in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by ISA (NZ) 220 (Revised),⁷ assist the auditor in making informed and reasonable judgements.

...

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

Sufficiency and Appropriateness of Audit Evidence

A30. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit⁸) ~~or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement firm's quality control procedures for client acceptance or continuance.~~ In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

ISA (NZ) 210, Agreeing the Terms of Audit Engagements

Introduction

Scope of this ISA (NZ)

1. This New Zealand International Standard on Auditing (ISA) (NZ) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with

⁶ ISA (NZ) 220 (Revised), paragraph A10

⁷ ISA (NZ) 220 (Revised), paragraph 4835

⁸ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 916

governance, are present. ISA (NZ) 220 (Revised)⁹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1)

...

Requirements

...

Application and Other Explanatory Material

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

A1. ~~Professional and Ethical Standard 3¹⁰ deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. Assurance engagements, which include audit engagements, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.¹⁴ The auditor's responsibilities in respect of relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and in so far insofar as they are within the control of the auditor are dealt with in ISA (NZ) 220 (Revised).¹² This ISA (NZ) deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.~~

...

ISA 230 (NZ), Audit Documentation

Introduction

...

Nature and Purposes of Audit Documentation

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3. Audit documentation serves a number of additional purposes, including the following:
 - Assisting the engagement team to plan and perform the audit.
 - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA (NZ) 220 (Revised).¹³
 - Enabling the engagement team to be accountable for its work.
 - Retaining a record of matters of continuing significance to future audits.
 - Enabling the conduct of engagement quality control reviews,¹⁴ other types of engagement

⁹ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

¹⁰ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 30

¹⁴ ~~International Framework for Assurance Engagements~~, paragraph 17

¹² ISA (NZ) 220 (Revised), paragraphs 9–11, 16–21

¹³ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 15–17, 29–34

¹⁴ [Proposed] Professional and Ethical Standard 4, *Engagement Quality Reviews*

~~reviews¹⁵ and monitoring activities under the firm's system of quality management inspections in accordance with PES 3¹⁶ or national requirements that are at least as demanding.¹⁷~~

- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

...

Requirements

...

Application and Other Explanatory Material

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

...

Form, Content and Extent of Audit Documentation (Ref: Para. 8)

...

Documentation of Compliance with ISAs (NZ) (Ref: Para. 8(a))

...

A7. Audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management or, where appropriate, those charged with governance.
- An auditor's report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the ISAs (NZ).
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - For example, there may be no single way in which the auditor's professional scepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism in accordance with the ISAs (NZ). For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, documenting how the auditor

¹⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph A135

¹⁶ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 32–33, 35–38, and 48

¹⁷ ISA (NZ) 220, paragraph 2

evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained.

- Similarly, that the engagement partner has taken responsibility for the direction, and supervision and performance of the audit in compliance with engagement team and the ISA review of their work¹⁸ may be evidenced in a number of ways within the audit documentation. This may include documentation ~~of that evidences~~ the engagement partner's timely sufficient and appropriate involvement in aspects of the audit, such as participation in ~~the engagement team discussions required by ISA (NZ) 315 (Revised 2019).~~¹⁹

...

A13. ISA (NZ) 220 (Revised) ~~contains requirements and guidance on the~~ requires the auditor to review the audit work performed through review of the audit documentation.²⁰ The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

...

Matters Arising after the Date of the Auditor's Report (Ref: Para. 13)

A20. Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report.²¹ The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ISA (NZ) 220 (Revised),²² ~~with the engagement partner taking final responsibility for the changes.~~

Assembly of the Final Audit File (Ref: Para. 14–16)

A21. Professional and Ethical Standard 3 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement reports ~~policies and procedures for the timely completion of the assembly of audit files.~~²³ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.²⁴

...

A23. Professional and Ethical Standard 3 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective to address the appropriate maintenance and ~~policies and procedures for the retention of engagement documentation to meet~~

¹⁸ ISA (NZ) 220 (Revised), paragraph 29

¹⁹ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 17

²⁰ ISA (NZ) 220 (Revised), paragraphs 47–29–34

²¹ ISA (NZ) 560, *Subsequent Events*, paragraph 14

²² ISA (NZ) 220 (Revised), paragraphs 46–29–34

²³ Professional and Ethical Standard 3, paragraph 45–31(f)

²⁴ Professional and Ethical Standard 3, paragraph A54–A83

the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards.²⁵ The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the ~~group~~ auditor's report on the group financial statements, when applicable.²⁶

A24. An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal activities or external parties~~ inspections.

Appendix (Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs (NZ)

This appendix identifies paragraphs in other ISAs (NZ) that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- ISA (NZ) 220 (Revised), *Quality ~~Control~~ Management for an Audit of Financial Statements* – paragraphs ~~24–41~~ 24–41

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

Introduction

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Requirements

...

Application and Other Explanatory Material

...

Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 22)

...

A25. In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial statements. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or

²⁵ Professional and Ethical Standard 3, paragraph ~~47~~31(f)

²⁶ Professional and Ethical Standard 3, paragraph ~~A64~~A85

suspected non-compliance. Furthermore, paragraph A9A55 of ISA (NZ) 220 (Revised)²⁷ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

...

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

Introduction

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Requirements

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Application and Other Explanatory Material

...

Matters to Be Communicated

...

Significant Findings from the Audit (Ref: Para. 16)

...

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with ISA (NZ) 220.²⁸

Auditor Independence (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.²⁹

Appendix 1

(Ref: Para. 3)

Specific Requirements in PES 3 and Other ISAs (NZ) that Refer to Communications with Those Charged With Governance

²⁷ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

²⁸ See paragraphs 19–22 and A23–A33 of ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*.

²⁹ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

This appendix identifies paragraphs in Professional and Ethical Standard 3³⁰ and other ISAs (New Zealand) that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- PES 3, *Quality ~~Control~~Management for Firms that Perform Audits ~~and/or~~ Reviews of Financial Statements, ~~and/or~~ Other Assurance ~~and/or~~ Related Services Engagements* – paragraph ~~30(a)~~34(e)

...

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

Introduction

Scope of this ISA (NZ)

1. This New Zealand International Standard on Auditing (ISA) (NZ) deals with the auditor's responsibility to plan an audit of financial statements. This ISA (NZ) is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

~~The Role and Timing of Planning~~

2. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate Quality management at the engagement level in accordance with ISA (NZ) 220 (Revised), in conjunction with adequate planning in accordance with this ISA (NZ), benefits the audit of financial statements in several ways, including the following: (Ref: Para. ~~A1A0~~A3)
 - Helping the auditor to devote appropriate attention to important areas of the audit.
 - Helping the auditor identify and resolve potential problems on a timely basis.
 - Helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
 - Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
 - Facilitating the direction and supervision of engagement team members and the review of their work.
 - Assisting, where applicable, in coordination of work done by auditors of components and experts.

...

Requirements

...

Preliminary Engagement Activities

6. The auditor shall undertake the following activities at the beginning of the current audit engagement:
 - (a) Performing procedures required by ISA (NZ) 220 (Revised) regarding the acceptance and

³⁰ Professional and Ethical Standard 3, *Quality ~~Control~~Management for Firms that Perform Audits ~~and/or~~ Reviews of Financial Statements, ~~and/or~~ Other Assurance ~~and/or~~ Related Services Engagements*

continuance of the client relationship and ~~the specific~~ audit engagement;³¹

- (b) Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with ISA (NZ) 220 (Revised);³² and
- (c) Establishing an understanding of the terms of the engagement, as required by ISA (NZ) 210.³³
(Ref: Para. A5–A7)

Planning Activities

...

8. In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ISA (NZ) 220 (Revised) and:

- (a) Identify the characteristics of the engagement that define its scope;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.³⁴
(Ref: Para. A8–A11)

9. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)
- ~~(ab)~~ The nature, timing and extent of planned risk assessment procedures, as determined under ISA (NZ) 315 (Revised 2019).³⁵
- ~~(bc)~~ The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA (NZ) 330.³⁶
- ~~(ed)~~ Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs (NZ). (Ref: Para. A12-A14)

...

~~11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)~~

Documentation

³¹ ISA (NZ) 220 (Revised), Quality Control/Management for an Audit of Financial Statements, paragraphs 42–43 ~~22–24~~

³² ISA (NZ) 220 (Revised), paragraphs 9–11 ~~16–21~~

³³ ISA (NZ) 210, Agreeing the Terms of Audit Engagements, paragraphs 9–13

³⁴ ISA (NZ) 220 (Revised), paragraph 25

³⁵ ISA (NZ) 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement

³⁶ ISA (NZ) 330, The Auditor's Responses to Assessed Risks

12. The auditor shall include in the audit documentation:³⁷
- (a) The overall audit strategy;
 - (b) The audit plan; and
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work,³⁸ and the reasons for such changes. (Ref: Para. A18–A21)

Additional Considerations in Initial Audit Engagements

13. The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by ISA (NZ) 220 (Revised) regarding the acceptance of the client relationships ~~and the specific audit engagements,~~³⁹ and
 - (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)

...

Application and Other Explanatory Material

A0. ISA (NZ) 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of ISA (NZ) 220 (Revised) is relevant to this ISA (NZ). For example, in accordance with ISA (NZ) 220 (Revised), the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, given taking into account the nature and circumstances of the audit engagement. Such a determination is directly relevant when ascertaining the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ISA (NZ).

The Role and Timing of Planning (Ref: Para. 2)

A1. The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ISA (NZ) 220 (Revised)⁴⁰ describes how such techniques and tools may support the engagement team in managing the quality of the engagement.

...

A3. The auditor may decide to discuss elements of planning with the entity's management to ~~facilitate the conduct and management of the audit engagement~~ help the auditor manage and achieve quality at the engagement level (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the

³⁷ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, and A6

³⁸ ISA (NZ) 220 (Revised), paragraphs 30 and A91–A92

³⁹ ISA (NZ) 220 (Revised), paragraphs ~~12–13~~^{22–24}

⁴⁰ ISA (NZ) 220 (Revised), paragraphs A73–A74

audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

...

Preliminary Engagement Activities (Ref: Para. 6)

- A5. Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~ manage and achieve quality at the engagement level in accordance with ISA (NZ) 220 (Revised).
- A6. Performing these preliminary engagement activities enables the auditor to plan an audit engagement ~~for which~~ in order to, for example:
- ~~The auditor maintains~~ Maintain the necessary independence and ability to perform the engagement.
 - ~~There~~ Determine that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
 - ~~There~~ Determine that there is no misunderstanding with the client as to the terms of the engagement.
- A7. ~~The auditor's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the audit engagement as conditions and changes in circumstances occur.~~ Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

Planning Activities

The Overall Audit Strategy (Ref: Para. 7–8)

- A8. The process of establishing the overall audit strategy ~~assists the auditor to determine~~, subject to the completion of the auditor's risk assessment procedures, may include such matters as:
- The nature of resources (human, technological or intellectual) to deploy ~~be deployed~~ for specific audit areas, ~~such as~~. For example, the use of deployment of appropriately experienced team members for high risk areas, or the involvement assignment of experts onto address complex matters;
 - The amount of resources to ~~allocate~~ be allocated to specific audit areas, ~~such as~~. For example, the number of team members assigned to observe/attend the physical inventory count at material/multiple locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
 - When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
 - How such resources are ~~managed, directed and, supervised,~~ such as or used. For example,

when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), ~~and whether to complete engagement quality reviews.~~

A8A. ISA (NZ) 220 (Revised) contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).

...

Direction, Supervision and Review (Ref: Para. 11)

A16. ~~ISA (NZ) 220 (Revised) deals with establishes requirements and provides guidance on the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work.⁴¹ The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:~~

- ~~The size and complexity of the entity.~~
- ~~The area of the audit.~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).~~
- ~~The capabilities and competence of the individual team members performing the audit work.~~

~~ISA (NZ) 220 contains further guidance on the direction, supervision and review of audit work.⁴²~~

Considerations Specific to Smaller Entities

A17. ~~If an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Forming an objective view on the appropriateness of the judgements made in the course of the audit can present practical problems when the same individual also performs the entire audit. If particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably experienced auditors or the auditor's professional body.~~

Documentation (Ref: Para. 12)

A18. ~~The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and in managing quality at the engagement level and a means to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.~~

...

⁴¹ ISA (NZ) 220 (Revised), paragraphs 29–31

⁴² ISA (NZ) 220, paragraphs 15–17

A20A. Documentation of the direction and supervision of engagement team members and the review of their work in accordance with ISA (NZ) 220 (Revised) may also provide a record of significant changes to the planned nature, timing and extent of the direction, supervision and review.

...

Additional Considerations in Initial Audit Engagements (Ref: Para. 13)

A22. The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.⁴³
- ~~Other procedures required~~responses designed and implemented by the firm's system of quality control~~firm~~ for initial audit engagements (for example, e.g., the firm's system of quality control~~management~~ may include responses that require the involvement of another partner or senior individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in ~~establishing the overall audit strategy~~managing quality at the engagement level. Many of these matters will also influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs (NZ), not all matters are relevant to every audit engagement and the list is not necessarily complete.

Nature, Timing and Extent of Resources

- The ~~selection~~human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas

⁴³ ISA (NZ) 510, *Initial Audit Engagements—Opening Balances*

where there may be higher risks of material misstatement.

...

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

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

...

Other Relevant Sources

Information from Other Sources

A38. Other relevant sources of information include:

- The auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement in accordance with ISA (NZ) 220 (Revised), including the conclusions reached thereon.⁴⁴

...

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–37)

...

Industry, Regulatory and Other External Factors (Ref: Para. 19(a)(ii))

Industry Factors

...

A69. The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.

Example:

In the construction industry, long-term contracts may involve significant estimates of revenues and expenses that give rise to risks of material misstatement. In such cases, it is important that the engagement team include members with ~~sufficient relevant knowledge and experience~~ the appropriate competence and capabilities.⁴⁵

⁴⁴ ISA (NZ) 220, *Quality Control Management for an Audit of Financial Statements*, paragraphs 1222–24

⁴⁵ ISA (NZ) 220 (Revised), paragraphs 1425–28

Assessing Risks of Material Misstatement at the Assertion Level

Significant Risks (Ref: Para. 32)

Why significant risks are determined and the implications for the audit

A218. The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:

- ...
- Timely review of audit documentation by the engagement partner at the appropriate stages during the audit allows significant matters, including significant risks, to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report.⁴⁶

...

ISA (NZ) 500, Audit Evidence

...

Application and Other Explanatory Material

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

...

A5. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has evaluated whether such information remains relevant and reliable as audit evidence for the current audit⁴⁷) or ~~a firm's quality control procedures for client acceptance and continuance~~through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are important sources of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

...

Information to Be Used as Audit Evidence

Relevance and Reliability (Ref: Para. 7)

A30. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources ~~such as, for example, previous audits, in certain circumstances, a firm's quality control procedures for client~~

⁴⁶ ISA (NZ) 220 (Revised), paragraphs 47~~32~~ and A49~~A87–A89~~

⁴⁷ ISA (NZ) 315 (Revised 2019), paragraph 16

~~acceptance and continuance and~~through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

...

ISA (NZ) 540 (Revised), Auditing Accounting Estimates and Related Disclosures

Introduction

...

Requirements

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

Specialised Skills or Knowledge (Ref: Para. 15)

A61. Matters that may affect the auditor's determination of whether the engagement team requires specialised skills or knowledge, include, for example:⁴⁸

- The nature of the accounting estimates for a particular business or industry (for example, mineral deposits, agricultural assets, complex financial instruments, insurance contract liabilities).

...

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

Introduction

Scope of this ISA (NZ)

...

4. In accordance with ISA (NZ) 220 (Revised),⁴⁹ the group engagement partner is required to ~~determine~~~~be satisfied~~ that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, including sufficient time. The group engagement partner is also responsible for the direction ~~and~~, supervision of members of the group engagement team and ~~performance of the group audit engagement~~review of their work.⁵⁰

⁴⁸ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 14–25–26 and ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

⁴⁹ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 14–15–25–26

⁵⁰ ISA (NZ) 220 (Revised), paragraphs 29–31

5. The group engagement partner applies the requirements of ISA (NZ) 220 (Revised) regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. This ISA assists the group engagement partner to meet the requirements of ISA (NZ) 220 (Revised) where component auditors perform work on the financial information of components.

...

Requirements

12. In applying ISA (NZ) 220 (Revised), the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10–A12)

...

ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*

...

Requirements

...

Using Internal Auditors to Provide Direct Assistance

...

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA (NZ) 220 (Revised).⁵¹ In so doing:
- (a) The nature, timing and extent of direction, supervision, and review shall recognise that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
 - (b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor ~~to determine to be satisfied~~ that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

Application and Other Explanatory Material

⁵¹ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

...

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

...

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

...

A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, ~~such as these policies and procedures PES 3~~⁵² that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

ISA (NZ) 620, Using the Work of an Auditor's Expert

Introduction

Scope of this ISA (NZ)

...

2. This ISA (NZ) does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA (NZ) 220 (Revised),⁵³ or
- (b) The auditor's use of the work of an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in ISA (NZ) 500.⁵⁴

...

Requirements

...

⁵² PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁵³ ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs A11, A21–A23, A19

⁵⁴ ISA (NZ) 500, *Audit Evidence*, paragraphs A45–A59

Nature, Timing and Extent of Audit Procedures

8. The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
- (a) The nature of the matter to which that expert's work relates;
 - (b) The risks of material misstatement in the matter to which that expert's work relates;
 - (c) The significance of that expert's work in the context of the audit;
 - (d) The auditor's knowledge of and experience with previous work performed by that expert; and
 - (e) Whether that expert is subject to the auditor's firm's system of quality control policies and procedures management. (Ref: Para. A11–A13)

...

Application and Other Explanatory Material

Determining the Need for an Auditor's Expert (Ref: Para. 7)

...

- A6. If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required to determine ~~be satisfied~~ that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.⁵⁵ Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.⁵⁶ The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.
- A7. An auditor who is not an expert in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor's expert. This understanding may be obtained through, for example:

...

- Education or professional development in the particular field. This may include formal courses, or discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own capacity to deal with matters in that field. Such discussion differs from consultation with an auditor's expert regarding a specific set of circumstances encountered on the engagement where that expert is given all the relevant facts that will enable the expert to provide informed advice about the particular matter.⁵⁷

...

⁵⁵ ISA (NZ) 220 (Revised), paragraph 4425–28

⁵⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

⁵⁷ ISA (NZ) 220, paragraph A22A99–A102

Nature, Timing and Extent of Audit Procedures (Ref: Para. 8)

A10. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgements.
- The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.
- The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality control policies and procedures management.

The Auditor's Firm's System of Quality Control Policies and Procedures Management (Ref: Para. 8(e))

A11. An auditor's internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the auditor's firm, and therefore subject to the system of quality control policies and procedures management of that firm in accordance with Professional and Ethical Standard 3⁵⁸ or national requirements that are at least as demanding.⁵⁹ ~~Alternatively, an~~ An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, and is subject to the firm's policies or procedures for network requirements and network services in accordance with PES 3. In some instances, the auditor's internal expert of a network firm may be subject to which may share common quality control management policies and/or procedures as the auditor's firm, given that they are part of the same network.

A12. PES 3 requires the firm to address the use of resources from a service provider, which includes the use of an external expert.⁶⁰ An auditor's external expert is not a member of the engagement team and ~~is may not be subject to quality control policies and procedures in accordance with PES 3.~~⁶⁴ In some jurisdictions, however, the firm's policies or procedures under its system of quality management.⁶² Furthermore, the firm's policies or procedures for relevant ethical requirements may include policies or procedures that apply to the auditor's external expert.⁶³ In some cases, ~~relevant ethical requirements or law or regulation may require that an auditor's external expert be:~~

- Treated as a member of the engagement team (i.e., the external expert may therefore be subject to relevant ethical requirements, including those pertaining related to independence); or
- Subject to other professional requirements, as determined by that law or regulation.

⁵⁸ Professional and Ethical Standard 3, Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements, paragraph 4216(w)

⁵⁹ ISA (NZ) 220 (Revised), paragraph 23

⁶⁰ PES 3, paragraph 32

⁶¹ PES 3, paragraph 42(f)

⁶² PES 3, paragraph 16(f)

⁶³ PES 3, paragraph 29(b)

A13. ~~Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.~~⁶⁴ ~~The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as~~As described in ISA (NZ) 220 (Revised), quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement.⁶⁵ For example, the auditor may be able to depend on the firm's related policies or procedures in respect of:

- Competence and capabilities, through recruitment and training programs.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those ~~pertainin~~relating to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training ~~and other firm processes, such as protocols for scoping the work of auditor's internal experts,~~ may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the auditor's expert.

~~Such reliance~~Matters that the auditor may take into account when determining whether to depend on the firm's policies or procedures are described in ISA (NZ) 220 (Revised).⁶⁶ Depending on the firm's policies or procedures does not reduce the auditor's responsibility to meet the requirements of this ISA (NZ).

The Competence, Capabilities and Objectivity of the Auditor's Expert (Ref: Para. 9)

...

A15. Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other auditors or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The auditor's firm's ~~system of quality control policies and procedures~~management (see paragraphs A11–A13).

...

⁶⁴ ISA (NZ) 220, paragraph 4

⁶⁵ ISA (NZ) 220 (Revised), paragraph A4

⁶⁶ ISA (NZ) 220 (Revised), paragraphs 4(b) and A10

Agreement with the Auditor's Expert (Ref: Para. 11)

...

A26. When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit program.
- The policies ~~and~~ procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the ~~established policies and procedures to which that expert is subject~~ firm's system of quality management may include ~~particular~~ policies ~~and~~ procedures ~~in relation~~ relating to ~~that~~ the expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies ~~and~~ procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para. 20)

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

...

Relevant Ethical Requirements

A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those ~~pertain~~ related to independence, that applied to the audit of the financial statements.

Name of the Engagement Partner (Ref: Para. 46)

A61. ~~PES 3⁶⁷ requires that~~ The objective of the firm ~~establish policies~~ in PES 3⁶⁸ is to design, implement and ~~procedures to provide~~ operate a system of quality management that provides the firm with reasonable assurance that ~~engagements are performed:~~

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

⁶⁷ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 32

⁶⁸ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 14

- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding ~~these~~ the objective of PES 3 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

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

...

Application and Other Explanatory Material

...

Determining Key Audit Matters (Ref: Para. 9–10)

...

Matters that Required Significant Auditor Attention (Ref: Para. 9)

...

A15. Various ISAs (NZ) require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA (NZ) 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.⁶⁹ The ISAs (NZ) acknowledge potential difficulties in relation to, for example:
 - Related party transactions,⁷⁰ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
 - Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.⁷¹
- ISA (NZ) 220 (Revised) establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,⁷² and other matters that in the engagement partner's professional judgement, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgements arising during the audit engagement with the engagement quality ~~control~~⁷³ reviewer.

⁶⁹ ISA (NZ) 260 (Revised), paragraphs 16(b) and A21

⁷⁰ ISA (NZ) 550, *Related Parties*, paragraph A42

⁷¹ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

⁷² ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraph 48~~35~~

⁷³ ISA (NZ) 220 (Revised), paragraph 49~~36~~

...

Communication with Those Charged with Governance

...

A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality control reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

...

Application and Other Explanatory Material

...

Reading and Considering the Other Information (Ref: Para. 14–15)

...

A24. In accordance with ISA (NZ) 220 (Revised),⁷⁴ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement direction and supervision of the members of the engagement team and the review of their work,⁷⁵ and determine that the nature, timing and extent of direction, supervision and review is planned and performed in compliance accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements.⁷⁶ In the context of this ISA (NZ), factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgement involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

⁷⁴ ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

⁷⁵ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 29–30

⁷⁶ ISA (NZ) 220 (Revised), *Quality Control for an Audit of Financial Statements*, paragraph 1530(a)

ISA (NZ) 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

...

Application and Other Explanatory Material

...

Considerations When Accepting the Engagement

Application of ISAs (Ref: Para. 7)

- A5. ISA (NZ) 200 requires the auditor to comply with (a) relevant ethical requirements, including those ~~pertaining~~^{related} to independence, relating to financial statement audit engagements, and (b) all ISAs (NZ) relevant to the audit. It also requires the auditor to comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit, the entire ISA (NZ) is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA (NZ) by performing alternative audit procedures to achieve the aim of that requirement.

IAPN (NZ) 1000, Special Considerations in Auditing Financial Instruments

Contents

International Auditing Practice Note (IAPN) (New Zealand) 1000, *Special Considerations in Auditing Financial Instruments*, should be read in conjunction with the *Preface to the International Quality Control Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*. IAPNs (NZ) do not impose additional requirements on auditors beyond those included in the New Zealand International Standards on Auditing (ISAs) (NZ), nor do they change the auditor's responsibility to comply with all ISAs (NZ) relevant to the audit. IAPNs (NZ) provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.

...

Section II—Audit Considerations Relating to Financial Instruments

Planning Considerations⁷⁷

*Using Those with Specialized Skills and Knowledge in the Audit*⁷⁸

⁷⁷ ISA (NZ) 300, *Planning an Audit of Financial Statements*, deals with the auditor's responsibility to plan an audit of financial statements

⁷⁸ When such a person's expertise is in auditing and accounting, regardless of whether the person is from within or external to the firm, this person is considered to be part of the engagement team and is subject to the requirements of ISA (NZ) 220 (Revised), *Quality Control Management for an Audit of Financial Statements*. When such a person's expertise is in a field other than accounting or auditing, such person is considered to be an auditor's expert, and the provisions of ISA (NZ) 620, *Using the Work of an Auditor's Expert*, apply. ISA (NZ) 620 explains that distinguishing between specialised areas of accounting or auditing, and expertise in another field, will be a matter of professional judgement, but notes the distinction may be made between expertise in methods of accounting for financial instruments (accounting and auditing expertise) and expertise in complex valuation techniques for financial instruments (expertise in a field other than accounting or auditing).

78. A key consideration in audits involving financial instruments, particularly complex financial instruments, is the competence of the auditor. ISA (NZ) 220 (Revised)⁷⁹ requires the engagement partner to ~~determine~~~~be satisfied~~ that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the ~~appropriate~~ competence and capabilities, including sufficient time, to perform the audit engagement ~~in accordance with professional standards and applicable legal and regulatory requirements and to enable an auditor's report that is appropriate in the circumstances to be issued~~.⁸⁰ Further, relevant ethical requirements⁸⁰ require the auditor to determine whether acceptance of the engagement would create any threats to compliance with the fundamental principles, including the professional competence and due care. Paragraph 79 below provides examples of the types of matters that may be relevant to the auditor's considerations in the context of financial instruments.

...

80. The nature and use of particular types of financial instruments, the complexities associated with accounting requirements, and market conditions may lead to a need for the engagement team to consult⁸¹ with other accounting and audit professionals, from within or outside the firm, with relevant technical accounting or auditing expertise and experience, taking into account factors such as:

- The capabilities and competence of the engagement team, including the experience of the members of the engagement team.
- The attributes of the financial instruments used by the entity.
- The identification of unusual circumstances or risks in the engagement, as well as the need for professional judgement, particularly with respect to materiality and significant risks.
- Market conditions.

⁷⁹ ISA (NZ) 220 (Revised), paragraph 1426

⁸⁰ ~~Professional and Ethical Standard 1 (PES 1) paragraphs 320.1-320.10-A1~~

⁸¹ ISA (NZ) 220 (Revised), paragraph ~~48(b)35~~, requires the engagement partner to ~~be satisfied~~determine that members of the engagement team have undertaken appropriate consultation during the ~~course of the~~audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm.

EFFECTIVE DATE

An auditor that is required to apply the amendments in this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2022. However, early adoption is permitted.

Memorandum

Date: ??

To: Michele Embling, Chair XRB Board

From: Robert Buchanan, Chairman NZAuASB

Subject: Certificate Signing Memo:

- Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- Professional and Ethical Standard 4: *Engagement Quality Reviews*;
- ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*; and
- *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue:
 - Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
 - Professional and Ethical Standard 4: *Engagement Quality Reviews*;
 - ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*; and
 - *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*.

Background

International process

2. The project to revise International Standard on Quality Control 1 (ISQC 1) commenced in 2014 to respond to key findings from:
 - a) The ISA Implementation Monitoring Project completed in 2013;
 - b) Respondents' feedback to the consultations undertaken in developing the *IAASB's Strategy for 2015–2019: Fulfilling Our Public Interest Mandate in an Evolving World*

and related *Work Plan for 2015–2016: Enhancing Audit Quality and Preparing for the Future*.

- c) Feedback from ongoing outreach activities; and
 - d) Findings from audit regulators' inspection reports.
3. In order to further understand the issues identified through the post-implementation review of the clarified ISAs, inspection findings and ongoing outreach, and how they may be best addressed, the IAASB released the Invitation to Comment (ITC), *Enhancing Audit Quality: A Focus on Professional Scepticism, Quality Control and Group Audits*, in December 2015. Respondents (including the NZAuASB in their submission to the IAASB) generally agreed that the IAASB should take action to address the issues presented in the ITC. Furthermore, respondents' feedback provided valuable insight in formulating the actions the IAASB would take to address the issues.
 4. In December 2016, the IAASB approved a combined project proposal to address revisions of ISQC 1, ISA 220 and ISA 600.
 5. At its December 2018 meeting, the IAASB approved proposed ISQM 1 (ED-ISQM 1)¹ for public exposure, in conjunction with proposed ISQM 2,² proposed ISA 220 (Revised)³ and proposed conforming amendments to the ISAs.⁴ The exposure drafts were published on 8 February 2019 for comment by 1 July 2019. Comment letters on ED-ISQM 1 were received from 100 respondents, including investors and analysts, regulators and audit oversight authorities, national auditing standard setters, accounting firms, public sector organizations, International Federation of Accountants (IFAC).
 6. In addition to the quality management exposure drafts, [an overall explanatory memorandum](#) provided background to the three exposure drafts and an explanation of the significant issues pervasive to the three exposure drafts, including a discussion of scalability and the interrelationship of the three proposed standards. It also set out the IAASB's proposals regarding the effective date and the related implementation period for the three proposed standards, as well as the IAASB's planned implementation

¹ <https://www.iaasb.org/publications-resources/exposure-draft-international-standard-quality-management-1-quality>

² <https://www.iaasb.org/publications-resources/exposure-draft-international-standard-quality-management-2-engagement-0>

³ <https://www.iaasb.org/publications-resources/exposure-draft-international-standard-auditing-220-revised-quality-0>

⁴ <https://www.iaasb.org/publications-resources/iaasb-s-exposure-drafts-quality-management-firm-and-engagement-level-0>

support activities. During the exposure period, the IAASB undertook various outreach activities to help stakeholders understand the proposals, including webinars, videos, and roundtables.

7. ISQM 1 was approved with affirmative votes of 17 out of 18⁵ IAASB members, ISQM 2 was approved with the affirmative votes of 18 out of 18 IAASB members, ISA 220 (Revised) was approved with affirmative votes of 17 out of 18⁶ and the conforming and consequential amendments to ISAs were approved with the affirmative votes of 18 out of 18 IAASB in December 2020.

Privacy

8. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

Domestic process and harmonisation with Australia

9. The NZAuASB consulted its constituency in relation to the IAASB EDs (listed in paragraph 6 of this signing memorandum) by seeking input from a wide range of targeted New Zealand constituents. A joint webinar was held in 2019 with the Auditing and Assurance Standards Board of Australia to provide an overview of the proposals. Four half day workshops targeting sole practitioners and smaller practices were held around New Zealand (in Auckland, Wellington, Christchurch and Tauranga), specifically aimed at exploring the scalability of the proposals. Small and medium practices and the public sector were well represented at these workshops. A separate roundtable discussion was held to seek feedback from the larger firms.

⁵ The member abstaining from voting provided the following reasons for doing so:

- a) Too many quality objectives and that would mean the standard would not be scalable for adoption by smaller firms.
- b) The new definition of engagement team may be inappropriate for assurance engagements other than audits.
- c) ISQM 1 requirements imply that individuals outside the firm are subject to the same relevant ethical requirements as the firm. This is not practicable given conflicts of laws across jurisdictions.

⁶ The member abstaining from voting did so due to his concerns for the new definition of engagement team (see item b of footnote 5)

10. The feedback received from the New Zealand constituents formed the basis of the NZAuASB responses to the IAASB and the key messages communicated to the IAASB included the following.

- Regarding proposed ISQM 1⁷: The NZAuASB supported the proposals but noted that the proposals would be resource intensive and costly to implement.
- In relation to the proposed ISQM 2⁸: The explanatory memorandum to proposed ISQM 2 included a specific request to respondents for input on whether there is a need for guidance in the proposed ISQM 2 to address the matter of cooling off as an eligibility requirement for the engagement quality reviewer (EQR) (e.g., where an individual has served previously as an engagement partner on the same engagement), and whether such guidance should be located in the proposed ISQM 2 or the Code. The NZAuASB raised concerns that the IAASB has extended well beyond its mandate in establishing ethical provisions in the proposed ED. Further, the NZAuASB was concerned that the IAASB's interpretation of the IESBA long association provisions (1) are inconsistent with those provisions and (2) establish de facto requirements. The NZAuASB strongly opposed the inclusion of this guidance in the final ISQM 2 and urged the IAASB to leave the application of the IESBA Code to the IESBA to develop guidance as appropriate.
- The IAASB concluded to maintain this requirement in ISQM 2 as in the IAASB's view when an individual is appointed as EQR immediately after serving as the engagement partner, the threats to objectivity are significant. However, and responding to similar feedback to the NZAuASB from others, the IAASB also engaged with the IESBA to ensure that the Code is also appropriately amended. As a result of such activities, the IESBA initiated a project to address the EQR objectivity holistically in the Code (the Objectivity project).
- In relation to proposed ISA 220⁹: The NZAuASB supported the IAASB's proposals to revise ISA 220.

11. The IAASB issued its final pronouncements in December 2020 (see paragraph 8). In February 2021, the NZAuASB considered proposed New Zealand standards (proposed PES 3, Proposed PES 4, Proposed ISA (NZ) 220 (Revised) and conforming and

⁷ <https://www.xrb.govt.nz/dmsdocument/3320>

⁸ <https://www.xrb.govt.nz/dmsdocument/3321>

⁹ <https://www.xrb.govt.nz/dmsdocument/3322>

consequential amendments to other ISAs (NZ)) incorporating NZ specific changes to the IAASB standards. The proposed NZ changes to the IAASB standards include:

- Changes made to the application scope of ISQM 1 in PES 3 (as the IAASB mandates includes engagements such as Compilation Engagements that are outside of the XRB mandate). The scope of the proposed PES 3 therefore includes related services engagements, as defined in XRB Au1. This is a narrower scope than ISQM 1.
- The NZAuASB considered the scope of the engagement quality control review standard in 2014 having regard to the Financial Reporting Act 2013. It decided to use the term FMC reporting entity considered to have a higher level of public accountability (as opposed to FMC reporting entity) in PES 3. This took account of the layers within the ethical and auditing standards, which also included public interest entities and all tier 1 entities under the XRB's financial reporting framework. The NZAuASB considers the same considerations apply to the new suite of quality management standards. Accordingly, in proposed PES 3 and proposed PES 4 references to "listed entities" are amended to "FMC reporting entities considered to have a higher level of public accountability".
- Paragraph NZ34(f)(ii) requires firms to have appropriate quality management for engagement quality reviews where such reviews are required by laws or regulations. A footnote is included to clarify that in New Zealand, the FMA requires an engagement quality control review to be performed for all FMC audits.
- Extant PES 3 (Amended) includes several paragraphs that provide guidance on how to apply PES 3 in the public sector. These paragraphs have not been included in the proposed PES 3 as the new international standards contain enhanced application guidance for audits of public sector entities.

12. The NZAuASB approved the proposed New Zealand standards to be exposed for consultation and comment in its February 2021. Exposure Draft NZAuASB 2021-2, *Quality Management*,¹⁰ was issued in February 2021 with responses due by 30 April 2021.

¹⁰ The ED could be accessed at: <https://www.xrb.govt.nz/assurance-standards/standards-in-development/open-for-comment/nzauasb-ed-2021-2/>

13. Two submissions from the Office of the Auditor-General and EY New Zealand were received by the NZAuASB.
14. The key points included in the EY New Zealand submission and the NZAuASB responses are as follows:
- There are New Zealand domiciled entities which are listed on overseas exchanges such as ASX that are not FMC reporting entities, which may not be captured the requirements of PES 3 targeted to FMC reporting entities.
 - The definition of Related Services from XRB Au 1 should be included in PES 3. The NZAuASB accepted this feedback and added the definition of Related Services to PES 3.
 - As currently drafted, EY is concerned that the scope of application of PES 3 could be misinterpreted. While paragraph 5 of PES 3 refers in a footnote to XRB Au1, the definitions themselves in XRB Au1 do not exclude the services detailed in appendix 6 of XRB Au1 from the XRB mandate. EY recommends that it should be made clearer which services are excluded from the scope of PES 3 by detailing that the scope of PES 3 only applies to those standards the XRB has issued. While PES 3 as exposed is factually correct, the NZAuASB agrees that further clarification may help the assurance practitioners to better understand the application scope of PES 3. The NZAuASB concluded to modify Paragraph 5 of PES 3 to clarify that PES 3 only applies to engagements that are governed by the XRB.
15. The feedback and submission received from the Office of the Auditor-General raised practical challenges the Auditor-General may encounter in implementing PES 3. In particular, the OAG advised that they would find it challenging to implement PES 3 as the definition of the “firm” lacks clarity in the context of NZ public sector audits. The OAG’s feedback to the NZAuASB was that if the definition of the firm in ISQM 1 is not clarified, there is a risk that the proposed definition of firm may be interpreted to include private firms contracted by the A-G to undertake an engagement on his behalf. Consequently, the New Zealand public sector definition of firm (and the associated definition of Partner in the public sector) were added to PES 3.
16. In conclusion, the NZAuASB identified the following compelling reason amendments,:
- Requirements that apply to listed entities have been broadened to apply to FMC reporting entities considered to have a higher level of public accountability in New Zealand. This applies to the engagement quality management review requirements. (Ref: Para NZ34(e) , NZ34(f), NZA128.1 and NZA132.1 of PES 3).

- NZ specific definitions needed to be included in PES 3:

Paragraph	Summary of change
NZ 16.1 to NZ 16.4	Additional to ISQM 1, to include definitions of 'Assurance practitioner', 'FMC reporting entity considered to have a higher level of public accountability' and 'Professional standards", within PES 3. These amendments/additions represent NZ specific amendments to international standards due to the limited mandate of the XRB compared to the IAASB as well as the extension of the international standards for listed entities to FMC HLPAs in New Zealand.
NZ 16 (i) [NZ] and NZ 16 (m) [NZ]	Additional to ISQM 1 to include public sector specific definitions within PES 3 that applies to New Zealand public sector audits. This was the outcome of specific consultation with the OAG to ensure that public sector requirements are appropriate for application by the OAG.

17. Except for the conforming amendment noted in paragraph 12, there are no harmonisation differences between New Zealand and Australia in relation to this standard.

18. PES 3, PES 4, ISA (NZ) 220 (Revised) and conforming and consequential amendments to other ISAs (NZ) were approved with affirmative votes of ?? out of ?? NZAuASB members in June 2021.

Due process

19. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

20. The adoption of :

- Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Professional and Ethical Standard 4: *Engagement Quality Reviews*
- ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*
- *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*

is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international auditing and assurance standards, as applying in New Zealand unless there are compelling reasons not to.

Other matters

21. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

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

Attachments

- Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Professional and Ethical Standard 4: *Engagement Quality Reviews*
- ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*
- *Conforming Amendments to ISAs (NZ) and Related Material Arising from the Quality Management Projects*

Robert Buchanan

Chair NZAuASB

Memorandum

Date: 2 June 2021

To: Michele Embling, Chair XRB Board

From: Robert Buchanan, Chair NZAuASB

Subject: Certificate Signing Memo: Revisions to Professional and Ethical Standard 1: *Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Revisions to Professional and Ethical Standard 1: Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*.

Background

International process

2. In December 2019, the International Ethics Standards Board for Accountants approved an exposure draft of revisions to the International Code of Ethics to clarify issues relating to the engagement quality reviewer's objectivity.
3. The need for the proposed revision followed the International Auditing and Assurance Standards Board's Quality Management consultation. The explanatory memorandum to proposed ISQM 2¹ included a specific request to respondents for input on whether there is a need for guidance in the proposed ISQM 2 to address the matter of cooling off as an eligibility requirement for the engagement quality reviewer (EQR) (e.g., where an individual has served previously as an engagement partner on the same engagement), and whether such guidance should be located in the proposed ISQM 2 or the Code.
4. The IAASB view is that when an individual is appointed as EQR immediately after serving as the engagement partner, the threats to objectivity are significant. Consequently, the IAASB concluded that a cooling-off period was the most appropriate safeguard.

¹ Proposed ISQM 2 *Proposed International Standard on Quality Management (ISQM 2), Engagement Quality Reviews*

5. Respondents to proposed ISQM 2 held mixed views about the location of the guidance (subsequently elevated to a requirement in finalising ISQM 2).
6. The extant International Code does not explicitly address the issue of objectivity of the EQR. Following coordination with the IAASB, the IESBA came to the view that it is necessary to address the issue of the EQR objectivity holistically in the Code. The IESBA considered that this would be best achieved by having guidance in the International Code to explain clearly the application of the conceptual framework when considering the objectivity of the EQR. This guidance would then provide the context of and support any specific provisions the IAASB might determine necessary to promulgate in ISQM 2 to address the specific matter of an individual being appointed to the EQR role after having served on the engagement team (especially in an engagement partner role).
7. The comment period for the IESBA's objectivity exposure draft closed on 16 March 2020 following a 45 day comment period.
8. Thirty-eight responses were received from stakeholders across a range of categories and different jurisdictions. There was support from all respondents for the IESBA to address the topic of EQR objectivity in the Code.
9. With respect to the question of a cooling-off requirement for an individual being considered for appointment as the EQR immediately after serving as the engagement partner on the engagement, a significant portion of respondents supported the establishment of a cooling-off requirement as they viewed a cooling-off period as fundamental to addressing the self-review threat in such a situation. There were, however, mixed views as to whether such a requirement should reside in ISQM 2 or the Code.
10. There was, however, clear support among respondents for the Code to take a principles-based approach to addressing threats to objectivity of an individual being appointed as EQR, leaving ISQM 2 to specify a requirement for firms to establish policies or procedures for a cooling-off period.
11. The NZAuASB held strong views that:
 - the guidance relates to auditor rotation and therefore should be included in section 540² of the Code.

² Section 540, Long Association of Personnel (including Partner Rotation) with an Audit Client

- IESBA should determine the cooling-off requirement rather than IAASB.
12. The IESBA did not agree with this view. Auditor rotation requirements address the familiarity threat, whereas the objectivity guidance is intended to address the self-review threat. Guidance has been added to section 540 that clarifies that the partner rotation requirements are distinct from, and do not modify the cooling off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of the EQR.

Domestic process

13. The NZAuASB sought feedback from constituents on the IESBA proposals concurrently with the IESBA exposure. No submissions were received.
14. The Amendments to PES 1, based on the International Code, include amendments for New Zealand terminology and spelling changes.

Australian process

15. The Accounting Professional & Ethical Standards Board (APESB) released an exposure draft relating to the Objectivity proposals in March 2021, which is open for comment until 18 June 2021.
16. Two key matters that the APESB considered and made changes for in the drafting of their exposure draft were:
- Repeating the two year cooling off requirement in the Code; and
 - Amending terminology in Section 540 to refer to engagement quality reviewer from the extant engagement quality control reviewer. (Consequential amendments to the International Code are expected to be considered by the IESBA at its June 2021 meeting).
17. These matters are still under consultation in Australia.
18. The NZAuASB considers that the reference in PES 1 to the cooling off period required in the quality management standard (PES 4) is sufficiently clear. Repetition of the requirement is not considered necessary. Consequential amendments to align the terminology in PES 1 will follow the IESBA process.

Privacy

19. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

Due process

20. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

21. The adoption of the Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international ethical standards, as applying in New Zealand unless there are compelling reasons not to.

Other matters

22. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

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

Attachments

Revisions to Professional and Ethical Standard 1: Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

Robert Buchanan

Chair NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	2 June 2021
Subject:	Discussion with CA ANZ
Date:	20 May 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. To meet with representatives from CA ANZ to discuss current issues and collaboration.

Background

2. At the April meeting, the NZAuASB agreed to invite representatives from CA ANZ to discuss matters relating to quality management implementation and other current issues and collaboration more broadly.
3. Amir Ghandar, Reporting and Assurance Leader, CA ANZ and Zowie Pateman, Deputy Leader, Reporting and Assurance, will join the meeting virtually to discuss current issues.

Matters to Consider

4. Possible topics for discussion include:
 - a. Plans to promote adoption and implementation of the revised quality management standards, and ways to work together;
 - b. Promotion of the EER assurance guidance;
 - c. Audit quality and corporate governance reforms, noting that this initiative is led by the XRB board;
 - d. Climate reporting assurance matters, noting that the XRB are still considering the implications of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill;
 - e. Ongoing ways to enhance the ways of working together.

Agenda item 4.1

Board Meeting Summary Paper

DATE: 18 May 2021

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

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

SUBJECT: Report on IAASB mid quarter Board calls

Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) mid quarter Board calls held on April 21-22 and May 10-11.
2. At the April meeting the Board provided views on the proposed actions to address complexity, understandability, scalability and proportionality (CUSP) of the ISAs; and considered the feedback from the fraud discussion paper. Lyn is now chairing that work group.
3. At the May meeting the Board considered the proposed authority of the LCE standard and the feedback from the going concern discussion paper.
4. The full April meeting papers can be accessed [here](#), and the May meeting papers [here](#).

Complexity, Understandability, Scalability and Proportionality (CUSP)

5. The Board considered the proposed actions of the ISA Focused workstream, which aims to address challenges identified in applying ISAs related to CUSP for all types of audits, and not unique to just audits of LCEs.
6. The primary proposed action the Board considered and provided feedback on is the proposed Drafting Principles and Guidelines for Future ISAs. The drafting principles and guidelines aim to:
 - Provide a common understanding to Staff, Task Forces and the IAASB about how the ISAs are drafted.
 - Establish a set of drafting principles and guidelines to promote consistency, clarity and uniformity while drafting ISAs.
 - Encourage a reflective mindset while drafting with respect to CUSP.
 - Enable a more consistent and effective application of the ISAs through a focus on how the ISAs are written and presented.
7. In developing the drafting principles and guidance, the CUSP working group considered the clarity drafting conventions, staff training material, enhanced presentation tools used in the revision of ISA 315 (Revised) and the scalability

and proportionality changes introduced with recently revised ISAs. They also considered information provided by NSS on specific elements of the drafting principles and guidelines.

8. The proposed approach is to apply the drafting principles to new revised ISAs under development and not to the extant ISAs.
9. These drafting principles and guidelines may also be useful to the XRB and other NSS and may assist in addressing consistency when drafting national standards to adapt or sit alongside the ISAs.

10. Key comments included the following:

- Overall strong support for the direction, and agreement that the draft is an excellent start – nothing major missing.
- Not much support to treat as a Clarity 2 project and to redraft standards retrospectively, but to keep as an open issue for some limited amendments.
- Opportunity for further simplification, specifically Appendix 2 on work effort verbs used in the ISAs and if it could be further reduced.
- Support for simpler more direct style which is more useful to apply including use of active voice.
- Some comments regarding scalability and definition of proportionality, including how used interactively with relevant, which is not always clear. Various members noted they would provide further comments to help improve clarity.
- Some members would like more direction about what information should be included in the various sections – for example, requirements, application material, appendices. Application material has been getting longer, specifically when dealing with new concepts. More clarity is needed about what should not be included. To consider if the application material would be needed in 3 years- time when dealing with a new concept.
- Some comments about having as a principle to start from a simple requirement and then to build up by adding conditionality throughout the standards.

11. Comments on specific considerations sought:

- Mixed views regarding the use of boxes applied in the recently revised ISA 315 (Revised 2019) but the majority view was support for the boxes, both in requirements and in examples.
- Support for references to other standards where necessary, but to limit use where needed, and to continue to liaise with the IESBA about use of references to the Code. Where references included for other standards to be specific.
- Appendices seen as helpful but to see if can be further simplified – specifically the number of work effort verbs.
- Mixed views regarding documentation with some members of view that ISA 230, *Audit Documentation* already has all the requirements and there

should be no need to add to documentation requirements in other standards, which may imply there is a gap in ISA 230. However, the overall view is that this is the area that further guidance is needed as in practice there is still uncertainty about what should be documented. The ISA 600¹ Task Force has been having major challenges with the additional documentation and is a live case to consider and learn from. This is still a work-in-progress but expectation is to deal with it in a Staff Alert.

12. The working group will reflect on the feedback received and undertake targeted outreach to solicit views from all stakeholders, while continuing to liaise with the LCE Task Force.

Fraud in an Audit of Financial Statements

13. Lyn provided an overview of the feedback received related to fraud in an audit of financial statements from the Discussion Paper² and the Working Group's (WG) proposed possible way forward on the matters identified.
14. The Board received 85 responses. The WG asked for Board feedback on proposed possible actions based on the themes identified from the various modes of consultation and research. The WG focussed proposals within the remit of the IAASB, while noting the importance of continued outreach and education to encourage others in the financial reporting ecosystem to act.
15. The WG's proposed possible actions from the responses received have been summarised in Appendix 1.
16. Overall, the Board was happy with the proposed approach and direction. Key comments included the following:
 - i. Narrowing the expectation gap will not be solved by standard setting alone, as it is a broader ecosystem issue. To think how best to spend time, and what can be done to educate and encourage others to do their bit.
 - ii. It may not be possible to do all the proposed actions – there will need to be prioritisation of those matters most likely to make a meaningful difference and to address the key public interest issues.
 - iii. Cautious acceptance of exploring improving linkages between the fraud standard and the newly revised risk assessment standard, ISA 315. ISA 315 (Revised 2019) has not yet been implemented and to be careful to fix what has not been broken.
 - iv. There is rich material in the various submissions and the academic paper which could be used to develop non-authoritative guidance.
 - v. To consider the linkage to internal control and the tone at the top and how to incorporate it in the standard(s).
 - vi. The related party standard was developed because of the fraud risk- to be careful not to add more requirements where clarification is needed.

¹ Group audits

² Discussion Paper (DP), *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*;

- vii. To consider what learnings can be done from frauds that have occurred.
 - viii. Mixed views about adding additional information in the audit report.
 - ix. Caution about changing the definition of fraud.
 - x. Mixed views about keeping the rebuttable presumption of risk in fraud revenue.
 - xi. Overall support for more guidance needed on fraud risks.
 - xii. Mixed views on enhanced EQR procedures where there are fraud risks.
17. The WG will take six topics, where there are mixed views, back to the June meeting for discussion in preparation of a project plan to be presented to the Board in September/October 2021.

LCE Standard Issues

18. At the previous meeting (March) the Board discussed and provided feedback on the draft LCE standard. The Board raised the following specific comments about the proposed applicability section of the draft standard for the Task Force's consideration:
- i. Concern that the scope of the standard is still too broad and difficult to work out.
 - ii. Mixed views about excluding group audits from the scope of the standard, and questions about how to deal with subsidiaries in a group audit where the subsidiaries can be audited using the standard for LCEs. Excluding group audits may hamper the uptake of the standards as there are a number of small groups that would meet the criteria. The Board requested the Task Force to revisit this.
 - iii. Questions about whether PIEs should also be excluded from the LCE definition, and concern that the criteria to consider the applicability of the standard provides too much scope for judgement and could lead to inconsistencies.
19. At the April call the Board considered the revised applicability of the draft standard (now referred to as the "Authority" of the draft standard), the Supplemental Guidance for the Authority of the Standards and a draft explanatory memorandum relating to LCE Audits of group financial statements.
20. The revised Authority focusses on the role of legislative authorities or relevant local bodies who are responsible for the adoption of auditing standards in individual jurisdictions. It reinforces their responsibility to further refine the categories and criteria for use as appropriate for that individual jurisdiction.
21. The Supplemental Guidance for the Authority of the Standard explains the proposed role of each participant, summarised as follows:
- a) Role of the [draft] ISA for LCE:

Sets out restrictions and describes characteristics for when the [draft] ISA for LCE shall not be used for an audit of an LCE (as deemed appropriate for global application). Provides information on the intended content of the [draft] ISA for LCE in supplemental guidance.

b) Role of legislative authorities or relevant local bodies

Further refine restrictions or characteristics for adoption and use of the [draft] ISA for LCE as appropriate for the individual jurisdiction (having regard to the intended types of entities that this standard is appropriate for and characteristics of less complex matters and circumstances). Adoption and use would be determined based on the content of the [draft] ISA for LCE and guidance provided in the supplement.

c) Role of firms

May further restrict the use of the [draft] ISA for LCE based on the guidance in the supplement and the firm's own quality management policies or procedures. Judgments about applicability of the standard for audit engagements undertaken by the firm cannot override or conflict with restrictions established in the [draft] ISA for LCE or within that individual jurisdiction.

d) Role of auditor (at the engagement level)

Where use of the [draft] ISA for LCE is permitted based on the above, engagement teams would be required to evaluate whether the use of standard would be appropriate for that individual engagement.

22. The revised draft proposes to exclude the following categories of entities from using the standard:

- listed entities;
- entities that would likely have the characteristics of PIEs (aligned with the IESBA determination), and entities specified as a PIE by law or regulation, however allowing jurisdictions to refine for which PIEs the [draft] ISA for LCE may be used;
- group audits;
- restricted by laws and regulations.

23. Characteristics that may exhibit complexity now fall into the following broad categories:

- Organizational, ownership or oversight structures.
- Regulation or regulatory oversight.
- Nature of transaction and information processing.
- IT environment and IT systems.
- Accounting estimates

24. The Board had the following key comments on the revised Authority of the [draft] ISA for LCE.

- Overall support for direction and proposals.
- General agreement with the principles about the various roles and why it is proposed, and to leave the consideration regarding individual PIEs to jurisdictions, which seems a good solution for the IAASB.

- Some confusion about the proposal in respect of PIEs, and the extent to which it can be refined at jurisdictional level. Needs changes to clarify the intention and to be clear about exclusions.
- Concern that although improved, the overall proposals still leave judgement required by firms and EPs which may result in inconsistencies. There is a risk that firms may decide to use the full ISAs rather than choose to use the LCE standard which may impact the uptake of the standard negatively.
- To further reduce the risk of firms not using the standard, it will also be necessary to raise awareness and understanding of the LCE standard, and the requirements and impacts on the audit work when exiting the standard for the full ISAs.
- Some concern about the authority of the standard and how it ties in with the preface which refers to ISAs. Also, in some jurisdictions refer to compliance with ISAs – that legislation will need to be amended to allow use of the LCE standard.
- Some concern about what would happen if not allowed by law at jurisdictional level – or no boundaries set at jurisdictional level. Will fall on the firms and maybe eventually only on the engagement partner to consider if the standard is applicable. So, necessary for the standard to have the required specificity to allow for that assessment.
- PIE categories to be linked to IESBA PIE categories – some concern just lifting those into the LCE standard without the background and context from the IESBA standard.

25. The Board had the following key comments on the Supplemental Guidance for the Authority of the Standard

- Overall support for the issue of supplemental guidance, specifically noting appreciation for the examples of characteristics for what is an LCE and what is not.
- There is an opportunity to further streamline the guidance.
- It may be helpful to explain what requirements are missing from the standard because of complexity that are in the ISAs.
- It is not clear if an individual matter can result in the standard not being appropriate. Also, the transition in and out of the standard needs to be clarified.
- The paragraphs 6-13 dealing with the role of legislative authorities or relevant local bodies may need some work. The paragraphs do not recognise legislative authorities can make/change/delete laws as they see fit – there is a tone of “you must”. Also, the paragraphs start to get repetitive. The same message could be made in 3-4 paragraphs.

26. Notwithstanding that the Board agreed at its March meeting not to include audits of group financial statements in the scope of the [draft] ISA for LCE, the Board encouraged the Task Force to seek further views on this in the explanatory memorandum accompanying the exposure of the [draft] ISA for LCE.

27. The Task Force asked the Board's views on the draft Explanatory Memorandum, and the three options set out in it:
- a) To continue to exclude audits of group financial statements from the scope of the [draft] ISA for LCE.
 - b) To include audits of group financial statements that involve no component auditors.
 - c) To include audits of group financial statements that involve component auditors.
28. The Board had the following key comments on the Explanatory Memorandum.
- Overall an easy read and clear. Describes the various options and impacts of including requirements relating to group audits in the [draft] ISA for LCE very well.
 - There was a good discussion about the three options noted in the paper. The majority view was to only refer to 2 options, either to include group audits or not, and not to include the option regarding component auditors. The options should rather be structured around the complexity of the group, for example if they operate across jurisdictions.
 - The purpose is to gather evidence to change the IAASB position to exclude group audits. The questions should therefore be drafted to obtain feedback/examples on non-complex group situations to better understand and to help decide if group audits should be included in the scope of the LCE standard.
 - It should be clear what is meant by the definition of a group audit, and that it is not limited to parent and subsidiaries, but also could be divisions and branches (which could maybe qualify for LCE audit)
 - The PIOB observer noted not to be too open ended with the questions as could run the risk of getting too much information.
29. The LCE Task Force will present a revised draft of the proposed standard for LCEs to the IAASB for discussion in June, with the objective of asking for the Board's approval of the ED at that meeting.

Going concern

30. The Board considered the feedback received to date related to going concern in an audit of financial statements, including from the Discussion Paper³ and the Working Group's possible direction on the matters identified.
31. Overall feedback from respondents indicates that a fundamental revision of ISA 570, *Going Concern* is not needed. A summary of the key messages and public interest issues from the responses received are as follows:
- Collaboration with others, specifically:

³ Discussion Paper (DP), *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*;

- The need for going concern requirements for management to be enhanced, which would require changes to the applicable financial reporting framework.
- The importance of all stakeholders in the financial reporting ecosystem addressing the issues surrounding going concern and the need for the IAASB to continue dialogue with others through continued outreach and monitoring of initiatives in other jurisdictions.
- Enhanced transparency with stakeholders through the auditor’s report and the need for robust communication and interactions with TCWG.
- Fostering an appropriately independent, challenging and sceptical mindset of the auditor, including when evaluating management’s assessment of the entity’s ability to continue as a going concern.
- Keeping ISAs fit for purpose.
 - a clearer linkage between ISA 570, *Going Concern (Revised)* and other ISAs, more robust risk assessment procedures related to going concern using the concepts in ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* and a more robust evaluation of management’s going concern assessment using the concepts in ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.
 - the definitions of critical terminology within the standard, including “material uncertainty related to going concern” and “going concern”
 - the timeline for the going concern assessment.

32. The WG has proposed possible actions to address the key messages and public interest issues from the responses received. These are summarised in Appendix 2.

33. The Board was overall supportive of the proposed approach and direction. Key comments included the following:

- The priority is to continue to work collaboratively with the IASB to enhance the applicable financial reporting framework, and to communicate feedback received related to this matter to accounting setters. (The issues paper noted the enhanced accounting disclosure requirements in New Zealand).
- To be very clear about what public interest issues are being addressed. To do what can be done within the IAASB’s remit while continuing to engage with others.
- To develop material for members to use to explain the role of management and auditors, and to use a broad-based approach globally to make a difference – to reach out to those global bodies that can influence the role of management as part of this effort.
- Lyn noted the need to coordinate with the fraud working group to tackle common themes together, which other members supported.
- To take a holistic approach to professional scepticism across all the standards and not add it in each standard.

- Some mixed views about the proposals for extending the timeline for assessment to start from the date financial statements are approved or the auditor's report is signed. Lyn noted that it is already occurring in New Zealand from when the auditor's report is signed and that it has not caused issues. It was agreed to cautiously explore this further.
- Mixed views about the proposed possible standard-setting actions related to considering whether the auditor is required by law/regulation/ethics to report to an appropriate external authority, and general support for making this a low priority, including from the PIOB observer.
- To avoid creating boilerplate content in the auditor's report but to recognise the diversity in those charged with governance, and to take a user's view.
- Increasing linkages with other ISAs may increase complexity. Auditors need to know and apply all the ISAs.
- Opportunities to tighten/enhance the auditor's audit procedures, for example to challenge and hone-in on the most significant factors and assumptions.

34. Next steps: consideration of comments and development of project proposal.

Future meetings

35. The next IAASB meetings are scheduled for June 14-18, 2021 and will be held via videoconference. Key topics are the approval of the LCE standard exposure draft, and further consideration of issues on Fraud and on the Group audit standard.

APPENDIX 1:

The IAASB Fraud Working Group's proposed possible actions to address the key messages and public interest issues from the responses received relating to fraud matters in the audit of financial statements.

- i. Strengthen the auditor's consideration of fraud when identifying and assessing risks of material misstatement.
- ii. Enhance the auditor's communications with TCWG.
- iii. Strengthen link to related parties and explore the issuance of non-authoritative guidance.
- iv. Not to pursue concept of "suspicious mindset" more broadly in the ISAs, but to further explore elements of the audit that may benefit from a suspicious mindset. Consider changes made in ISA 315 (Revised 2019) and ISA 540 (Revised) for professional scepticism and to enhance linkage to 'stand back' requirements in other ISAs. To issue non-authoritative guidance on application of professional scepticism.
- v. Make the journal entry testing requirements more robust, through enhanced requirements and application material in ISA 240, as necessary, and consider non-authoritative guidance.
- vi. Enhance ISA 240 for advancements in technology.
- vii. Not to expand the scope of the auditor to detect all non-material fraud, but to enhance the requirements and application material as necessary in ISA 240 and to consider issuing non-authoritative guidance.
- viii. Enhance the auditor's consideration of unpredictability procedures in an audit through application material and consideration of non-authoritative guidance.
- ix. Consider if specific documentation requirements are needed in ISA 240. Monitor the CUSP project and if non-authoritative guidance is needed.
- x. Make analytical procedures at the planning and closing stages of the audit more robust by enhancing requirements and application material or issuing non-authoritative guidance.
- xi. Enhance the linkage to other ISAs through enhanced requirements or application material in ISA 240. Consider adding an appendix or non-authoritative guidance to show interconnectivity between ISA 240 and other ISAs.
- xii. To perform further analysis and discuss with the WG and the Board at future meetings to further explore:
 - whether, and how, forensic type procedures may be appropriate in an audit, including the use of forensic specialists; (June call)
 - whether a change to the definition of fraud is needed; (June call)

- elements of the audit that may benefit from a suspicious mindset: (June call)
 - whether changes are needed to the introductory paragraphs of ISA 240 about inherent limitations of an audit; (June call)
 - whether to consider requiring more transparency in the auditor’s report about fraud and coordinating with the Auditor Reporting Post Implementation Review Working Group;
 - a requirement to hold more than one engagement team discussion during the audit and making the engagement team discussion more robust for the auditor’s considerations around fraud by enhancing requirements and application material, as necessary;
 - clarifying the relationship between ISA 240 and ISA 250 (Revised);
 - the presumed risk of fraud in revenue recognition and what changes are needed; (June call)
 - external confirmations in the context of ISA 240; (June call)
 - what changes are needed related to procedures when fraud is detected or identified;
 - strengthening requirements about the auditor’s considerations for external confirmations;
 - further WG analysis of areas where non-authoritative guidance is needed.
- xiii. To perform no further actions for the following:
- expanding the role of the auditor to detect third-party fraud that is not directly related to a material misstatement in the financial statements, but to consider issuing non-authoritative guidance;
 - enhancing requirements for engagement quality reviews as ISQM standards are sufficiently robust; and
 - refining the description of the expectation gap.
- xiv. To perform root cause analysis to understand the role of all parties and the underlying reasons for corporate failures, through further outreach with regulators, forensic investigation specialists and crime commission representatives as well as accounting firms.
- xv. Consider how the IAASB can best encourage others to consider the matters raised, and further actions for areas within the IAASB’s remit.
- xvi. Monitor developments on internal controls engagements and requirements globally.

APPENDIX 2:

The IAASB Going Concern Working Group's proposed possible actions to address the key messages and public interest issues from the responses received relating to audit implications of the going concern assumption.

- i. Explore possible actions to narrow the expectation gap, including IAASB Chair communication on the topic, progress made and importance of others, continued outreach and monitoring, seeking information about past corporate failures, and educational efforts within the remit of the IAASB.
- ii. Explore possible actions to address and enhance linkages to ISA 315 (Revised 2019) and emphasize robust risk assessment; linkages to ISA 540 (Revised) related to testing of management's assessment; and consideration of possible non-authoritative material related to identification of events and conditions.
- iii. Explore possible standard-setting to emphasize professional scepticism; collaborating with the Professional Scepticism Working Group and monitoring the Audit Evidence Project and CUSP Project.
- iv. Explore possible actions to enhance linkages between ISA 315 (Revised 2019) and ISA 540 (Revised) with ISA 570, which includes possible actions to enhance the rigor around the auditor's evaluation of management's going concern assessment.
- v. Explore possible standard setting action to add "Material Uncertainty Related to Going Concern" as a defined term, while remaining cognizant of alignment with applicable accounting framework; consider non-authoritative guidance or education to provide clarity; not to address terminology used in ISRE 2410 – which is outside the project scope.
- vi. Explore possible standard setting for extending the timeline for assessment to start from date financial statements are approved or auditor's report is signed and to challenge reasonableness of management's assessment period; not to further consider extending extension of minimum period to greater than twelve months.
- vii. Explore possible future actions to modernize ISA 570; collaborate with the Technology Working Group.
- viii. Other possible actions:
 - Explore possible actions to clarify considerations when written evidence of third-party intent to provide financial support is obtained;
 - monitor CUSP project related to audit documentation and consider whether specific requirements are needed in ISA 570 (Revised);
 - possible enhancements to application material to emphasise the consideration of external publicly available information and considerations relevant to the public sector;
 - monitor global developments related to resiliency or sustainability reporting, but not pursue further in scope of this project at this time.
- ix. Explore possible standard-setting to increase two-way communication with TCWG, and whether amendments to ISA 260 are needed.

- x. Explore possible standard-setting to increase transparency in the auditor's report related to going concern (in conjunction in Audit Report PIR WG); explore further actions to provide clarity where confusion was cited on the interplay between KAM and material uncertainty related to going concern.
- xi. Possible standard-setting actions related to considering whether the auditor is required by law/regulation/ethics to report to an appropriate external authority; monitor reporting requirements in other jurisdictions.
- xii. Enhancements to the applicable financial reporting framework are outside the remit of the IAASB, but the IAASB will work collaboratively with accounting standard-setters; communicate feedback received related to this matter from the DP responses to accounting standard-setters (including collaboration with the IAASB-IASB Liaison Working Group).
- xiii. Consideration of whether the current application material related to less complex entities is sufficient to address scalability.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	2 June 2021
Subject:	Non-Assurance Services
Date:	20 May 2021
Prepared By:	Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is:
 - To agree compelling reason changes to make to the IESBA revisions to the non-assurance service provisions of the Code; and
 - To approve the invitation to comment and proposed amendments to Professional and Ethical Standard 1 for exposure.

Background

2. 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).
3. At its April 2021 meeting, 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.
4. Channa Wijesinghe, Accounting Professional and Ethical Standards Board in Australia (APESB), Chief Executive, provided an update to the Board on the current thinking about this issue in Australia.
 5. In addition, we reported back to the Board on the survey undertaken to gain a better understanding of the impact of the provision of non-assurance services on the perception of independence.
 6. Following the April meeting, the Chair provided an update on the NAS project to the XRB Board, seeking the XRB Board’s views on:
 - The two broad options for a strengthened approach: alignment with the Auditor-General’s approach together with a list of permitted services, or a prohibitive approach (involving an expanded “blacklist” of prohibited services); and
 - Whether it would be beneficial to undertake further targeted consultation with stakeholders before moving to an exposure draft.

A report back to the Board on the discussions with the XRB Board is included at agenda item 2.9.

7. The Chair and Interim Director Assurance Standards will provide the XRAP with the update on the NAS project at its meeting on 20 May.

Action Requested

8. The Board is asked to:
 - CONSIDER the issues raised in the issues paper and AGREE the compelling reason changes to make to the IESBA NAS provisions; and,
 - APPROVE the invitation to comment and proposed amendments to Professional and Ethical Standard 1 for exposure.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues Paper
Agenda item 6.3	Compelling Reason Test
Agenda item 6.4	Draft ITC
Agenda item 6.5	Proposed Revisions to PES 1: NAS (marked from IESBA)
Agenda item 6.6	Summary of NAS prohibitions

Non-Assurance Services issues paper

1. We seek direction from the NZAuASB as whether to modify the IESBA revisions to the NAS provisions relating to public interest entities, in the public interest in New Zealand, to:
 - (a) Further strengthen the provisions by emphasising the importance of independence in appearance; and
 - (b) Strengthen the tax provisions by prohibiting the provision of tax planning and advisory services.

Independence in appearance

2. The NZAuASB was firm in its submission to the IESBA that the provision of NAS creates a threat to independence, whether in fact or in appearance. While the NZAuASB strongly supports the requirement for public interest entities to obtain concurrence from those charged with governance for the provision of non-assurance services, leaving the assessment of independence under the Code to be made by the firm may not be enough to address external perceptions about the lack of independence.
3. Adopting the NAS provisions as finalised by the IESBA and establishing a full prohibition on the provision of NAS were not deemed by the NZAuASB to be viable options.
4. The NZAuASB determined two alternative solutions to strengthen the NAS provisions:
 - (a) The Auditor-General approach whereby additional services permitted are limited to those of an assurance nature (the permitted approach); or
 - (b) A blacklist approach, as is being considered in Australia in response to the PJC recommendation (the blacklist approach).

Board members were not in agreement about the most suitable approach.

5. The permitted approach maintains the principles-base of the Code and will be easier to maintain than a blacklist approach, however, it may not be as clear as a blacklist and will still require judgement to implement.

Self-review threat

6. Proposed paragraph **R600.16** requires,

A firm or 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.

7. Use of “might create” makes it clear that under the Code the provision of a NAS is prohibited once a firm identifies a risk that a self-review threat might be created – as opposed to where the firm concludes that a self-review threat will be created. Use of “might create” avoids the risk that a firm might incorrectly conclude (a) that a proposed NAS will not create a self-review threat, or (n) that the outcome of the proposed NAS will not be subject to audit procedures, thereby circumventing the prohibition.

8. In addition, proposed paragraph **R600.14** reflects a simple and clear approach that firms should take in determining whether the provision of a NAS might give rise to a self-review threat.,

Before providing a non-assurance provision 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 a 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 of the judgements made or activities performed by the firm or network firm when providing the service.*
9. It is generally recognised that the self-review threat is the predominant threat to independence when the firm performs non-assurance engagements for the audit client, and accordingly, the revisions to the NAS provisions in the Code are likely to impact a significant portion of the non-assurance engagements undertaken for PIE audit clients.
10. The NZAuASB signalled in its previous discussions that the NAS revisions in New Zealand need to go further to address the public interest issues of improvement in audit quality and increased trust in audit in New Zealand. The view previously expressed by the Board is that the IESBA provisions do not go far enough to meet those considerations, particularly in addressing the perception that the provision of NAS to an audit client that is a PIE impairs independence.
11. In developing the draft revisions for New Zealand, we have added two NZ paragraphs. The first is a reminder that independence comprises both independence of mind and independence in appearance. Independence in appearance is a critical consideration for the firm when determining whether to accept a NAS engagement for an audit client that is a PIE because of the heightened expectations of stakeholders regarding the firm's independence. Accordingly, it may be more difficult to overcome a threat to independence in appearance than to independence of mind.
12. The second paragraph provides examples of the types of engagements that ordinarily will not create threats to independence. These include engagements required by law or regulation to be performed by the auditor, agreed upon procedures engagements, and engagements that involve the formal expression of an opinion. This paragraph signals to the firm the types of engagements that are permitted.
13. AG-PES 1 requires, *“Any work provided in relation to a public entity by the Appointed Auditor or their firm, over and above the work that is required (or permitted) to be carried out on behalf of the Auditor-General under legislation, shall generally be “work of an assurance nature”, unless otherwise provided for in AG PES 1.”*
14. We did consider whether to include a requirement that additional work performed by the firm shall be assurance related, together with a list of assurance related engagements. Establishing a requirement limiting the non-assurance services to “assurance-related” engagements is effectively establishing a prohibition.

15. Further, it is difficult to establish a list of assurance related engagements. We contacted practitioners for help in obtaining information about the types of engagements that the practitioners consider to be assurance related. Responses from practitioners included half year reviews for PIE audit clients, engagements related to FMA license conditions and trustee report (which might include an agreed-upon services engagement). (Refer appendix for a more detailed listing) These are the types of engagements we were already aware of. Establishing a list of permitted services shares the same risks as a black list, in that it will require continual updating as a law or regulations are added or change or new services are developed.
16. Complemented with the prohibition on tax planning and tax advisory services (as described in the following section), we consider the IESBA provisions with the added application paragraphs as described in paragraphs 11 and 12) to be a significant strengthening of the extant provisions.
17. We seek the Board's views on whether the NZ changes are sufficient to address the public interest concerns regarding the perception of non-assurance services on the auditor's independence.

Tax Planning and Tax Advisory Services

18. Section 604 deals with the provision of tax services. It is generally accepted that the provision of tax planning and tax advisory services creates a self-review threat, however, the IESBA provisions state that providing tax advisory and tax planning services will not create a self-review threat if such services:
 - (a) Are supported by a tax authority or other precedent;
 - (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
 - (c) Have a basis in tax law that the firm is confident is likely to prevail.
19. The IESBA is of the view that inclusion of the words "is confident" addresses concerns expressed in the ED that the wording "likely to prevail" is too low a standard.
20. The Board has previously expressed the concern that the provision of tax planning and tax advisory services ultimately affects the financial statements, by way of the tax calculations. Further, the survey undertaken with stakeholders prior to the April meeting indicates that the provision of tax services by the auditor's firm has a high negative effect on the perception of independence.
21. When discussed with the XRB Board, the XRB Board was in unanimous agreement that it is not appropriate for the auditor to perform tax planning and tax advisory services for an audit client that is a PIE.
22. For audit clients that are PIEs, we have therefore amended the IESBA prohibition in paragraph NZ R604.15 to apply to the provision of all tax planning and tax advisory services, rather than prohibiting only those that might create a self-review threat.
23. Application material in paragraph NZ 604.15 A1 indicates that the provision of tax advisory and tax planning services to an audit or review client that is a public interest entity creates a threat to independence in appearance that safeguards cannot reduce to an acceptable level.

24. Does the Board agree with the proposed NZ amendment to the tax advisory and tax planning services section?

Examples of Assurance-Related Engagements

1. The half year review of an entity performed under the review standard
2. A half year review of a bank DS performed under the combined review standard and the RBNZ's OIC
3. A reasonable assurance review over an insurer's solvency standard in accordance with the RBNZ requirements
4. The reasonable assurance /limited assurance work performed over a bank's capital adequacy and liquidity disclosures in the banks DS- performed at Y/E and HY
5. A reasonable assurance opinion over a derivative issuer's controls around its standard conditions
6. A reasonable assurance opinion over a derivative issuer's controls around its S149
7. A year end NTA (AUP) on a derivatives issuer
8. A solvency NTA (AUP) for an NZX participant
9. Any assurance work performed for a supervisor /trustee of a non-bank deposit taker (this would be an agreed procedure) under section xx of the NBDT act
10. A reasonable assurance controls report under ISA 3402/SAS70/GS007 providing assurance over the design , implementation and testing of an entities controls
11. Attendance and scrutineering at an AGM
12. Work undertaken for power, and gas utilities and for telecoms and network businesses and airports around verifying the calculation of certain information within their accounts or derived from their accounts or in compliance with industry regulations

Compelling Reason Test: Non-Assurance Services

Modification to the IESBA's Revisions to the Non-Assurance Services Provisions of the Code	
<p>Modification</p> <p>The following modifications to the IESBA's Revisions to the Non-Assurance Services Provisions of the Code are proposed:</p> <ul style="list-style-type: none"> • Addition of guidance emphasising that the heightened expectations of stakeholders regarding the firm's independence, particularly independence in appearance, for an audit or review client that is a PIE, are of critical importance when applying the conceptual framework in determining whether to accept a NAS engagement. (NZ 600.15 A3) • Add guidance that additional work performed by the firm will ordinarily not create threats to independence when such work is assurance related and provide examples of such assurance related engagements. (NZ 600.15 A4) • Expressly prohibit the provision of tax advisory and tax planning services to an audit or review client that is a PIE. (NZ R604.15 -NZ 604.15 A1) 	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The proposed modifications are made in the public interest to address the perception that providing NAS to an audit or review client that is a PIE impairs independence, thereby improving audit quality and increasing trust in audit in New Zealand.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a

B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
<p>1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB</p>	<p>The survey undertaken by staff indicated that the provision of NAS to an audit or review client that is a PIE creates negative perceptions regarding the assurance practitioner’s independence. Prohibiting the provision of tax advisory and tax planning services to an audit client that is a PIE removes any questions about impairment of independence.</p> <p>Adding guidance to emphasize the consideration of independence, including independence in appearance and providing examples of the types of assurance related engagements will help to enhance compliance with the spirit of the standard.</p>
<p>2. The modification results in a standard that is clear and promotes consistent application by all practitioners.</p> <p><i>(For example, excluding options not relevant in NZ and Australia)</i></p>	<p>The modifications are clear and provide for consistent treatment of tax advisory and tax planning services by all firms and encourages consistency in the types of non-assurance engagement undertaken by describing the types of engagement that ordinarily would not impair independence.</p>
<p>3. The modification will promote significant improvement in audit quality in New Zealand</p> <p><i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB’s Framework for Audit Quality)</i></p>	<p>The modifications add to user confidence in the audit by addressing the perception that the provision of NAS to an audit or review client that is a PIE impairs independence. Including examples of assurance related services which would generally not create a threat to independence, will promote a more cautious approach to accepting any other types of services, given a heightened focus on independence in appearance. The proposed prohibition on the provision of tax advisory and tax planning services eliminates doubt as to the firm’s independence.</p>
<p>4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	<p>There may be a significant cost to firms as a result of the prohibition on the provision of tax advisory and tax planning services to an audit client that is a PIE, We consider the prohibition will drive a redistribution of work within the market. We do not consider the additional guidance to emphasise the consideration of independence in appearance or to clarify the types of engagement that ordinarily would not impair independence to impact cost.</p>

<p>5. The modification does not conflict with or result in lesser requirements than the international standard.</p>	<p>The modifications further restricts the IESBA provisions and clarifies the types of engagement that ordinarily would not impair independence.</p>
<p>6. The modification overall does not result in the standard being overly complex and confusing.</p>	<p>The modifications simplify the standard by providing guidance on the types of engagements that would ordinarily considered not to impair independence and establishing a strict prohibition on the provision of tax advisory and tax planning services.</p>
<p>7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.</p>	<p>The modifications are proposed in the public interest to address the perception that the provision of NAS to an audit or review client that is a PIE impairs the independence of the assurance practitioner. We do not believe the modifications inadvertently change the meaning of the international wording, rather the intention of the Board is to strengthen the international wording thereby restricting the provision of the NAS.</p>
<p>Conclusion</p>	<p>Compelling reason test met.</p>



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

**EXPOSURE DRAFT NZAUASB 2021-3
AMENDMENTS TO PROFESSIONAL AND ETHICAL
STANDARD 1: NON-ASSURANCE SERVICES**

Invitation to Comment

June 2021

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External Reporting Board
PO Box 11250
Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

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Table of Contents

	Page
Information for respondents	4
List of abbreviations.....	5
Questions for respondents	5
1. Introduction	7
1.1 Purpose of this Invitation to Comment	7
1.2 Background	7
1.3 Timeline and next steps	9
2. Overview of proposed amendments	9
2.1 Focus on Self-Review Threat for Audit or Review Clients that are PIEs.....	9
2.2 NZ Proposed Changes to the IESBA Provisions for Audit or Review Clients that are PIEs	10
2.3 Effective Date	12
Attachment: Proposed Revisions to the Non-Assurance Services Provisions of Professional and Ethical Standard 1	
Supplement: Summary of PES 1 [Proposed] Prohibitions Relating to the Provision of Non-Assurance Services to Audit or Review Clients	

Information for respondents

Invitation to Comment

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

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

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

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

[\[Insert link\]](#)

The closing date for submissions is 15 September 2021.

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

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

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

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

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IESBA	International Ethics Standards Board for Accountants
IIS	International Independence Standards
ITC	Invitation to comment
NAS	Non-assurance service
NZAuASB	New Zealand Auditing and Assurance Standards Board
PES	Professional and Ethical Standard
PIE	Public interest entity
XRB	External Reporting Board

Questions for respondents

Respondents are asked to consider the following specific questions and to respond to the NZAuASB by 15 September 2021:

1. The IESBA provisions focus on the self-review threat, being the predominant threat to independence created by the provision of NAS to an audit or review client that is a PIE. Accordingly, where the provision of a NAS to an audit or review client that is a PIE might be created, such service is prohibited. The conceptual framework is applied to other threats that may be created. The NZAuASB is not proposing to amend this approach. Do you agree or do you believe that all threats to independence should be treated the same?
2. Do you agree with the NZAuASB that the provision of tax advisory and tax planning services creates the perception that the assurance practitioner is not independent and therefore should be prohibited as there are no safeguards to reduce this threat to an acceptable level? Do you foresee any unintended consequences as a result of this prohibition? (Refer **NZR 604.15** – NZ 604.15 A1)
3. Do you support the inclusion of guidance emphasising the importance of independence in appearance when considering whether to accept a NAS engagement? (Refer NZ 600.15 A3)

4. Do you agree that additional work performed will not ordinarily create threats to independence when that work is assurance related? Are there other engagements that are, in your view, examples of assurance related engagements? (Refer NZ 600.15 A4)
5. Except for the addition of the strict prohibition on the provision of tax advisory and tax planning services to an audit or review client that is a PIE, the NZAuASB has not identified any further provisions that need to be strengthened. Are there other types of NAS where you consider the Code does not go far enough and should take a more stringent position by making it clearer that the threat cannot be eliminated and safeguards are not capable of being applied to reduce them? (Refer to the supplement to this ITC for a summary of the proposed prohibitions relating to the provision of NAS to audit or review clients.)

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment (ITC) is to seek feedback from stakeholders on Exposure Draft (ED) NZAuASB 2021-3, *Amendments to Professional and Ethical Standard 1: Non-Assurance Services*.

1.2 Background

International position

2. The International Ethics Standards Board for Accountants (IESBA) has revised the [non-assurance service \(NAS\) provisions of the IESBA Code](#). The IESBA's revised NAS provisions will replace Section 600² for audit and review engagements, and Section 950³ for assurance engagements other than audit and review engagements. Consequential and conforming amendments have been made to Sections 400⁴, 525⁵ and 900⁶.
3. The NAS project was undertaken concurrently with the revision of the fee-related provisions of the Code. The fee revisions strengthen the independence requirements for firms with respect to fee paid by an audit client. In particular, in the case of audit or review clients that are PIEs, the revised fee provisions provide for the disclosure of fee-related information to those charged with governance and to the public, including in relation to NAS. Additionally, in New Zealand, the New Zealand Accounting Standards Board, jointly with the Australian Accounting Standards Board has an ongoing project to improve disclosures of fees paid to the entity's auditor.

² Part 4A – Independence for Audit and Review Engagements, Section 600, *Provision of Non-Assurance Services to an Audit Client*

³ Revised 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*

⁴ Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

⁵ Part 4A, Section 525, *Temporary Personnel Assignments*

⁶ Revised Part 4B, Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements*

4. The IESBA's revised NAS and fee-related provisions collectively seek to:
 - Focus attention on potential threats to independence created by fees, and
 - Improve transparency about fee-related matters for audit or review clients that are PIEs, including the fees for services other than audit (including NAS).
5. The objective of the NAS project was to strengthen the International Independence Standards (IIS) by addressing public interest concerns about the perceived lack of independence when firms provide NAS to their audit clients.
6. The IESBA's revised NAS provisions clarify and address the circumstances in which firms and network firms may or may not provide a NAS to an audit or assurance client thereby strengthening the IIS by addressing public interest concerns about the perceived lack of independence when firms provide NAS to their audit or review clients.
7. Key changes to the extant IIS arising from the NAS project include:
 - (a) A new general prohibition on the provision of a NAS to an audit client that is a PIE if the provision of that service might create a self-review threat to the firm's independence. The provision of a NAS is prohibited once a firm identifies a risk that a self-review threat might be created. The use of "might create" avoids the risk that a firm might incorrectly conclude (a) that a proposed NAS will not create a self-review threat, or (b) that the outcome of the proposed NAS will not be subject to audit procedures, thereby circumventing the prohibition.
 - (b) New provisions to assist firms and network firms in identifying and evaluating self-review threats that might be created by the provision of a NAS to an audit client.
 - (c) New guidance indicating that the provision of advice and recommendations might create a self-review threat and which also explains the circumstances in which a firm or a network firm may provide advice and recommendations to an audit client.
 - (d) New provisions to strengthen and improve the quality of firm communication with those charged with governance about NAS-related matters, especially in the case of audit clients that are public interest entities (PIEs) and entities within that PIE's corporate structure.
 - (e) Enhanced guidance to explain that the concept of materiality is not relevant in evaluating whether a self-review threat might be created by the provision of a NAS to an audit client that is a PIE.
 - (f) Strengthened provisions to assist firms in addressing threats to independence that are created by the provision of NAS to audit clients that are not PIEs, including new application material in relation to situations where a safeguard is not available.

- (g) New provisions and structural refinements to promote the consistent application of the NAS provisions. For example,
- The revised NAS provisions identify certain situations where a self-review threat to independence is not created.
 - The provisions that prohibit firms and network firms from assuming a management responsibility are given more prominence by being repositioned to Section 400.
 - The provisions related to acting as a witness are revised and include application material to explain the circumstances in which the advocacy threat created by acting as an expert witness will be at an acceptable level.

New Zealand perspective

8. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including professional and ethical standards, in New Zealand. Modifications for application in New Zealand may be acceptable where there is a compelling reason, provided such modifications consider the public interest and do not conflict with or result in lesser requirements than the international standards.
9. The NZAuASB is proposing to adopt the revised IESBA NAS provisions in New Zealand but is considering the question of whether the IESBA revisions have gone far enough to meet the public interest in New Zealand and address the concerns the NZAuASB raised in its submission on the exposure draft relating to NAS, including:
 - (a) Whether limiting the prohibition to NAS that might create a self-review threat will sufficiently address the perception that providing NAS impairs the auditor's independence.
 - (b) Concern that singling out the self-review threat, among all the threats to independence, creates, in effect, a hierarchy of threats, i.e., the self-review threat is more important than the other threats to independence.
 - (c) 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.
10. There is evidence that the volume of NAS provided to audit clients that are PIEs is declining, however, the extent of such services has been the subject of regulator scrutiny in recent years.
11. A survey⁷ undertaken by XRB staff to gain a better understanding of the impact of the provision of NAS on the users perception of the auditor's independence indicated that the provision of NAS by the auditor to a client has some negative effect for nearly all types of NAS provided.

⁷ The survey results are available with the [April 2021 NZAuASB Board](#) papers on the XRB website.

12. In the public sector, the Auditor-General's revised Code of Ethics issued in 2020 sets limits on the provision of other services to audit clients.
13. The NZAuASB believes an IESBA-plus approach is needed in relation to PIEs, in the public interest, to address the issue primarily on a perception basis but also to recognise that even a reduced amount of NAS can introduce significant independence threats in some instances.

1.3 Timeline and next steps

14. Submissions on ED NZAuASB 2021-3 are due by 15 September 2021. Information on how to make a submission is provided on page 4 of this ITC.
15. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the New Zealand revisions by the end of the year.

2. Overview of ED NZAuASB 2021-3

2.1 Focus on Self-Review Threat for Audit or Review Clients that are PIEs

16. The IESBA is of the view that in the case of audit or review clients that are PIEs, self-review threats cannot be eliminated, and safeguards are not capable of being applied to reduce them to an acceptable level. Therefore, for audit or review clients that are PIEs, NAS that might create a self-review threat are prohibited. The firm applies the conceptual framework to identify, evaluate and address the other types of threat the provision of NAS has to independence i.e., self-interest, advocacy, familiarity and intimidation threats.
17. In its submission to the IESBA, the NZAuASB expressed concern that singling out the self-review threat, among all the threats to independence creates, in effect, a hierarchy of threats, i.e., the self-review threat is more important than the other threats to independence.
18. As the self-review threat is the threat most likely to arise in the context of NAS, the NZAuASB is not proposing any amendments in this regard, but is interested in your view as to whether the IESBA provisions should be extended to all threats without a specific focus on self-review.

2.2 NZ Proposed Changes to the IESBA Provisions for audit or review clients that are PIEs⁸

19. The NZAuASB is proposing to adopt the IESBA's revised NAS provisions, however, it considers that it is in the public interest in New Zealand to make compelling reason changes to further address the perception that providing NAS to an audit or review

⁸ The IESBA has recently sought feedback in relation to [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity](#) in the Code. While the definition of PIE is not part of this exposure, the NZAuASB will soon be consulting on the NZ PIE definition, as the IESBA project advances.

client that is a PIE impairs independence, thereby improving audit quality and increasing trust in audit in New Zealand. In coming to this conclusion, the NZAuASB considered its recent stakeholder survey indicating that the provision of NAS for an audit client that is a PIE has a negative impact on users' perceptions of independence.

20. In determining the proposals the NZAuASB considered a number of approaches:
- (a) Adopting the IESBA provisions, with no or minimal change;
 - (b) Full prohibition of all NAS to audit clients that are PIEs; or
 - (c) Alternative solutions –
 - The Auditor-General approach whereby additional work permitted is limited to those of an assurance nature; or
 - A blacklist approach, as is being considered in Australia in response to the Parliamentary Joint Committee on Corporations and Financial Services in Australia report recommendations.
21. Considering the IESBA approach, the NZAuASB is of the view that the provisions do not go far enough to address user perceptions that the provision of NAS to an audit or review client that is a PIE affects independence. There is particular concern that continuing to permit the assurance practitioner to perform tax advisory and tax planning services, albeit with tightened restrictions, does not address the perception that the assurance practitioner is not independent and therefore does not engender confidence in the financial reporting process. Accordingly, the NZAuASB proposes that, at a minimum, the provision of tax advisory and tax planning services should be strictly prohibited, as described below.
22. The NZAuASB considered the option of prohibiting all NAS to audit clients that are PIEs. However, the view of the NZAuASB is this would be at odds with a principles-based Code and may have unintended consequences. There are certain NAS that the auditor is, in many instances, best placed or required by law or regulation to perform, for example, some agreed-upon procedures engagements. Accordingly, the NZAuASB does not consider full prohibition to be an appropriate solution.
23. Rather, the NZAuASB favours a solution which is more consistent with the principles-based approach of the Code, and considers this would have the impact of signalling disfavour and driving a self-regulatory response to eliminate NAS over time.
- Alternative Solutions:*
- (i) Permitted Services*
24. This option is similar to the Auditor-General's approach of requiring appointed auditors and their firm to apply a more stringent test when addressing independence in appearance with regard to non-assurance work and additional work of an assurance nature. The Auditor-General's approach has a significant focus on independence in appearance.

25. Adopting an approach similar to the Auditor-General's achieves greater consistency between New Zealand's independence standards with an increased focus on independence in appearance, while maintaining the principles basis of the Code.
26. However, an approach that specifically identifies permitted services, may have similar unintended consequences to a complete prohibition, or may enable auditors to provide services that give rise to a self-review threat.

(ii) Blacklist Approach

27. The NZAuASB also considered adopting a blacklist approach as is being considered in Australia. Such an approach has the benefit of considering each type of non-assurance service individually. However, with a blacklist approach there is the risk of circumnavigation as well as ongoing maintenance of the Code as services evolve and new services develop.
28. The IESBA Code already contains several prohibitions on the provision of NAS. Some of the provisions apply to all audit clients; others are limited only to audit clients that are PIEs or only apply to non-PIEs when certain factors are present. The supplement provides a summary of the proposed prohibitions relating to the provision of NAS to audit or review clients. The prohibitions are phrased in various ways: "...shall not provide..." or with an emphasis that a "self-review threat might be created".
29. International feedback urged the IESBA to avoid the phrase "...will create.." as that would raise the threshold at which the prohibition would apply, making it less robust. Rather the prohibition applies once a firm identifies that a self-review threat might be created.
30. Except for the addition of the strict prohibition on the provision of tax advisory and tax planning services to an audit or review client that is a PIE, the NZAuASB has not identified any further provisions that need to be strengthened. The NZAuASB is however keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.

Approach Proposed

31. Weighing the pros and cons of the various approaches, the NZAuASB has prepared the attached exposure draft with a focus on retaining a principles-based approach, but with a strict prohibition on the provision of tax advisory and tax planning services.
32. The NZAuASB proposes to adopt the IESBA provisions, with the following additional NZ paragraphs:
 - Add guidance emphasising that the heightened expectations of stakeholders regarding the firm's independence, particularly independence in appearance, for an audit or review client that is a PIE, are of critical importance when applying the conceptual framework in determining whether to accept a NAS engagement. (NZ 600.15 A3)

Commented [MP1]: Question for Board – when you review the “cheat sheet” are there other subsections where you would prefer the words “self-review threat might be created” to be replaced by a definitive shall not provide?

- Add guidance that additional work performed by the firm will ordinarily not create threats to independence when such work is assurance related and provide examples of such assurance related engagements. (NZ 600.15 A4)
- Expressly prohibit the provision of tax advisory and tax planning services to an audit or review client that is a PIE. (NZ R604.15 -NZ 604.15 A1)

2.3 Effective Date

33. In line with the IESBA revisions, proposed revised Section 600 and the conforming amendments to Part 4A will be effective for auditors and reviews of financial statements for periods beginning on or after 15 December 2022
34. The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagement with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after 15 December 2022; otherwise these amendments will be effective on 15 December 2022.
35. Early adoption will be permitted.
36. For non-assurance services engagements a firm or network firm has entered into with an audit or review client, or for non-assurance services engagements a firm has entered into with an assurance client before 15 December 2022 and for which work has already commenced, the firm or a network firm may continue such engagements under the extant provisions of Professional and Ethical Standard 1 until completed in accordance with the original engagement terms.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF THE CODE PROFESSIONAL AND ETHICAL STANDARD 1

Commented [SW1]: Mark up shows all changes from the IESBA final standard, including contextual NZ changes. The focus of the NAS discussion will be around the compelling reason changes being proposed: paragraphs NZ600.15 A2-NZ600.15 A4, and subsection 604 C: tax advisory and tax planning services

CONTENTS

I. PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS 4

SECTION 600 4

 SUBSECTION 601 – ACCOUNTING AND BOOKEEPING SERVICES..... 12

 SUBSECTION 602 – ADMINISTRATIVE SERVICES 15

 SUBSECTION 603 – VALUATION SERVICES..... 15

 SUBSECTION 604 – TAX SERVICES 17

 SUBSECTION 605 – INTERNAL AUDIT SERVICES 25

 SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES 28

 SUBSECTION 607 – LITIGATION SUPPORT SERVICES 29

 SUBSECTION 608 – LEGAL SERVICES 32

 SUBSECTION 609 – RECRUITING SERVICES 34

 SUBSECTION 610 – CORPORATE FINANCE SERVICES 36

II. CONFORMING AMENDMENTS TO PART 4A.....38

SECTION 400 38

III. CONSEQUENTIAL AMENDMENTS TO PART 4B42

SECTION 950 42

IV. CONFORMING AMENDMENTS TO PART 4B.....45

SECTION 900 45

V. CONFORMING AMENDMENT TO PART 4A49

SECTION 525 49

This document includes the proposed revisions to PES 1 arising from the IESBA’s Non-Assurance Services Project. Comments in the margin indicate the paragraph from the extant NAS provisions from which the particular paragraph is derived, or whether it is a new paragraph. Paragraphs that are shaded in grey are provided for context.

I. Proposed Revised Section 600

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

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.

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.

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.

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.

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

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PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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.

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.

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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.

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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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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 client, and evaluating the level of such threats include:

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- 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~~opinion or conclusion, 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~~opinion or conclusion.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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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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.

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600.10 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit 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.

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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 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.

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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.

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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:

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- 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.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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~~judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit or review team will rely when forming a judgement as part of an audit or review.

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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:

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- (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 or review of those financial statements on which the firm will express an opinion or conclusion, the audit or review team will evaluate or rely on any judgements 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 or review client that is a public interest entity.

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600.15 A2 [Amended by the NZAuASB]

NZ 600.15 A2 ~~Where~~ the provision of a non-assurance service to an audit or review client that is a public interest entity ~~might create~~ 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.

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NZ 600.15 A3 As described in paragraph 120.12 A1, independence comprises both independence of mind and independence in appearance. The heightened expectations of stakeholders regarding the firm's independence, particularly independence in appearance for an audit or review client that is a public interest entity, are of critical importance when applying the conceptual framework in determining whether to accept a non-assurance service engagement.

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NZ 600.15 A4 Additional work performed by the firm will not ordinarily create threats to independence when such work is assurance related. Examples of assurance related engagements include:

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- Engagements required by law or regulation to be performed by the auditor or assurance practitioner.
- Engagements that involve the formal expression of an assurance opinion or conclusion.
- Engagements to perform agreed-upon procedures.

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Self-review threats

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 or review of the financial statements on which the firm will express an opinion or a conclusion. (Ref: Para. 600.13 A1 and R600.14).

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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:

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- (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.

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:

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- 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.

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.

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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 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.

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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.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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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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:

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- (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 or review engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Audit or Review 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 or Review 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.

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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:

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- 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.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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 or reviews 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 or assurance practitioner 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.

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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.

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PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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:

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(a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence as auditor or assurance practitioner 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:

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(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 the network firm, having taken into account any matters raised by those charged with governance of the audit or review 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 or review engagement if:

(a) The firm or the network firm is not permitted to provide any information to those charged with governance of the audit or review 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

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(b) Those charged with governance of an audit or review 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:

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(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

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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.

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 or review 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 or conclusion:

- (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.

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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 or conclusion.

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PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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.
- 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.

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

601.3 A1 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.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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

601.4 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~~opinion or conclusion.

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Audit or Review Clients that are Not Public Interest Entities

R601.5 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~~opinion or conclusion or financial information which forms the basis of such financial statements, unless:

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

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

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

601.5 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 R601.5 (b).

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

601.5 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:

- 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

R601.6 A firm or a network firm shall not provide accounting and bookkeeping services to an audit or review client that is a public interest entity.

R601.7 As an exception to paragraph R601.6, 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 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.

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.

602.2 A2 Examples of administrative services include:

- 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 or review client of those dates.

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Potential Threats Arising from the Provision of Administrative Services

All *Audit or Review Clients*

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

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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~~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~~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~~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~~opinion or conclusion. Such a service might also create an advocacy threat.

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603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation services to an ~~audit~~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~~judgement.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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~~audit or review client that is a public interest entity has been identified, paragraph R603.5 applies.

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

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

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603.3 A4

- Using professionals who are not ~~audit~~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~~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~~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~~opinion or conclusion.

603.4 A1 ~~C~~ertain 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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603.4 A1

~~Audit~~Audit or review Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an ~~audit~~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 R600.16).

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R603.5

Advocacy Threats

603.5 A1 ~~A~~n example of an action that might be a safeguard to address an advocacy threat created by providing a valuation service to an ~~audit~~audit or review client that is a public interest entity is using professionals who are not ~~audit~~audit or review 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~~ audit or review client.

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604.2

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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604.3 A1

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~~ 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~~ opinion or conclusion. 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~~ 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~~ judgement necessary in applying it.

All ~~Audit~~ Audit or review Clients

R604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to an ~~audit~~ audit or review client if the service or transaction relates to marketing, planning, or opining

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in ~~favor~~favor 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.

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

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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~~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~~Audit or review Clients

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

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~~audit or review client.

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Potential Threats Arising from the Provision of Tax Calculation Services

All ~~Audit~~Audit or review Clients

604.8 A1 ~~Preparing~~ tax calculations of current and deferred tax liabilities (or assets) for an ~~audit~~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~~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~~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~~opinion or conclusion.

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604.5 A2

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

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604.5 A3

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

~~Audit~~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~~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~~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~~Audit or review clients

604.12 A1 ~~Providing~~ tax advisory and tax planning services to an ~~audit~~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~~opinion or conclusion. Such services might also create an advocacy threat.

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604.7 A1

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

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;

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PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- (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~~audit or review clients, and evaluating the level of such threats include:

- 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~~audit or review client that is a public interest entity has been identified, paragraph R604.15 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~~audit or review client when:

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

Audit 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~~audit or review client that is not a public interest entity include:

- Using professionals who are not ~~audit~~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~~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/Audit or Review Clients that are Public Interest Entities

Self-review Threats

R604.15 *[Amended by the NZAuASB]*

NZR 604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an ~~audit~~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, R600.16, 604.12 A2).

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604.7 A3

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R604.8

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604.7 A4

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NZ604.15 A1 added to explain why tax advisory and tax planning services are prohibited.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

~~NZ 604.15 A1 The provision of tax advisory and tax planning services to an audit or review client that is a public interest entity creates a threat to independence that cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.~~

~~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. *[Deleted by the NZAuASB]*~~

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New paragraph

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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~~Audit or review Clients

604.17 A1 Providing a valuation for tax purposes to an ~~audit~~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~~opinion or conclusion. Such a service might also create an advocacy threat.

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604.9 A1

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

604.17 A2 When a firm or a **network** firm performs a valuation for tax purposes to assist an **audit** **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

- (a) 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.
- (b) 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** **audit or review** client will not create a self-review threat if:

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- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
- (b) 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** **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** **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** **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** **audit or review** client that is not a public interest entity include:

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604.9 A4

- Using professionals who are not **audit** **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** **audit or review** work or service performed might address a self-review threat.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit/Audit or review Clients that are Public Interest Entities

Self-review Threats

R604.19 A firm or a network firm shall not perform a valuation for tax purposes for an ~~audit~~audit or review 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).

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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~~audit or review client that is a public interest entity include:

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- Using professionals who are not ~~audit~~audit or review 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~~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.

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604.10 A2

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

All ~~Audit~~Audit or review Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an ~~audit~~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~~opinion or conclusion. Such a service might also create an advocacy threat.

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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~~audit or review client in the resolution of tax disputes, and evaluating the level of such threats include:

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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~~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.

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- Whether the proceedings are conducted in public.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R604.24 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:

- 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

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit or review 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).

Advocacy Threats

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

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:

- (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 or review client before a tribunal or court.

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:

- Responding to specific requests for information.

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604.10 A4

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R604.11

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604.11 A1

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

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

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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~~ audit or review client.

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Requirements and Application Material

Description of Service

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

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605.3 A1

- 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~~ audit or review of the financial statements.

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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:

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605.4 A1, R605.4

- (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.

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~~Audit or review Clients

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

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605.1

605.4 A2 When a firm uses the work of an internal audit function in an ~~audit~~audit or review engagement, ISAs 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~~audit or review client, the results of those services might be used in conducting the external ~~audit~~audit or review. This might create a self-review threat because it is possible that the ~~audit~~audit or review team will use the results of the internal audit service for purposes of the ~~audit~~audit or review engagement without:

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605.4 A3

- (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~~audit or review client, and evaluating the level of such a threat include:

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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~~audit or review team will place on the work of the internal audit service.

When a self-review threat for an ~~audit~~audit or review client that is a public interest entity has been identified, paragraph R605.6 applies.

~~Audit~~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~~audit or review client that is not a public interest entity is using professionals who are not ~~audit~~audit or review team members to perform the service.

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605.4 A5

~~Audit~~Audit or review Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not ~~provide~~ internal audit services to an ~~audit~~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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R605.5

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

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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~~opinion or conclusion.

- Amounts or disclosures that relate to the financial statements on which the firm will express an ~~opinion~~opinion or conclusion.

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~~audit or review client.

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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:

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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~~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~~audit or review client, the firm or network firm shall be satisfied that:

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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~~Audit or review Clients

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

606.4 A1 Providing IT systems services to an ~~audit~~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~~audit or review of the financial statements on which the firm will express an ~~opinion~~opinion or conclusion.

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606.4 A2 Providing the following IT systems services to an ~~audit~~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:

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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~~audit or review client, and evaluating the level of such a threat include:

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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~~audit or review.

When a self-review threat for an ~~audit~~audit or review client that is a public interest entity has been identified, paragraph R606.6 applies.

~~Audit~~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~~audit or review client that is not a public interest entity is using professionals who are not ~~audit~~audit or review team members to perform the service.

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606.4 A2

~~Audit~~Audit or review Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an ~~audit~~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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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:

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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~~opinion or conclusion.

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~~audit~~ or review client.

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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~~Audit~~ or review Clients

607.3 A1 Providing litigation support services to an audit~~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~~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~~audit~~ or review client, and evaluating the level of such threats include:

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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~~opinion~~ or conclusion.

When a self-review threat for an audit~~audit~~ or review 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~~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~~opinion~~ or conclusion, the requirements and application material set out in Subsection 603 related to valuation services apply.

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607.3 A4

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

Audit/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~~audit or review client that is not a public interest entity is using a professional who was not an ~~audit~~audit or review team member to perform the service.

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607.3 A3

Audit/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~~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

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~~opinion or conclusion.

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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~~audit or review client that is a public interest entity is using a professional who was not an ~~audit~~audit or review team member to perform the service.

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New paragraph

Acting as a Witness

All ~~Audit~~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.

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

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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:

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- (i) The firm's ~~audit~~audit or review clients constitute less than 20% of the members of the class or group (in number and in value);
- (ii) No ~~audit~~audit or review client is designated to lead the class or group; and
- (iii) No ~~audit~~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~~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~~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~~audit or review team member.

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607.3 A3

~~Audit~~Audit or review Clients that are Public Interest Entities

R607.9 A firm ~~or~~ a network firm, or an individual within a firm or a network firm, shall not act for an ~~audit~~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.

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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~~audit or review client.

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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:

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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:

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New paragraph

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

Potential Threats Arising from Providing Legal Services

All ~~Audit~~Audit or review Clients

608.3 A1 ~~Providing~~ legal services to an ~~audit~~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

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608.1

statements on which the firm will express an ~~opinion~~opinion or conclusion. Such services might also create an advocacy threat.

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~~audit or review clients, such as:

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

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608.4 A1

Potential Threats Arising from Providing Legal Advice

All ~~Audit~~Audit or review Clients

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

- 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~~judgement necessary to provide the service.

When a self-review threat for an ~~audit~~audit or review client that is a public interest entity has been identified, paragraph R608.7 applies.

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~~audit or review client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

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New paragraph

~~Audit~~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~~audit or review client that is not a public interest entity include:

- Using professionals who are not ~~audit~~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~~audit or review work or the service performed might address a self-review threat.

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608.4 A3

Audit/Audit or review Clients that are Public Interest Entities

Self-review Threats

R608.7 A firm or a network firm 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).

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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 or review client that is a public interest entity.

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New paragraph

B. Acting as General Counsel

All Audit/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.

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608.5 A1

C. Acting in an Advocacy Role

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

Audit/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 review client that is not a 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~~ 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:

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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/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 or review client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

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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

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609.2

applying the conceptual framework when providing a recruiting service to an ~~audit~~audit or review client.

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~~audit or review client, the firm shall be satisfied that:

- (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.

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609.1, R609.4, 609.3 A3

Potential Threats Arising from Providing Recruiting Services

All ~~Audit~~Audit or review Clients

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

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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:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.

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609.3 A2

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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~~audit or review client, and evaluating the level of such threats include:

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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~~audit or review team members to perform the service.

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609.5 A2

Recruiting Services that are Prohibited

R609.5 When providing recruiting services to an ~~audit~~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~~audit or review client if the service relates to:

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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~~opinion or conclusion.

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~~audit or review client.

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610.2

Requirements and Application Material

Description of Service

610.2 A1 Examples of ~~corporate~~ finance services include:

- Assisting an ~~audit~~audit or review client in developing corporate strategies.
- Identifying possible targets for the ~~audit~~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~~Audit or review Clients

610.3 A1 Providing corporate finance services to an ~~audit~~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~~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~~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~~audit or review client that is a public interest entity has been identified, paragraph R610.8 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~~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~~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~~opinion or conclusion; and

- (b) The ~~audit~~audit or review team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

~~Audit~~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~~audit or review client that is not a public interest entity include:

- Using professionals who are not ~~audit~~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~~audit or review work or service performed might address a self-review threat.

~~Audit~~Audit or review Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall ~~not~~ provide corporate finance services to an ~~audit~~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).

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~~audit or review client that is a public interest entity is using professionals who are not ~~audit~~audit or review team members to perform the service.

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610.3 A3

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New paragraph

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New paragraph

II. 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~~audit or review 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~~audit or review 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~~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~~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~~judgement. 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~~audit or review client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an ~~audit~~audit or review 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~~audit or review client, the firm ~~shall~~ be satisfied that client management makes all ~~judgment~~judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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R600.8

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- (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 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 or review Clients

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

- (a) The engagement period; and
- (b) The period covered by the financial statements.

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R400.30

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 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

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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 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 conclusion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm.

Commented [SW195]: @Misha Pieters Part 4A applies equally to audit and review engagements, however, if I change this to "audited or reviewed"..., I am unintentionally changing the meaning of this sentence.

Audit or review Clients that are Public Interest Entities

R400.32 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 such appointment that might create a self-review threat in relation to the financial statements on which the firm will express an opinion or conclusion unless:

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New paragraph

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New paragraph

- (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:

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- 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 a 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

[Paragraphs 400.33 to 400.39 are intentionally left blank]

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.
- 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.
- 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.
- 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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950.1

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950.2

Commented [201]:
950.3 A1

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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.

Commented [204]:
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**~~judgement~~ (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**~~judgement~~ and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Commented [207]:
950.4 A2

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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:

Commented [209]:
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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New paragraph

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

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New paragraph

- 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 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. 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.

Commented [216]:
R900.11

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).

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900.11 A1

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.

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900.11 A2

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

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900.11 A3

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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R900.12

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.

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R950.6

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.

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950.6 A1

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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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:

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950.6 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 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.

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.

Commented [225]:
950.6 A4

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

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 judgment~~judgements~~ 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 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:

Commented [227]:
900.13 A1

- (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:

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

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R900.30

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:

- (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.

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R900.31

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:

Commented [236]:
R900.33

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1

- (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 judgment judgements 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. Conforming Amendment to Section 525

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 525

TEMPORARY PERSONNEL ASSIGNMENTS

...

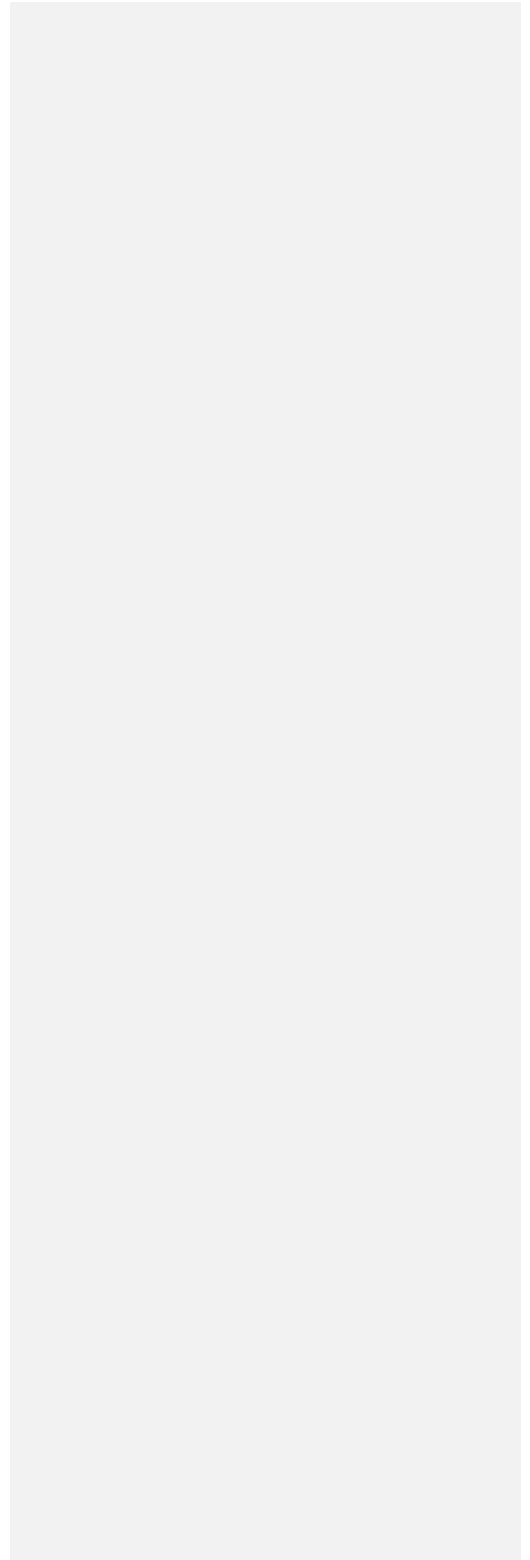
Requirements and Application Material

R525.4 A firm or a network firm shall not loan personnel to an ~~audit~~ audit or review 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~~ audit or review 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.

Commented [239]: R525.4

PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PES 1



EFFECTIVE DATE

- Revised Section 600 and the conforming amendments to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022.
- The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after December 15, 2022; otherwise, these amendments will be effective as of December 15, 2022.

Early adoption will be permitted.

Transitional Provision

For non-assurance services engagements a firm or network firm has entered into with an ~~audit~~audit or review client, or for non-assurance services engagements a firm has entered into with an assurance client, before December 15, 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

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Summary of PES 1 [Proposed] Prohibitions Relating to the Provision of Non-Assurance Services to Audit or Review Clients

Prohibited NAS	All Audit or Review Clients	PIE Audit or Review Clients only	Non-PIE Audit or Review Clients only
	Strictly prohibited	Strictly prohibited by factors listed	Prohibited based on specific factors
Assuming a management responsibility for an audit or review client. When performing a professional activity of an audit or review client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management.	X (R400.13, R400.14)		
Compensating or evaluating a key audit or key assurance partner based on that partner's success in selling NAS to their audit or review client.	X (R411.4)		
Provision of a NAS to an audit or review client		X Self-review threat might be created (R600.16)	
Subsection 601 Accounting and Bookkeeping Services			
Accounting and bookkeeping services, including preparing accounting records or financial statements (R601.5 & R601.6) subject to limited exceptions ¹	X		
Subsection 603 Valuation Services			
Valuation service		X Self-review threat might be created (R603.5)	X Significant degree of subjectivity and material effect on financial statements (R603.4)
Subsection 604 Tax Services			
Tax services or recommending transactions related to marketing, planning, or opining in favour of a tax treatment initially recommended, directly or indirectly, by the firm where a significant purpose is tax avoidance unless the firm is confident the treatment has a basis in applicable tax law or regulation that is likely to prevail (R604.4)	X		

¹ Providing accounting and bookkeeping services to an audit or review client that is not a PIE is prohibited unless the services are of a routine or mechanical nature and threats are reduced to an acceptable level. Routine or mechanical services involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary and require little or no professional judgement. (Refer PES 1 paragraphs 601.5 A1-601.5 A2) Preparing statutory financial statements is allowed for certain related entities of PIE audit or review clients and subject to conditions in paragraph R601.7 of PES 1.

Calculation of current or deferred tax liabilities or assets		X (R604.10)	
Prohibited NAS	All Audit or Review Clients	PIE Audit or Review Clients only	Non-PIE Audit or Review Clients only
	Strictly prohibited	Strictly prohibited by factors listed	Prohibited based on specific factors
Tax advisory and tax planning services	X (NZR 604.15)		
Tax advisory and tax planning services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit or review team has doubt as to its appropriateness			X (R604.13)
Valuation for tax purposes		X Self-review threat might be created (R604.16)	
Providing assistance in the resolution of tax disputes		X Self-review threat might be created (R604.24)	
Acting as an advocate for a client in the resolution of tax disputes before a tribunal of court		X (R604.26)	X If material to the financial statements (R604.25)
Subsection 605			
Internal Audit Services			
Internal audit services ²		X Self-review threat might be created (R605.6)	
Subsection 606			
Information Technology Services			
Designing or implementing IT systems ³		X Self-review threat might be created (R606.6)	
Subsection 607			
Litigation Support Services			
Litigation support services involving estimating damages or other amounts that affect the financial statements			X Significant degree of subjectivity and material effect on financial statements (R603.4)
Litigation support services		X Self-review threat might be created	

² A firm must be satisfied that the client has taken management responsibility for the internal audit services.

³ A firm must be satisfied that the client has taken management responsibility for the information technology systems services.

		(R607.6)	
Prohibited NAS	All Audit or Review Clients	PIE Audit or Review Clients only	Non-PIE Audit or Review Clients only
	Strictly prohibited	Strictly prohibited by factors listed	Prohibited based on specific factors
Acting as an expert witness		X unless 607.7 A3 applies	
Subsection 608			
Legal Services			
Legal advice		X Self-review threat might be created (R608.7)	
Serving as general counsel	X (R608.9)		
Acting in an advocacy role in resolving a dispute or litigation before a tribunal or court		X (R608.11)	X If material to the financial statements (R608.10)
Subsection 609			
Recruiting Services			
Performing negotiations for a client as part of a recruiting service	X (R609.5)		
Recruiting services, recommending persons or advising on employment terms, relating to positions as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements	X (R609.6)		
Subsection 610			
Corporate Finance Services			
Promoting, dealing or underwriting the shares, debt or other financial instruments or providing advice on investment in such shares, debt or other financial instruments	X (R610.5)		
Corporate finance advisory services where the effectiveness of the advise depends on a particular accounting treatment or presentation in the financial statements and the audit or review team has doubt as to its appropriateness	X (R610.6)		
Corporate finance services		X Self-review threat might be created (R610.8))	

Date: 21 May 2021

To: NZAuASB Members

From: Joanne Scott and Gali Slyuzberg

Subject: IASB's New Approach to Disclosure Requirements

Purpose

1. This memo aims to raise awareness of the IASB's proposed new approach to drafting disclosure requirements in IFRS Standards.¹ The IASB has applied the new approach to IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. If the proposals are supported, it would gradually apply the new approach to all IFRS Standards.

Background

2. Over the years the IASB has heard three main concerns about the usefulness of information disclosed in financial statements. It refers to these as the 'disclosure problem' (see Table 1). The proposals in IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* are the most recent effort to address this problem.

Table 1 The disclosure problem

<p>1. Not enough relevant information</p>	<p>Information is relevant if it is capable of making a difference in the decisions made by the primary users of financial statements. If financial statements provide insufficient relevant information, their users might make inappropriate investing or lending decisions.</p>
<p>2. Too much irrelevant information</p>	<p>Irrelevant information is undesirable because it:</p> <ul style="list-style-type: none"> • clutters the financial statements so that relevant information might be overlooked or hard to find, making financial statements difficult to understand; and • can add unnecessary ongoing cost to the preparation of financial statements.
<p>3 Ineffective communication of the information provided</p>	<p>Information communicated ineffectively makes the financial statements hard to understand and time-consuming to analyse. Users of the financial statements may overlook relevant information or fail to identify relationships between pieces of information in different parts of the financial statements.</p>

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

3. The IASB has already completed a number of projects that address aspects of the disclosure problem (see Table 2).

Table 2 Disclosure Initiative – overview of projects

Active projects		Finalised
Targeted Standards-level Review of Disclosures	Subsidiaries that are SMEs	
Completed projects		
<p><i>Disclosure Initiative</i> (Amendments to IAS 1)</p> <p>The amendments clarified that:</p> <ul style="list-style-type: none"> ➤ materiality applies to the whole of the financial statements and that the presence of immaterial information can reduce the usefulness of financial disclosures ➤ an entity should use professional judgement to determine where and in what order information is presented in the notes 		Dec 2014
<p><i>Disclosure Initiative</i> (Amendments to IAS 7)</p> <p>The amendments:</p> <ul style="list-style-type: none"> ➤ were intended to improve disclosure of changes in financing liabilities ➤ required disclosures about changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes 		Jan 2016
<p>Principles of Disclosure research project</p> <ul style="list-style-type: none"> ➤ The project was conducted from March 2014 to March 2019 and led to some of the other disclosure-related projects, including the current proposals ➤ In March 2017 the IASB published the Discussion Paper <i>Disclosure Initiative—Principles of Disclosure</i> 		Mar 2017 (DP)
<p>IFRS Practice Statement 2 <i>Making Materiality Judgements</i></p> <p>The materiality practice statement provides:</p> <ul style="list-style-type: none"> ➤ an overview of the general characteristics of materiality ➤ a four-step process an entity may follow in making materiality judgements ➤ guidance and examples on how to make materiality judgements in specific circumstances 		Sept 2017
<p>Better Communication Case Studies</p> <ul style="list-style-type: none"> ➤ The case studies documented how six entities improved the way they communicate information in their financial statements 		Oct 2017
<p><i>Definition of Material</i> (Amendments to IAS 1 and IAS 8)</p> <p>The amendments:</p> <ul style="list-style-type: none"> ➤ clarified the definition of material and how it should be applied ➤ improved the explanations accompanying the definition of material ➤ ensured that the definition of material is consistent across all IFRS Standards 		Oct 2018
<p><i>Disclosure of Accounting Policies – Amendments to IAS 1 and Materiality Practice Statement 2</i></p> <p>The amendments:</p> <ul style="list-style-type: none"> ➤ required entities to disclose their material accounting policy information rather than their significant accounting policies ➤ added guidance and examples to IFRS Practice Statement 2 <i>Making Materiality Judgements</i> on the application of materiality to accounting policy disclosures 		Feb 2021

4. The current proposals are part of the Targeted Standards-level Review of Disclosures project. The proposals are aimed at changing the ‘checklist approach’ to disclosure in which entities (and possibly auditors and regulators) focus on complying with specific disclosure requirements rather than applying the overarching concept of materiality.

Structure of this memo

5. The rest of this memo addresses the following questions.
 - (a) What is the IASB proposing?
 - (b) What is the IASB trying to achieve?
 - (c) What does the IASB want to know?
 - (d) How can you help?
 - (e) Where can you find the ED and related documents?
6. Appendix 1 contains the proposed Guidance. Appendices 2 and 3 illustrate proposed IFRS 13 disclosure requirements and summarise existing IFRS 13 disclosure requirements.

What is the IASB proposing

7. The IASB is proposing a new approach to developing and drafting disclosure requirements. The IASB has developed draft Guidance which explains the new approach (see Appendix 1).
8. The proposed approach is based on three levels, or types of requirements. The first level is critical. Overall disclosure objectives are not a new idea. However, the proposals would require satisfaction of the overall disclosure objective in order to comply with a standard.

Table 3 Proposed new approach

Overall disclosure objectives	<ul style="list-style-type: none"> ➤ describe the overall information needs of investors within an individual IFRS Standard. ➤ require companies to assess whether the information provided in the notes meets those overall investor information needs. If that information is insufficient, companies will need to disclose additional information to meet investor needs.
Specific disclosure objectives	<ul style="list-style-type: none"> ➤ describe the detailed information needs of investors within an individual IFRS Standard. ➤ require companies to disclose all material information to enable those specific investor information needs to be met. ➤ include an explanation of what investors may do with the information provided (for example, what analysis will investors perform?).
Items of information	<ul style="list-style-type: none"> ➤ provide items of information a company may, or in some cases is required to, disclose to satisfy each specific disclosure objective. ➤ help companies apply judgement and determine how to satisfy specific disclosure objectives.

9. The IASB is also proposing to change how it goes about developing disclosure requirements. It already engages with investors about what information they would find useful, but it wants to do more of this and at an earlier stage. It will include investors' needs for information in standards (worded as specific disclosure objectives). This is intended to help entities understand how the proposed information will be used.
10. The IASB has tested the proposed Guidance on IAS 19 and IFRS 13 and is proposing amendments to these standards based on the new approach. Table 4 summarises how the new approach has been applied to IFRS 13 (see Appendix 2 for relevant ED paragraphs).

Table 4 Application of new approach to IFRS 13

Overall disclosure objective	<p>An entity shall disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition.</p>	<p>Requirement</p> <p>To assess whether information provided in the notes meets overall user information needs (eg should additional information be disclosed?)</p>
Specific disclosure objective(s)	<p>For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurements of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, from the beginning of the reporting period to the end of that period.</p>	<p>Requirement</p> <p>To disclose all material information needed to meet detailed user information needs on specific topics</p>
<p>Explanation supporting the specific disclosure objective</p> <p>The information required by [the specific disclosure objective] is intended to help users of financial statements evaluate how transactions and other events during the reporting period have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.</p>	<p>Explanatory information</p> <p>To help entities better understand the specific disclosure objective and facilitate their judgement as to whether information is material to disclose</p>	
Items of information	<p>In meeting [the specific disclosure objective] for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity shall disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements.</p>	<p>Requirement</p> <p>To disclose material information that is essential in order to meet the specific disclosure objective</p>
<p>While not mandatory, the following information may enable an entity to meet [the specific disclosure objective]: (a) an explanation of the significant reasons for changes in recurring fair value measurements other than those categorised in Level 3 of the fair value hierarchy. ...</p>	<p>Non-mandatory items</p> <p>To identify potentially material information that an entity may disclose to meet the specific disclosure objective, if relevant to the entity's circumstances</p>	

What is the IASB trying to achieve

11. The IASB wants to *improve the usefulness of note disclosures* for primary users by requiring entities to focus on the overall and specific disclosure objectives rather than detailed checklists. The new approach is intended to encourage improved judgements about the application of materiality to disclosures. The new approach is not about reducing the volume of disclosures.
 - Some entities might disclose additional information.
 - Some entities might remove information (because it is immaterial).
 - Some entities might summarise information more concisely.

12. Table 5 (from the IASB’s Basis for Conclusions) summarises the IASB’s views on the expected effects of the new approach on *stakeholder behaviour*. In order for the intended benefits to materialise, preparers, auditors and regulators would need to embrace the new approach.

Table 5 Expected effects on stakeholder behaviour

Current situation	Likely effects of disclosure requirements developed using the proposed Guidance
Entities applying the disclosure requirements in a Standard—overview	
<ul style="list-style-type: none"> • Prescriptive disclosure requirements in IFRS Standards require an entity to disclose particular items of information (an entity shall disclose...). • Entities typically disclose information—often including boilerplate compliance statements—in response to each requirement. Entities can comply with prescriptive requirements without applying significant judgement. 	<ul style="list-style-type: none"> • Entities would be required to disclose information that satisfies disclosure objectives based on the information needs of users of financial statements. • An entity would need to apply judgement to determine what information would satisfy the objectives based on the entity’s circumstances. Consequently, the proposals require entities to focus disclosures on information that is useful to users.
Entities considering immaterial information in the financial statements	
<ul style="list-style-type: none"> • IAS 1 <i>Presentation of Financial Statements</i> states that an entity need not provide a disclosure required by an IFRS Standard if the information resulting from that disclosure is not material. • Feedback on the Discussion Paper indicated that many entities think prescriptive disclosure requirements in IFRS Standards override this general requirement in IAS 1. Consequently, entities often include immaterial information to comply with the prescriptive disclosure requirements. 	<ul style="list-style-type: none"> • Immaterial information would not help an entity to meet objective-based disclosure requirements. Consequently, the proposals would help entities to eliminate immaterial information from the financial statements.
Entities considering whether additional information is needed	
<ul style="list-style-type: none"> • IAS 1 requires an entity to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the effect of transactions, other 	<ul style="list-style-type: none"> • Overall and specific disclosure objectives in IFRS Standards would reinforce the requirements in IAS 1. To achieve compliance, entities would be required to apply judgement and

Current situation	Likely effects of disclosure requirements developed using the proposed Guidance
<p>events and conditions on the entity’s financial position and financial performance.</p> <ul style="list-style-type: none"> • In practice, it can be difficult for entities to identify additional information that should be disclosed in response to this general requirement in IAS 1. Feedback on the Discussion Paper indicated that this is for two main reasons: <ul style="list-style-type: none"> • a lack of disclosure objectives—making it difficult for entities to understand what users need; and • time and resources instead being spent on applying disclosure requirements like a checklist. 	<p>disclose sufficient information to meet the objectives.</p> <ul style="list-style-type: none"> • Specific disclosure objectives in IFRS Standards would be accompanied by explanations about what users of financial statements want to do with information provided to meet the objective. These explanations would help entities better understand why information is useful and determine how best to meet that need in their own case. • Overall disclosure objectives in IFRS Standards would require entities to consider whether they need to provide additional information in the financial statements.
Auditors and regulators assessing whether disclosure requirements are satisfied	
<ul style="list-style-type: none"> • To assess compliance with prescriptive disclosure requirements in IFRS Standards, auditors and regulators need to ask only whether an entity has provided the specific piece of information the Standard requires. • Auditors and regulators can therefore often assess compliance with prescriptive requirements without making any judgement about the usefulness of the information provided. They do not need to question whether that information meets the needs of users of financial statements. • If an entity has provided the item of information specified in a Standard, auditors and regulators have little basis on which to challenge the relevance or communication effectiveness of that information. 	<ul style="list-style-type: none"> • To assess compliance with objective-based disclosure requirements, auditors and regulators would need to ask whether the information provided meets those objectives in the entity’s case. • Auditors and regulators would need to apply judgement to answer this question. They would need to consider both the content and the communication effectiveness of information disclosed in the financial statements. If the information provided is insufficient to meet the objectives, auditors and regulators would have a basis on which to challenge entities. • Even if an entity provides the items of information specified in a Standard, it would still be necessary for auditors and regulators to assess whether each disclosure objective has been satisfied. Consequently, a checklist approach would not be sufficient to assess compliance. • Immaterial information would not help auditors and regulators to conclude that an entity has complied with objective-based disclosure requirements. Consequently, an entity would have no incentive to include immaterial information to satisfy auditors and regulators.

13. Table 6 summarises the IASB’s views on the expected effects on the *quality of financial reporting and costs*. We created Table 6, based on paragraphs BC192–BC206 of the IASB’s Basis for Conclusions.

Table 5 IASB’s views: expected effects on quality of financial reporting and costs

Quality of financial reporting
<ul style="list-style-type: none"> • More relevant information and less irrelevant information <ul style="list-style-type: none"> ○ Entities would be given more information about why information is needed (via the specific disclosure objectives). ○ Entities, auditors and regulators would have to consider whether information meets user needs as described in the objectives. ○ Immaterial information would not assist with compliance. ○ The overall objective could lead to the disclosure of information not captured by a specific disclosure objective. • In some circumstance, less comparable information <ul style="list-style-type: none"> ○ Previously an entity provided some immaterial information. ○ Entities are different. ○ Different entities make different judgements about how to satisfy a disclosure objective.
Costs
<ul style="list-style-type: none"> • More costs <ul style="list-style-type: none"> ○ More costs expected, especially in the first year. ○ More emphasis on judgement than checklists. ○ More involvement by senior management. ○ Increased audit costs relating to the application of judgement. ○ Annual reassessment – not necessarily the same information year on year. • Possible cost savings/ possibly neutral <ul style="list-style-type: none"> ○ Savings from removing immaterial information. ○ Might be able to better align with information used internally. ○ Decision-making process might be similar to an entity’s existing decision-making process for financial statements.

Alternative view from IASB members

14. Not everybody agrees that the proposals will achieve what the IASB wants. Three IASB Board members voted against publication of the ED. They agree with what the IASB is trying to achieve and agree with the proposals to work more closely with users and other stakeholders early in the standard-setting process. They also agree that “developing disclosure objectives that clearly articulate the information needs that disclosures should satisfy can assist in addressing the disclosure problem”.
15. However, they have concerns about the proposals. They think that developing objective-based disclosure requirements without requiring disclosure of specific items will:
- (a) increase enforcement challenges;

- (b) be more burdensome for preparers of financial statements and increase reliance on materiality judgements; and
 - (c) impair comparability for users of financial statements by introducing a more flexible approach to disclosures.
16. They also note that some entities, including those featured in the Better Communication Case Studies, managed to streamline their disclosures under existing IFRS Standards.

Possible challenges to the success of the proposals – view of a standard setter

17. International constituents are just beginning their outreach on the IASB's proposals. We expect to see more discussion over coming months. The European Financial Reporting Advisory Group (EFRAG) has put out a draft comment letter which supports the intention of the new approach but which identifies a few challenges to the success of the proposals. Some comments which we thought you might be interested in follow.
- (a) The proposed approach introduces a radical change from the existing guidance by making minimum requirements an exception. Items of information will be mandated only if they are deemed always necessary to meeting a specific objective.
 - (b) The success of the proposed approach depends on the IASB striking the correct balance between a tier of disclosures that are always required (that ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosures.
 - (c) When confronted with the need for an increased level of judgement, will some (especially smaller) entities be tempted to continue providing the same disclosures as before or use the non-mandatory examples as new checklists?
 - (d) The proposed approach would require preparers to determine the information that would meet the needs of users of financial statements, whose perspectives may differ from their own, and to determine and justify that they have met the stated objectives.
 - (e) Absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing. It would also make review of such disclosures and enforcement of the requirements more difficult for auditors and regulators and may ultimately not lead to the intended changes and improvement to information relevance.

What does the IASB want to know?

18. The IASB Snapshot document sets out what the IASB is seeking feedback on.

Extract from IASB Snapshot document

The Board is seeking feedback on whether the proposals would be an effective catalyst for change, for example...

...would the proposals allow companies to:		would the proposals
avoid applying disclosure requirements like a checklist?	make effective materiality judgements?	lead to better information for investors?
eliminate immaterial disclosures?	identify when additional or different information needs to be disclosed?	give auditors and regulators a basis for challenging judgement instead of relying on a checklist?
better understand investor needs and identify information that would meet those needs?	determine how best to satisfy disclosure objectives in a company's own circumstances?	lead to benefits that exceed costs?

19. The ED contains general questions and questions about the proposed amendments IFRS 13 and IAS 19. The general Questions 1–5 are shown below. We have shaded parts of Questions 1 and 3 which we think might be of interest to you. The Draft Guidance (DG) referred to in these questions is in Appendix 1 of this memo.

Question 1—Using overall disclosure objectives	
Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future.	
(a)	Do you agree that the Board should use overall disclosure objectives within IFRS Standards in future? Why or why not?
(b)	Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?

Question 2—Using specific disclosure objectives and the disclosure problem	
Paragraphs DG8–DG10 of this Exposure Draft explain how the Board proposes to use specific disclosure objectives in future.	
(a)	Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to: <ul style="list-style-type: none"> (i) provide relevant information; (ii) eliminate irrelevant information; and (iii) communicate information more effectively? Why or why not? If not, what alternative approach would you suggest and why?
(b)	Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?

Question 3—Increased application of judgement

Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board proposes to:

- (a) use prescriptive language to require an entity to comply with the disclosure objectives.
- (b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances.

This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances. Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behaviour of entities, auditors and regulators towards disclosures in financial statements. *[Note: See Table 5 in this memo for a summary of these effects.]* Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach. *[Note: See Table 6 in this memo for a summary of these effects.]*

- (a) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?
- (b) Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?
- (c) Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?
- (d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?
- (e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analysing information, or changes for electronic reporting.

Question 4—Describing items of information to promote the use of judgement

The Board proposes to use the following less prescriptive language when identifying items of information: 'While not mandatory, the following information may enable an entity to meet the disclosure objective'. Paragraph BC19–BC26 of the Basis for Conclusions describe the Board's reasons for this language and alternative options that the Board considered.

Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?

Question 5—Other comments on the proposed Guidance

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.

Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

How can you help?

Your views

20. We would welcome your views on the proposals but are aware that there won't be sufficient time to do this at this meeting. We are happy to arrange a separate session for members that would like to discuss the proposals in more detail. Staff are also happy to discuss the proposals on a one-on-one basis. Comments on the ED are due to the NZASB by **1 September** (and to the IASB by 21 October).

Raising awareness

21. We would appreciate your help in making others aware of these proposals and encouraging them to comment to the NZASB and/or the IASB.

Participate in fieldwork

22. The IFRS Foundation is inviting preparers of financial statements to participate in fieldwork to test the proposals in the ED. The IASB wants to better understand the practical consequences of applying the proposed new approach. It is looking for volunteers to:
- (a) conduct fieldwork using instructions and questionnaires. Participants may be asked to test the application of the proposed new requirements in IFRS 13, IAS 19 or both; and
 - (b) summarise and report the results of the fieldwork.
23. If you know anyone that would be interested, please ask them to contact staff.

Where can you find the ED and related documents?

24. The ED and related documents are available on the XRB website (see Table 6). The website also includes a link to a short IASB video explaining the proposals.

<https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/iasb-ed20213/>

Table 6 Exposure draft documents

ED	<ul style="list-style-type: none"> ➤ Invitation to Comment, including the questions for respondents ➤ Guidance ➤ Amendments to IFRS 13 ➤ Amendments to IAS 19 ➤ Amendments to other standards.
Basis for Conclusions	<ul style="list-style-type: none"> ➤ Project history ➤ Basis for conclusions on the draft guidance ➤ Basis for conclusions on the proposed amendments to IFRS 13 and IAS 19 and an effects analysis ➤ Alternative View
IASB Snapshot	<ul style="list-style-type: none"> ➤ Summary of proposals

Appendix 1 Proposed Guidance

[Draft] Guidance for the Board to use when developing and drafting disclosure requirements in IFRS Standards

The [Draft] Guidance for the Board is an important part of this Exposure Draft. It proposes a new approach to developing and drafting disclosure requirements in IFRS Standards. The Board used this approach to develop the proposed amendments to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* set out in this Exposure Draft. The [Draft] Guidance for the Board is not part of the Standards. Instead, it is an internal document that explains how the Board will develop disclosure requirements in future if, after testing on IFRS 13 and IAS 19, the Board decides to use the proposed approach in its standard setting activities.

Overview

- DG1 This [Draft] Guidance for the Board explains how the Board will modify disclosure requirements in IFRS Standards to enhance the use of judgement. In summary, the Board will:
- (a) require entities to comply with overall disclosure objectives that describe the overall information needs of users of financial statements. To comply with those objectives, entities would be required to assess whether information provided in the notes by complying with the specific disclosure objectives meets the overall user information needs.
 - (b) require entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements. To comply with those objectives, entities would be required to disclose all material information needed to meet the detailed user information needs.
 - (c) supplement specific disclosure objectives with explanations of what the information provided to meet those objectives is intended to help users of financial statements do.
 - (d) link each specific disclosure objective with items of information an entity may, or in some cases is required to, disclose to satisfy the objective.
- DG2 This approach aims to shift the focus from applying disclosure requirements like a checklist to determining whether a specific disclosure objective has been satisfied by:
- (a) using the prescriptive language ‘shall’ to require entities to comply with disclosure objectives in the Standards; and
 - (b) typically using the following less prescriptive language when referring to items of information in the Standards—‘while not mandatory, the following information may enable an entity to meet the disclosure objective’.
- DG3 The language described in paragraph DG2 will require an entity to satisfy disclosure objectives that describe user information needs. An entity could not be regarded as achieving compliance by simply disclosing a ‘checklist’ of information. Instead, entities, auditors and others will need to apply judgement to determine:
- (a) which information is material (see paragraph DG4); and
 - (b) whether the information provided satisfies disclosure objectives.
- DG4 The Board will, to the extent possible, avoid making generic or overarching references to materiality in the disclosure sections of individual IFRS Standards. This is to reinforce materiality as an overarching concept that applies across all Standards, including all disclosure requirements. Multiple or duplicate references to materiality can introduce confusion about how the concept applies to a Standard in which it is not mentioned.

Overall disclosure objectives

- DG5 The Board will use overall disclosure objectives within individual IFRS Standards to provide a narrower, more Standard-specific focus than the objectives of general purpose financial reporting and financial statements in the *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements*.
- DG6 Within the context of an individual IFRS Standard, overall disclosure objectives will describe the overall information needs of users of financial statements and require an entity to disclose information that meets

those needs. To comply with this requirement, entities will need to consider whether the information provided by complying with the specific disclosure objectives (paragraphs DG8–DG10) meets those overall user information needs. For example, to comply with the overall disclosure objectives in a Standard, an entity might need to provide additional, entity-specific information that is not directly required by the specific disclosure objectives in that Standard.

- DG7 Overall disclosure objectives will also provide helpful context, and incorporate other broad considerations, that entities are required to consider when applying the specific disclosure objectives in an IFRS Standard. For example, overall disclosure objectives might incorporate considerations about aggregation and disaggregation specific to the disclosure section of a particular Standard.

Specific disclosure objectives

- DG8 Within the context of an individual IFRS Standard, specific disclosure objectives will describe the detailed information needs of users of financial statements and require an entity to disclose all material information that enables the user understanding described in the objectives to be achieved. Specific disclosure objectives will require entities to apply judgement effectively because, in order to comply with the objectives, entities will need to assess whether the information provided is sufficient to meet detailed user information needs.
- DG9 The specific disclosure objectives will be accompanied by a separate paragraph that provides context by explaining what the information provided to meet those objectives is intended to help users of financial statements do. For example, the Board might explain that information to satisfy a particular specific disclosure objective is intended to help a user perform a particular analysis, assessment or evaluation. These explanations are intended to help entities better understand the specific disclosure objectives and facilitate their judgement as to whether information is material to their financial statements.
- DG10 When developing specific disclosure objectives, the Board will balance entity-specific information with information that is comparable across entities. Users of financial statements consistently highlight the importance of both entity-specific information and comparable information, while also acknowledging some tension between these two types of information. By focusing the compliance requirement on specific disclosure objectives, the Board will require entities to apply judgement and focus their disclosures on information that is material in their own specific circumstances. By identifying specific items of information in the Standards (see paragraphs DG11–DG13), the Board will help to achieve comparability of information between entities for which similar information is material.

Items of information to meet specific disclosure objectives

- DG11 The Board will identify items of information that an entity may, or in some cases is required to, disclose to meet each specific disclosure objective. The Board will explicitly link every item of information included in the disclosure section of an IFRS Standard to one or more specific disclosure objectives. This will provide clarity about the relationship between the specific disclosure objectives and items of information and, therefore, help entities to make effective judgements about whether information is material.
- DG12 The items of information in paragraph DG11 are to help entities apply judgement and determine how to satisfy the specific disclosure objective. As a result, an entity may need to disclose one, some or all of the items of information identified in the Standard. An entity may also need to disclose information in addition to that identified in the Standard to meet the detailed user information needs described in the specific disclosure objectives. Disclosure of immaterial information will not help an entity to satisfy the specific disclosure objectives because such information will not meet the user information needs described in those objectives.
- DG13 At times the Board may identify information that, if material to an entity, is always needed to meet the detailed information needs of users of financial statements described in the specific disclosure objective. In these cases, the Board will, in the first instance, aim to develop a disclosure objective that is specific enough to make clear what information would satisfy the objective. If that is not possible, the Board will use prescriptive language to require disclosure of a particular item of information. In such cases, the Board will explain, in the Basis for Conclusions, why the item is essential to satisfying the specific disclosure objective.

Appendix 2 Extracts from IASB ED – what IFRS 13 could look like

This Appendix shows some of the proposed new paragraphs for IFRS 13. We have included subheadings to highlight overall objectives, specific objectives and items of information.

Overall disclosure objective

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

Overall disclosure objective

- 100 **An entity shall disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition. This information shall enable users of financial statements to understand:**
- (a) **the significance of those classes of assets and liabilities (see paragraphs B48–B50) for the entity's financial position and performance;**
 - (b) **how their fair value measurements have been determined; and**
 - (c) **how changes in those measurements could have affected the entity's financial statements at the end of the reporting period.**
- 101 An entity shall consider the level of detail necessary to satisfy the disclosure objectives set out in this IFRS and ensure that relevant information is not obscured by the inclusion of insignificant detail.
- 102 For the purposes of applying paragraphs 103–117 of this IFRS, recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).

Specific disclosure objective

Specific disclosure objectives

Assets and liabilities within each level of the fair value hierarchy

- 103 **For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand:**
- (a) **the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and**
 - (b) **how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.**
- 104 The information required by paragraph 103 is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position at the end of the reporting period.

Items of information

- 105 In meeting the disclosure objective in paragraph 103, an entity shall disclose the fair value measurement for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).
- 106 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 103:

- (a) a description of the nature, risks and other characteristics of the classes of assets and liabilities in each level of the fair value hierarchy (or a cross-reference to where that information is disclosed elsewhere in the financial statements).
- (b) a description of inseparable third-party credit enhancement for a liability and whether such an enhancement is reflected in the fair value measurement.

Specific disclosure objective

Measurement uncertainties associated with fair value measurements

- 107 For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.**
- 108 The information required by paragraph 107 is intended to help users of financial statements assess the sources of measurement uncertainties in the entity's determination of the fair value measurements.

Items of information

- 109 In meeting the disclosure objective in paragraph 107, an entity shall disclose whether it makes the accounting policy decision to use the exception in paragraph 48 for measuring the fair value of a group of financial assets and financial liabilities.
- 110 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 107:
- (a) a description of the significant valuation techniques used in the fair value measurements.
 - (b) a description of a change in the valuation techniques and the reason(s) for making the change.
 - (c) quantitative or narrative information about the significant inputs used in the fair value measurements.
 - (d) a statement when the highest and best use of a non-financial asset differs from its current use, and an explanation of why.

Specific disclosure objective

Reasonably possible alternative fair value measurements

- 111 For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the alternative fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, using inputs that were reasonably possible at the end of the reporting period.**
- 112 The information required by paragraph 111 is intended to help users of financial statements evaluate the possible outcomes of the fair value measurements at the end of the reporting period, and evaluate how those possible outcomes might affect the future cash flows of the entity.

Items of information

- 113 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 111:
- (a) a description of the uncertainty caused by the significant inputs used in determining the fair value, if those inputs could have reasonably been different at the end of the reporting period and would have resulted in a significantly higher or lower fair value measurement.
 - (b) the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period.
 - (c) an explanation of how the range of alternative fair value measurements in (b) was calculated.
 - (d) a description of interrelationships between the inputs used and how those interrelationships magnify or mitigate the effect of using inputs that were reasonably possible at the end of the reporting period on the fair value measurements.

Specific disclosure objective

Reasons for changes in fair value measurements

- 114 For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurements of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, from the beginning of the reporting period to the end of that period.**
- 115 The information required by paragraph 114 is intended to help users of financial statements evaluate how transactions and other events during the reporting period have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.

Items of information

- 116 In meeting the disclosure objective in paragraph 114 for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity shall disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements. Reasons for changes that might be appropriate include, but are not limited to, the following:
- (a) total gains or losses for the reporting period recognised in profit or loss that are attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period. In such a case, the entity identifies the line item(s) in which those gains or losses are recognised.
 - (b) total gains or losses for the reporting period recognised in profit or loss that are attributable to realised gains or losses. In such a case, the entity identifies the line item(s) in which those gains or losses are recognised.
 - (c) total gains or losses for the reporting period recognised in other comprehensive income. In such a case, the entity identifies the line item(s) in which those gains or losses are recognised.
 - (d) purchases.
 - (e) sales.
 - (f) issues.
 - (g) settlements.
 - (h) the effect of foreign exchange rate differences.
 - (i) the amount of transfers into and out of the level of the fair value hierarchy.
- 117 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 114:
- (a) an explanation of the significant reasons for changes (see paragraph 116) in recurring fair value measurements other than those categorised in Level 3 of the fair value hierarchy.
 - (b) the reasons for transfers between levels of the fair value hierarchy during the reporting period.
 - (c) the entity's policy for determining when transfers between levels are deemed to have occurred. Examples of the policy for the timing of those transfers include the date of the event or change in circumstances that caused the transfer, the beginning of the reporting period and the end of the reporting period.

Appendix 3 IFRS 13 existing disclosure requirements

This Appendix summarises the current disclosure requirements in IFRS 13.

IFRS 13 covers the disclosures after initial recognition. Other standards address the disclosure of fair values at initial recognition. The required disclosures depend on whether the fair value measurement is recurring or non-recurring subsequent to initial recognition.

- Recurring fair value measurements relate to those where measurement is required at the end of each reporting period-end.
- Non-recurring measurements are driven by a particular event or transaction.

The table below summarises the fair value disclosure requirements for recurring, non-recurring and disclosure only items.

Disclosure requirement	Recurring	Non-recurring	Required by another IFRS
FV measurement at end of reporting period	√	√	
Reasons for the FV measurement		√	
Level within FV hierarchy (1,2,3)	√	√	√
Transfers between L1 and L2 with reasons	√		
Description of valuation technique (L2, L3)	√	√	√
Quantified unobservable inputs (L3)	√	√	
Reconciliation of opening and closing balance (L3)	√		
Description of valuation processes used (L3)	√	√	
Description of sensitivity to changes in unobservable inputs (L3)	√		
Quantification of sensitivity to changes in unobservable inputs (L3)	√		

Level 1 inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for the asset or liability

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	2 June 2021
Subject:	Conforming amendments to NZ AS 1 from ISA (NZ) 315 (Revised 2019)
Date:	20 May 2021
Prepared by:	Misha Pieters/Sharon Walker

<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 APPROVE an exposure draft proposing limited conforming amendments to NZ AS 1, *The Audit of Service Performance Information*, arising because of international revisions to the ISAs, and resulting in changes to ISA (NZ) 315 (Revised 2019)¹.

Background

2. ISA (NZ) 315 (Revised 2019) is effective for audits of financial statements for periods beginning on or after 15 December 2021. There is a need to reflect the revised concepts and terminology in NZ AS 1 to ensure consistency with the ISAs (NZ), given that the auditor is required to apply the ISAs (NZ) when auditing service performance information (SPI).
3. For this reason, staff have prepared limited proposed amendments to NZ AS 1 together with an invitation to comment, mindful that NZ AS 1 is still relatively new, and that the NZAuASB intends to conduct a detailed post implementation review of the standard at an appropriate time in the near future.

Matters to Consider

4. Board members are asked to APPROVE the invitation to comment and exposure draft.
5. The exposure draft includes only those paragraphs where changes are proposed. In order to provide context for the changes, a mark up of NZ AS 1 is also provided for information purposes only. Comments in these documents reflect the considerations of staff in developing the exposure draft.
6. In particular staff seek views as to whether the Board considers any additional changes are needed to ensure consistency with the ISAs (NZ), in particular:
 - a. Whether there is a need to repeat a requirement in NZ AS 1 to assess inherent risk and control risk separately? We recommend not, but rather to amend the definition of material misstatement to include the two components as they relate to SPI.

¹ ISA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement*
WELLINGTON OFFICE Level 7, 50 Manners St, Wellington • AUCKLAND OFFICE Level 12, 55 Shortland St, Auckland
POSTAL PO Box 11250, Manners St Central Wellington 6142, New Zealand • PH +64 4 550 2030 • FAX +64 4 385 3256

- b. Whether there is a need to define inherent risk factors for service performance information or to provide additional application material in the context of service performance information. If so, what material is deemed necessary? We recommend not to repeat the ISAs in NZ AS 1, but to ask a question as to whether more application material is needed.
- c. Whether there is any concern about including the component of the entity's system of internal control as proposed in paragraph 29, given that the control environment may be less mature with respect to service performance information?

Next Steps

- 7. The timeline for approval is as follows:
 - a. Issue exposure draft in June 2021.
 - b. Analyse comments received and approve amending standard on 20 October 2021.
 - c. Gazette the amending standard on 28 October to ensure it is effective for periods beginning on or after 15 December 2021, consistent with the effective date of ISA (NZ) 315 (Revised 2019).

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Draft Invitation to comment and exposure draft (for approval)
Agenda item 8.3	Markup of NZ AS 1 (for noting)



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

**EXPOSURE DRAFT NZAUASB 2021-3
CONFORMING AMENDMENTS TO NZ AS 1 DUE TO
ISA (NZ) 315 (REVISED 2019)**

Invitation to Comment

June 2021

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External Reporting Board
PO Box 11250
Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

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Table of Contents

	Page
Information for respondents	4
List of abbreviations.....	5
Questions for respondents	5
1. Introduction and Overview of proposed conforming amendments	6
1.1 Background	6
1.2 Purpose of this Invitation to Comment	6
1.3 Timeline and next steps	6
1.4 Proposed effective date	7
Exposure Draft NZAuASB 2021-3 Conforming Amendments to NZ AS 1 Due to ISA (NZ) 315 (Revised 2019)	

Information for respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising Conforming Amendments to NZ AS 1 Due to ISA (NZ) 315 (Revised 2019).

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

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

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

<https://xrb.govt.nz/assurance-standards/standards-in-development/open-for-comment/ed-nzauasb-2021>

The closing date for submission is <date>.

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

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

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

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

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
ISA (NZ)	International Standard on Auditing (New Zealand)
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
NZ AS 1	New Zealand Auditing Standard
XRB	External Reporting Board

Questions for respondents

The NZAuASB is interested in hearing from constituents as to whether they agree with the limited proposed conforming and consequential amendments to NZ AS 1. Respondents are asked to consider the following specific questions and to respond to the NZAuASB by <date>:

1. Do you agree with the NZAuASB’s proposed conforming and consequential amendments to NZ AS 1 *The Audit of Service Performance Information* arising as a result of the revision of ISA (NZ) 315 (Revised 2019)² as described in the exposure draft? If not, please explain why not, and what alternative do you propose.
2. Do you consider that additional application material is needed to assist you to apply ISA (NZ) 315 (Revised 2019) to the audit of service performance information? If yes, please identify where or what additional application material is needed?
3. Do you agree with the proposed effective date? If not, please explain why not, and what alternative do you propose?

² ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

1. Introduction and Overview of proposed conforming amendments

1.1 Background

1. This ED proposes conforming and consequential amendments to NZ AS 1 *The Audit of Service Performance Information* arising because of the revision of ISA (NZ) 315 (Revised 2019). The proposals are limited in nature to reflect new concepts and terms consistently with the ISAs (NZ), however are not intended to repeat the requirements of ISA (NZ) 315 (Revised 2019) with respect to service performance information, given that the auditor is required by NZ AS 1 to apply the ISAs (NZ) to the audit of service performance.
2. The proposed conforming and consequential changes to NZ AS 1 have been presented in marked text to the relevant paragraphs. Only the paragraphs that have amendments or provide context to the amendments are provided.

1.2 Purpose of this Invitation to Comment

3. The purpose of the Invitation to Comment (ITC) is to seek feedback from stakeholders on Exposure Draft (ED) *Conforming Amendments to NZ AS 1 Due to ISA (NZ) 315 (Revised 2019)*.
4. The following summarises the proposed changes:
 - ISA (NZ) 315 (Revised 2019)³ requires the auditor to assess inherent risk and control risk separately. The definition of the risk of misstatement in NZ AS 1 is proposed to be revised to reflect these two components (Refer to paragraph 7(e)).
 - A proposal to require the auditor to obtain an understanding of the components of the entity's system of internal control in the preparation of the service performance information and to determine whether control deficiencies have been identified (Refer to paragraph 29 and a new paragraph 29a).
 - Various terminology changes to align with the revised concepts and terms, e.g., referring to the entity's system of internal control, rather than the entity's internal control.

1.3 Timeline and next steps

5. Submissions on ED 2021-3 are due by <date>. Information on how to make submissions is provided on page 4 of this ITC.
6. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to that feedback, the NZAuASB plans to issue *Conforming Amendments to NZ AS 1 Due to ISA (NZ) 315 (Revised 2019)* in October 2021.

³ ISA (NZ) 315 (Revised 2019), paragraphs 31-34

1.4 Proposed effective date

7. The NZAuASB proposes amendments to be effective for audits of general purpose financial statements for periods beginning on or after 15 December 2021. The effective date aligns with the effective date of ISA (NZ) 315 (Revised 2019).

DRAFT

**EXPOSURE DRAFT NZAUASB 2021-3
CONFORMING AMENDMENTS TO NZ AS 1 DUE TO ISA (NZ) 315 (REVISED 2019)**

CONTENTS

A: INTRODUCTION

**B: CONFORMING AMENDMENTS TO NZ AS 1 DUE TO ISA (NZ) 315
(REVISED 2019)**

C: EFFECTIVE DATE

A: INTRODUCTION

This document sets out the proposed conforming amendments to New Zealand Auditing Standard 1 issued by the NZAuASB for conforming and consequential amendments arising from ISA (NZ) 315 (Revised 2019). Underline and strikethrough are used to indicate proposed changes. Paragraph numbering and footnotes will be adjusted accordingly in the compilation of the standard.

B: CONFORMING AMENDMENTS TO NZ AS 1 DUE TO ISA (NZ) 315 (REVISED 2019)

Definitions

7. For the purposes of this NZ AS, the following terms have the meanings attributed below:
 - (a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)
 - (b) Long-form report – Auditor’s report including information and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion. (Ref: Para. A69–A72)
 - (c) Misstatement – A difference between the selection, measurement, description, aggregation, presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.
 - (d) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable, and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A5, Appendix 1)
 - (e) Risk of material misstatement – The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:
 - (i) Inherent risk - The susceptibility of an assertion about a performance measure, description or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (ii) Control risk - The risk that a misstatement that could occur in an assertion about a performance measure, description or disclosure and that could be

material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's controls.

- (f) Service performance criteria – The selection of goods and/or services being reported on, and the performance measures and/or descriptions used to evaluate the entity's service performance for a particular engagement. (Ref: Para. A6–A8)

Requirements

Planning

.....

20. When planning the audit of the service performance information, the auditor shall:
- Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control relevant to the audit of the service performance information sufficient to provide an appropriate basis for the identification and assessment of ~~identify and assess~~ the risks of material misstatement and design, and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.⁴ (Ref: Para. A17)
 - Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁵ (Ref: Para. A17)
 - Where the service performance information includes information upon which another practitioner has expressed an opinion, communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner about the scope and timing of the work and findings of the other practitioner, and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information. (Ref: Para. A18)

Commented [SW1]: Aligned wording more closely with ISA 315 conforming amendments ISA 402 para 11

Understanding the Entity and Its Environment, the Applicable Service Performance Criteria and Including the Entity's System of Internal Control, and Identifying and Assessing Risks of Material Misstatement

~~Obtaining an Understanding of the Entity and Its Environment, and the Applicable Service Performance Criteria~~

21. The auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A19–A24)

⁴ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

⁵ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (a) The service performance of the entity and the context in which the entity operates;
- (b) The entity's process for identifying what and how to report on its service performance, as well as what other options were considered;
- (c) Whether the service performance criteria will generate service performance information that is consistent with and clearly linked to the entity's overall purpose and strategies;
- (d) How much discretion the entity has in selecting the service performance criteria;
- (e) The extent to which consultation with intended users influenced the service performance criteria; and (Ref: Para. A22–A24)
- (f) The judgements made in deciding when to provide comparative narrative and descriptive information.

...

Obtaining an Understanding the Components of the Entity's System of Internal Control

29. ~~The auditor shall:~~⁶

- ~~(a) Obtain an understanding of internal control relevant to the audit over the preparation of the service performance information; and~~
- ~~(b) Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A44)~~

Through performing risk assessment activities, the auditor shall obtain an understanding of:⁷

- (a) The control environment relevant to the preparation of the service performance information;
- (b) The entity's risk assessment process relevant to the preparation of the service performance information;
- (c) The entity's process of monitoring the system of internal control relevant to the preparation of the service performance information;
- (d) The entity's information system and communication relevant to the preparation of the service performance information; and
- (e) The control activities component. (Ref: Para. A44)

29a. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.

Commented [MP2]: Not defined with reference to SPI...unlikely that SPI controls will be as robust as for financial reporting . Is the NZAuASB comfortable with this level of detail? Is more guidance needed in the context of SPI

Commented [SW3]: Aligning with paras 21-26 of ISA (NZ) 315 (2019)

Commented [SW4]: Para 27 ISA (NZ) 315 (2019)

⁶ ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, paragraph 12

⁷ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 21 to 26

...
Materiality in Planning and Performing the Engagement

...
Identifying and Assessing Risks of Material Misstatement

34. The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019)⁸ to obtain audit evidence that provide an appropriate basis for identification identify and assessment of the risks of material misstatement, whether due to fraud or error: ⁹

- (a) At the service performance information level; and
- (b) At the assertion level for performance measures, descriptions or disclosures where there is a reasonable possibility of material misstatement ~~through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).¹⁰~~ (Ref: Para. A51, A54–A56)

The Auditor's Responses to Assessed Risks

35. The auditor shall design and perform procedures whose nature, timing and extent¹¹:

- (a) Are responsive to assessed risks of material misstatement at the service performance information level and at the assertion level; and
- (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.

36. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of ~~the relevant~~ controls over the service performance information when:

- (a) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
- (b) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A57–A59)

...
Application and Other Explanatory Material

⁸ ISA (NZ) 315 (Revised 2019), paragraph 13

⁹ ISA (NZ) 315 (Revised 2019), paragraphs ~~25–28–34~~

¹⁰ ISA (NZ) 315 (Revised), paragraph 5

¹¹ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

Commented [SW5]: I feel like this should have its own heading rather than being under a materiality heading? It's part of the 315 assessment, but looks like it comes under 320?

Commented [MP6R5]: Suggest leave as is – the positioning of the materiality section was a compromise.

Commented [MP7]: 315 has a definition of inherent risk factors - Characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors¹¹ insofar as they affect inherent risk.

Do we need to tailor this definition for SPI – is additional guidance needed on inherent risk factors specific to SPI?

Do we need to weave in the idea of significant risk?

Is there a need to repeat the requirement to assess control risk and inherent risk separately in NZ AS 1 if there is nothing different from an SPI perspective? Recommend not to include here but seek views of the NZAuASB.

Commented [SW8]: Removal of relevant consistent with ISA 315 conforming amendments ISA 330 para 8

Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)

...

A12. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,¹² ISA (NZ) 540 (Revised),¹³ ISA (NZ) 550¹⁴ and ISA (NZ) 570 (Revised)¹⁵ are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates as a result of measurement that is subject to estimation uncertainty, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

...

Documentation (Ref: Para. 12)

A14. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- Planning: The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial statements and service performance information, any significant changes made during the engagement, and the reasons for such changes;
- Materiality: The materiality levels or materiality factors for the service performance information and matters considered in their determination;
- Risks of material misstatement: Key elements of the understanding obtained regarding the entity and its environment, and the applicable service performance criteria specified in paragraph 21, and the risks of material misstatement for which, in the auditor's professional judgement, further procedures were required;
- Procedures: The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- Evaluation of misstatements: Misstatements identified during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected misstatements are material, individually or collectively, and the basis for that conclusion.

...

Commented [SW9]: To align with change in heading preceding para 21

¹² ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹³ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*

¹⁴ ISA (NZ) 550, *Related Parties*

¹⁵ ISA (NZ) 570 (Revised), *Going Concern*

Understanding the Entity and Its Environment, the Applicable Service Performance Criteria, and Including the Entity's System of Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 21–30)

Obtaining an Understanding of the Entity and its Environment and the Applicable Service Performance Criteria

....

~~Obtaining an Understanding the Components of the Entity's System of Internal Control (Ref: Para. 30)~~

A44. Controls in control activities component that may be relevant to the audit of the service performance information include policies and procedures that pertain to internal management performance reviews,⁴⁶ including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another.

...

The Auditor's Responses to Assessed Risks (Ref: Para. 35–37)

...

A59. In some instances, there may not be controls activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

...

Appendix 4

Illustrative Engagement Letter Including Service Performance Information

...

[The responsibilities of the auditor]

We will conduct our audit of the financial statements in accordance with ISAs (NZ) and the audit of the service performance information in accordance with the ISAs (NZ) and NZ AS 1. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the *[entity information, the financial statements and the service performance information]*, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as

Commented [S10]: Reference no longer relevant – need to identify where this now ties to, if anywhere... reconciliations and verifications as described in para 20 of appendix 3?

Commented [MP11R10]: Recommend remove the footnote reference

⁴⁶ — ISA (NZ) 315 (Revised), Appendix 1, paragraph 9

fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of [*the entity information*], the financial statements and the service performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's system of internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [*general purpose financial report/performance report*] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the service performance criteria are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] [in a manner that achieves fair presentation].
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [*general purpose financial report/performance report*] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

...

Appendix 5

Illustrative Representation Letter Including Service Performance Information

...

[General Purpose Financial Report/Performance Report]

We have fulfilled our responsibilities on behalf of [the entity], as set out in the terms of the audit engagement dated [insert date]:

- For the preparation, and fair presentation of the [entity information], financial statements and [service performance information/statement of service performance] in accordance with [PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.
- To select service performance criteria that are suitable in order to prepare service performance information in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] (NZ AS 1)
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA (NZ) 540 (Revised))
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the financial statements as a whole and [service performance information/statement of service performance]. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate.]

...

Appendix 6

(Ref: Para. A66)

Illustrative Auditor’s Report Including Service Performance Information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a general purpose financial report/performance report of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework¹⁷. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The general purpose financial report/performance report is prepared by management of the entity in accordance with a general purpose framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

...

Basis for Opinion

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [*entity*] in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹⁷ The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

Appendix 7

(Ref: Para. A76)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

...

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

...

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page xx, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by *[list performance measures and/or descriptions reported]* to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the *[entity]* in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

...

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include *[list appropriate goods and services]* and measured and evaluated this performance with reference to *[describe performance measures and/or descriptions reported]* to report its service performance. We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information

would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the *[entity]* in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the *[entity]*.

...

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

...

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as *(give examples)*. The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, *[describe performance measure and explain where information comes from that we are unable to independently test.]*]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the *[entity]* in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the *[entity]*.

...

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

...

Basis for Qualified Opinion

[As outlined on page xx of the *[general purpose financial report/ performance report]*, [entity] has not applied the requirements of the *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* to its grant expenditure. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the *[statement of comprehensive revenue and expenses]*; assets, liabilities and equity in the statement of financial position, *[total comprehensive revenue and expense]* and opening and closing equity in the *[statement of changes in equity]* and grants expense reported in the *[service performance information/statement of service performance]*.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

...

C: EFFECTIVE DATE

The proposed amendment described in section B will be effective for audits of general purpose financial statements for periods beginning on or after 15 December 2021.

NEW ZEALAND AUDITING STANDARD 1

THE AUDIT OF SERVICE PERFORMANCE INFORMATION

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Introduction	
Scope of this NZ AS.....	1–4
Effective Date	5
Objectives	6
Definitions	7
Requirements	
Conduct of the Engagement in Accordance with ISAs (NZ).....	8–9
General Principles of an Audit of the General Purpose Financial Report	10
Agreement on Audit Engagement Terms	11
Documentation	12–13
Laws and Regulations	14–15
Communication with Those Charged with Governance	16
Planning.....	17–20
Understanding the Entity and Its Environment, the Applicable Service Performance Criteria and Including the Entity’s System of Internal Control, and Identifying and Assessing Risks of Material Misstatement	21–30
Materiality in Planning and Performing the Engagement	31–34
The Auditor’s Responses to Assessed Risks.....	35–37
Audit Evidence.....	38–40
Analytical Procedures	41
Written Representations	42
Using the Work of an Auditor’s Expert	43
Forming an Opinion and Reporting	44–47
Report Content	48–51
Key Audit Matters.....	52
Modifications to the Opinion in the Independent Auditor’s Report	53–56
Emphasis of Matter Paragraphs and Other Matter Paragraphs	57–58

Comparative Information	59
Other Information.....	60
Application and Other Explanatory Material	
Scope of this NZ AS.....	A1–A5
Definitions	A6–A8
Conduct of the Engagement in Accordance with ISAs (NZ).....	A9–A12
Agreement on Audit Engagement Terms.....	A13
Documentation	A14
Communication with Those Charged with Governance	A15
Planning.....	A16–A18
Understanding the Entity and Its Environment, the Applicable Service Performance Criteria and Including the Entity’s System of Internal Control, and Identifying and Assessing Risks of Material Misstatement	A19–A44
Materiality in Planning and Performing the Engagement.....	A45–A56
The Auditor’s Responses to Assessed Risks.....	A57–A59
Audit Evidence.....	A60–A62
Written Representations	A63
Using the Work of an Auditor’s Expert	A64
Forming an Opinion and Reporting	A65–A67
Report Content	A68–A72
Modifications to the Opinion in the Independent Auditor’s Report	A73–A79
Other Information.....	A80–A81
Appendix 1: What Constitutes the General Purpose Financial Report	
Appendix 2: Service Performance Criteria	
Appendix 3: Flowchart of the Audit of Service Performance Information included in the General Purpose Financial Report	
Appendix 4: Illustrative Engagement Letter Including Service Performance Information	
Appendix 5: Illustrative Representation Letter Including Service Performance Information	
Appendix 6: Illustrative Auditor’s Report Including Service Performance Information	
Appendix 7: Illustrations of Auditor’s Reports with Modifications to the Opinion with Respect to the Service Performance Information	
Conforming Amendments to Other Pronouncements	
<u>Accompanying Attachment: Conformity to International and Australian Standards on Auditing</u>	

New Zealand Auditing Standard (NZ AS) 1, *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

History of Amendments

Table of pronouncements – NZ AS 1 *The Audit of Service Performance Information*

This table lists the pronouncements establishing and amending NZ AS 1.

Pronouncements	Date approved	Effective date
New Zealand Auditing Standard 1	Feb 2019	This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021.

Introduction

Scope of this NZ AS

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general purpose financial report. The auditor performs the audit of the service performance information concurrently with the audit of the financial statements. (Ref: Para. A1)
2. This NZ AS establishes requirements and provides guidance not addressed by other International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information. (Ref: Para. A2)
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general purpose financial report. (Ref: Para. A3-A5, Appendix 1)
4. This NZ AS is not applicable when a review engagement is to be performed on the general purpose financial report.

Effective Date

5. This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021. Early adoption is permitted.

Objectives

6. The objectives of the auditor are:
 - (a) To understand the process applied by the entity to select what and how to report on its service performance;
 - (b) To evaluate whether the entity's service performance criteria are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - (c) To obtain reasonable assurance about whether the service performance information included in the general purpose financial report is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on the service performance information;
 - (d) To report, in accordance with the auditor's findings, about whether the service performance information included in the general purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework; and
 - (e) To communicate further as required by the ISAs (NZ) and this NZ AS, in accordance with the auditor's findings.

Definitions

7. For the purposes of this NZ AS, the following terms have the meanings attributed below:
- (a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)
 - (b) Long-form report – Auditor’s report including information and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion. (Ref: Para. A69–A72)
 - (c) Misstatement – A difference between the selection, measurement, description, aggregation, presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.
 - (d) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable, and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A5, Appendix 1)
 - ~~(e)~~ Risk of material misstatement – The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:
 - (i) Inherent risk - The susceptibility of an assertion about a performance measure, description or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - ~~(i)~~(ii) Control risk - The risk that a misstatement that could occur in an assertion about a -performance measure, description or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s controls.
 - ~~(e)~~(f) Service performance criteria – The selection of goods and/or services being reported on, and the performance measures and/or descriptions used to evaluate the entity’s service performance for a particular engagement. -(Ref: Para. A6–A8)

Requirements

Conduct of the Engagement in Accordance with ISAs (NZ)

8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information, as appropriate. Where an entity is required to include entity information within the general purpose financial report, and the auditor is engaged to audit the general purpose financial report, the auditor shall also apply the ISAs (NZ) and this NZ AS to the entity information, as appropriate. (Ref: Para. A9–A12, Appendix 1)

9. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ).

General Principles of an Audit of the General Purpose Financial Report

10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the service performance information to require a material adjustment for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.

Agreement on Audit Engagement Terms

11. The terms of the audit engagement shall include:¹ (Ref: Para. A13)
- (a) The responsibilities of the auditor with respect to the service performance information:
 - i. To obtain an understanding of the process applied by the entity to select what and how to report its service performance;
 - ii. To evaluate whether the service performance criteria are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - iii. To evaluate the overall presentation, structure and content of the general purpose financial report, and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework.
 - (b) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
 - i. The preparation of service performance information in accordance with the applicable financial reporting framework;
 - ii. Service performance criteria that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - iii. Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error;
 - (c) Reference to the expected form and content of the auditor's report, including whether it will be a long-form report, including additional information about the service performance criteria, detailed findings or recommendations to meet the needs of the intended users.

Documentation

12. The auditor shall document the nature, timing and extent of the audit procedures performed

¹ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 9-10

to comply with this NZ AS.² (Ref: Para. A14)

13. The audit documentation shall, as far as possible, provide evidence of the correlation between the audit evidence obtained related to the financial statements and the service performance information.

Laws and Regulations

14. The auditor shall obtain an understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and, in particular, laws and regulations that specify the form, content, preparation and audit of service performance information; and
 - (b) How the entity is complying with that framework.
15. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information.³

Communication with Those Charged with Governance

16. The auditor shall communicate the following matters with those charged with governance:⁴
 - (a) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement; (Ref: Para. A15)
 - (b) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations; and
 - (c) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

Planning

17. The auditor shall develop the audit plan to concurrently cover the financial statements and the service performance information so that the audit is performed in the most effective manner and reflects the correlation between the service performance information and the financial statements.⁵
18. In establishing the overall audit strategy, the auditor shall:
 - (a) Obtain an understanding of the applicable financial reporting framework relevant to service performance information;

² ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

³ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁴ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 14-17

⁵ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

- (b) Obtain an understanding of the entity's process for identifying the intended users, and the decisions that may be influenced by the service performance information;
 - (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
19. The auditor shall discuss with those charged with governance where and how the entity intends to report its service performance information. (Ref: Para. A16)
20. When planning the audit of the service performance information, the auditor shall:
- (a) Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control relevant to the audit of the service performance information sufficient to provide an appropriate basis for the identification and assessment of ~~identify and assess~~ the risks of material misstatement and design, and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.⁶ (Ref: Para. A17)
 - (b) Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁷ (Ref: Para. A17)
 - (c) Where the service performance information includes information upon which another practitioner has expressed an opinion, communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner about the scope and timing of the work and findings of the other practitioner, and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information. (Ref: Para. A18)

Understanding the Entity and Its Environment, the Applicable Service Performance Criteria and the Including the Entity's System of Internal Control, and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment, and the Applicable Service Performance Criteria

21. The auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A19–A24)
- (a) The service performance of the entity and the context in which the entity operates;
 - (b) The entity's process for identifying what and how to report on its service performance, as well as what other options were considered;

⁶ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

⁷ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (c) Whether the service performance criteria will generate service performance information that is consistent with and clearly linked to the entity's overall purpose and strategies;
- (d) How much discretion the entity has in selecting the service performance criteria;
- (e) The extent to which consultation with intended users influenced the service performance criteria; and (Ref: Para. A22–A24)
- (f) The judgements made in deciding when to provide comparative narrative and descriptive information.

Suitability

22. The auditor shall evaluate whether the service performance criteria are suitable so as to result in service performance information in accordance with the applicable financial reporting framework, in that they exhibit the following characteristics: (Ref: Para. A25–A30)⁸
 - (a) Relevance (Ref: Para. A31)
 - (b) Completeness (Ref: Para. A32)
 - (c) Reliability (Ref: Para. A33)
 - (d) Neutrality (Ref: Para. A34)
 - (e) Understandability (Ref: Para. A35).
23. The auditor shall evaluate whether:
 - (a) In the auditor's judgement, significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, and if such exclusions are reasonable in the circumstances; or (Ref: Para A36–A38)
 - (b) The service performance information inappropriately attributes service performance to the entity.

Availability

24. The auditor shall evaluate whether the service performance criteria are available to intended users so as to enable intended users to understand how the service performance information has been prepared, including any underlying assumptions. (Ref: Para. A39–A41)
25. If the entity has changed its service performance criteria from the prior period, the auditor shall evaluate whether the changes are suitable in the circumstances, have been approved appropriately, and are explained within the service performance information.

⁸ The applicable financial reporting framework may describe different qualitative characteristics to these characteristics which align with the characteristics referred to in Appendix 2 of ISA (NZ) 210. The application material in paragraphs A39–A43 may need to be tailored to the applicable financial reporting framework. This is illustrated in Appendix 2.

Communication

26. If the auditor considers that all or some of the entity's service performance information:
- Fails to comply with the applicable financial reporting framework;
 - Is prepared using service performance criteria that are not suitable; or
 - Otherwise fails to provide a reasonable basis for fairly reporting the service performance of the entity;
- the auditor shall discuss the matter with those charged with governance as soon as practicable. (Ref: Para. A42)
27. The auditor shall determine:
- Whether the matter can be resolved to the auditor's satisfaction;
 - Whether further audit procedures can be performed with respect to the service performance information; or (Ref: Para. A43)
 - Whether, and if so, how to communicate the matter in the auditor's report where the matter is not resolved to the auditor's satisfaction.
28. In the circumstances described in paragraph 26, the auditor shall consider the implications for the audit, the auditor's report and the opinion and shall express a qualified, adverse, or a disclaimer of opinion, as appropriate in the circumstances, with respect to the service performance information. (Ref: Para. A73–A79)
29. In the circumstances described in paragraph 28, the auditor is not required to withdraw from the audit of the general purpose financial report but shall consider the impact of the modified opinion with respect to the service performance information on the opinion on the financial statements.

Obtaining an Understanding of the Components of the Entity's System of Internal Control

29a Through performing risk assessment activities, the auditor shall obtain an understanding of:⁹

- The control environment relevant to the preparation of the service performance information;
- The entity's risk assessment process relevant to the preparation of the service performance information;
- The entity's process of monitoring the system of internal control relevant to the preparation of the service performance information;
- The entity's information system and communication relevant to the preparation of the service performance information; and
- The control activities component. (Ref: Para. A44)

⁹ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, paragraphs 21 to 26~~12~~

30. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.

~~(a) Obtain an understanding of internal control relevant to the audit over the preparation of the service performance information; and~~

~~Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A44)~~

Materiality in Planning and Performing the Engagement

31. The auditor's consideration of materiality shall include both an evaluation of:
- (a) Whether the service performance criteria are suitable as required by paragraph 22; and (Ref: Para. A31–A35, A45–A48)
 - (b) Individual and collective misstatements in the reported service performance information, that based on the auditor's judgement, are likely to significantly influence the decisions of the intended users based on the information. (Ref: Para. A49–A53)
32. The auditor shall determine and document materiality levels and/or materiality factors to be applied to the service performance information for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.¹⁰ (Ref: Para. A48–A53)
33. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor's attention during the audit that would have caused the auditor to have determined different materiality levels and/or materiality factors initially.

Identifying and Assessing Risks of Material Misstatement

34. The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019)¹¹ to obtain audit evidence that provides an appropriate basis for identification and assessment of the risks of material misstatement, whether due to fraud or error:¹²
- (a) At the service performance information level; and
 - (b) At the assertion level for performance measures, descriptions or disclosures where there is a reasonable possibility of material misstatement.
- ~~through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).¹³ (Ref: Para. A51,~~

¹⁰ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 10 and 14

¹¹ [ISA \(NZ\) 315 \(Revised 2019\), paragraph 13](#)

¹² ISA (NZ) 315 (Revised 2019), paragraphs ~~25~~28-34

¹³ ~~ISA (NZ) 315 (Revised), paragraph 5~~

A54–A56)

~~34a In accordance with ISA (NZ) 315 (Revised 2019), the auditor shall assess inherent risk and control risk separately.¹⁴~~

The Auditor's Responses to Assessed Risks

35. The auditor shall design and perform procedures whose nature, timing and extent¹⁵:
- (a) Are responsive to assessed risks of material misstatement at the service performance information level and at the assertion level; and
 - (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.
36. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of ~~the relevant~~ controls over the service performance information when:
- (i) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
 - (ii) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A57–A59)
37. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.¹⁶

Audit Evidence

38. The auditor shall obtain sufficient appropriate audit evidence to reduce the risk to an acceptably low level of expressing an inappropriate opinion when the service performance information is materially misstated, correlating, as far as possible, with the audit evidence obtained in the audit of the financial statements.¹⁷ (Ref: Para. A60–A62)
39. The auditor shall consider the relevance and reliability of the information to be used as audit evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The auditor has doubts about the reliability of information to be used as evidence, the auditor shall determine whether additional procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.
40. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

¹⁴ ~~ISA (NZ) 315 (Revised 2019), paragraphs 31–34~~

¹⁵ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

¹⁶ ISA (NZ) 330, paragraph 18

¹⁷ ISA (NZ) 500, *Audit Evidence*, paragraph 6

Analytical Procedures

41. When designing analytical procedures, the auditor shall evaluate the service performance information through analysis of plausible relationships among both financial and non-financial information, where relevant.¹⁸

Written Representations

42. The auditor shall request written representations from those charged with governance, with appropriate responsibilities for and knowledge of the service performance information, that they have fulfilled their responsibility:
- (a) For the preparation of service performance information in accordance with the applicable financial reporting framework.
 - (b) To select service performance criteria that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework.¹⁹ (Ref: Para. A63)

Using the Work of an Auditor's Expert

43. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.²⁰ (Ref: Para. A64)

Forming an Opinion and Reporting

44. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the entity's service performance criteria in accordance with the applicable financial reporting framework.²¹ (Ref: Para. A65)
45. The auditor shall conclude whether, in view of the applicable financial reporting framework:
- (a) The service performance information will assist users in forming assessments about an entity's accountability for service performance, and in influencing decisions based on the service performance information.
 - (b) The entity has selected service performance criteria that are suitable.
 - (c) The service performance criteria are available to intended users. (Ref: Para. A66–A67)
 - (d) When the general purpose financial report is prepared in accordance with a fair presentation framework²², the service performance information achieves fair presentation, including whether:

¹⁸ ISA (NZ) 520, *Analytical Procedures*, paragraph 6

¹⁹ ISA (NZ) 580, *Written Representations*, paragraph 9

²⁰ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

²¹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 10

²² Examples of a fair presentation framework include:

- (i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
 - (ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
 - (iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.
46. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance. That conclusion shall take into account:
- (a) Whether sufficient, appropriate audit evidence has been obtained;
 - (b) Whether uncorrected misstatements are material, individually or collectively; and
 - (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.
47. The auditor shall consider:
- (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
 - (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

Report Content

48. The auditor's report on the service performance information shall be included in a single report on the general purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information. (Ref: Para. A68–A69)
49. The opinion section of the auditor's report shall:
- (a) Identify the service performance information;
 - (b) State that the service performance information has been audited; and
 - (c) Identify or refer to the service performance criteria. (Ref: Para. A70–A72)
50. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

-
- Public Benefit Entity Standards (PBE Standards);
 - Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR);
 - Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) (PBE SFR – A (PS));
 - Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) (PBE SFR – A (NFP)).

- (a) In our opinion the accompanying general purpose financial report presents fairly, in all material respects, the service performance for the year then ended in accordance with the entity's service performance criteria in accordance with [*the applicable financial reporting framework*]; or
- (b) In our opinion the accompanying general purpose financial report gives a true and fair view of the service performance for the year then ended in accordance with the entity's service performance criteria in accordance with [*the applicable financial reporting framework*].²³
51. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:
- (a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard 1;
- (b) Describe, in the responsibilities for the general purpose financial report section, the responsibilities of those charged with governance:
- For the preparation of service performance information in accordance with the applicable financial reporting framework;
 - To select service performance criteria that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error.
- When the general purpose financial report is prepared in accordance with a fair presentation framework, the description of responsibilities for the general purpose financial report in the auditor's report shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view," as appropriate in the circumstances.
- (c) In the "Auditor's Responsibilities for the Audit of the General Purpose Financial Report" section:
- Describe the audit of the service performance information by stating that, in accordance with the ISAs (NZ) and this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:
 - i. Whether the selected service performance criteria are suitable so as to result in service performance information that is in accordance with the applicable financial reporting framework; and

²³ If the applicable financial reporting framework includes requirements for entity information, the opinion may be required by law, regulation or otherwise to cover the entity information.

- ii. The overall presentation, structure and content of the general purpose financial report, and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

Key Audit Matters

- 52. The auditor may be required, or may voluntarily report key audit matters in the auditor's report.²⁴ If reported, key audit matters shall include matters related to the audit of the service performance information where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

Modifications to the Opinion in the Independent Auditor's Report

- 53. The auditor shall modify the opinion, with respect to the service performance information, when:²⁵
 - (a) The auditor concludes that the selected service performance criteria are not suitable resulting in service performance information that is not in accordance with the applicable financial reporting framework; (Ref: Para A31–A35)
 - (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement; or (Ref: Para. A73–A78)
 - (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.
- 54. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements. (Ref: Para. A79)
- 55. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as appropriate. The opinion with respect to the financial statements shall use the heading "Opinion on the Financial Statements".²⁶
- 56. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.

Emphasis of Matter Paragraphs and Other Matter Paragraphs

- 57. If the auditor considers it necessary to draw users' attention to a matter presented or

²⁴ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

²⁵ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditors Report*

²⁶ Where appropriate, the heading may refer to the entity information.

disclosed in the service performance information, that in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.²⁷

58. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor's judgement, is relevant to users' understanding of the audit of the service performance information, the auditor shall include an Other Matter paragraph in the auditor's report.²⁸

Comparative Information

59. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general purpose financial report agrees with the information presented in the published prospective service performance information.

Other Information

60. The auditor shall read the other information and consider whether there is a material inconsistency between:²⁹
- (a) The other information and the service performance information; and
 - (b) The other information and the auditor's knowledge obtained in the audit of the general purpose financial report. (Ref: Para. A80–A81)

Application and Other Explanatory Material

Scope of this NZ AS (Ref: Para. 1–3, 7(d))

- A1. Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information, prepared in accordance with the applicable financial reporting framework.
- A2. Work performed in the audit of the financial statements can often be used for the purpose of the audit of the service performance information. By highlighting matters that are common to both the financial statements and the service performance information, this NZ AS assists the auditor to accept, plan, perform and report in an effective manner, as well as highlighting areas where there are differences. This is to enable the auditor to perform the audit concurrently, effectively and in an all-encompassing manner.

²⁷ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

²⁸ ISA (NZ) 706 (Revised)

²⁹ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

- A3. Some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general purpose financial report. Appendix 1 illustrates what constitutes the general purpose financial report.
- A4. Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:
- (a) For Tier 1 and Tier 2 public benefit entities, *PBE FRS 48 Service Performance Reporting*.
 - (b) For Tier 3 public benefit entities, PBE Simple Format Reporting – Accrual.
 - (c) For Tier 4 public benefit entities, PBE Simple Format Reporting – Cash.

The Tier 3 and Tier 4 requirements also require entity information to be reported as part of the general purpose financial report. These requirements refer to the general purpose financial report as a performance report.

- A5. Some entities that are required by the applicable financial reporting framework to include service performance information in the general purpose financial report, may not be required by law or regulation to have the general purpose financial report audited or reviewed. For example, non-large and non-medium Tier 3 registered charities, and all Tier 4 registered charities may have no statutory assurance requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).

Definitions (Ref: Para. 7(f))

- A6. The applicable financial reporting framework includes principles to guide an entity through a process to select what service performance to report on and how to measure and/or describe its service performance and aggregate, present and disclose its service performance information to implement the applicable financial reporting framework. The entity will apply the process, as appropriate to the entity's circumstances, to select what service performance to report on, how to measure and/or describe that service performance, how to structure the information and how the information is related to each other and the entity's overall purpose and strategies. The entity's service performance criteria refers to how the entity applies the qualitative characteristics and pervasive constraints of information if required by the applicable financial reporting framework, applicable to its circumstances, with logical links to the entity's overall purpose and strategies.
- A7. Even for the same underlying service performance there can be different service performance criteria which will yield a different measurement or description. For example, an entity might select, as one of its performance measures, the levels of satisfaction using a rating scale on a survey; another entity might select to report the number of complaints received. These are both examples of how the entity evaluates its service performance.
- A8. The service performance criteria also address presentation and disclosure. Disclosures comprise explanatory notes or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework.

Presentation refers to whether the service performance is appropriately aggregated or disaggregated and clearly described.

Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)

- A9. The ISAs (NZ), which are based on the International Standards on Auditing (ISAs), are written in the context of an audit of financial statements by an auditor. Although service performance information is considered to be an integral part of an entity's general purpose financial report, the nature of the underlying subject matter included in the service performance information includes non-financial information which is not part of the financial statements as defined in the ISAs (NZ). However, the requirements of the ISAs (NZ) apply equally to an audit of the entire general purpose financial report, prepared in accordance with the applicable financial reporting framework, where that financial reporting framework also incorporates requirements to prepare service performance information.
- A10. The ISAs (NZ), together with this NZ AS, covers all aspects of the audit of the general purpose financial report and therefore there is no requirement for the auditor to apply ISAE (NZ) 3000 (Revised)³⁰ to the service performance information.
- A11. This NZ AS supplements the ISAs (NZ). It expands on how the ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not dealt with by the ISAs (NZ) or where the application of the ISAs (NZ) differs as a result of the nature of the service performance information.
- A12. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,³¹ ISA (NZ) 540 ([Revised](#)),³² ISA (NZ) 550³³ and ISA (NZ) 570 (Revised)³⁴ are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates as a result of measurement that is subject to estimation uncertainty, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

Agreement on Audit Engagement Terms (Ref: Para. 11)

- A13. The terms of the audit engagement for the audit of the general purpose financial report include references to the service performance information. An example of an audit engagement letter for an audit of the general purpose financial report including service performance information is set out in Appendix 4.

³⁰ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³¹ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³² ISA (NZ) 540 ([Revised](#)), *Auditing Accounting Estimates, ~~Including Fair Value Accounting Estimates~~, and Related Disclosures*

³³ ISA (NZ) 550, *Related Parties*

³⁴ ISA (NZ) 570 (Revised), *Going Concern*

Documentation (Ref: Para. 12)

A14. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- **Planning:** The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial statements and service performance information, any significant changes made during the engagement, and the reasons for such changes;
- **Materiality:** The materiality levels or materiality factors for the service performance information and matters considered in their determination;
- **Risks of material misstatement:** Key elements of the understanding obtained regarding the entity and its environment, [and -the applicable service performance criteria](#) specified in paragraph 21, and the risks of material misstatement for which, in the auditor's professional judgement, further procedures were required;
- **Procedures:** The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- **Evaluation of misstatements:** Misstatements identified during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected misstatements are material, individually or collectively, and the basis for that conclusion.

Communication with Those Charged with Governance (Ref: Para. 16)

A15. The preparation of service performance information is highly judgemental. As a result, the auditor's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. For example, why the auditor considers the service performance criteria are not suitable to the circumstances. Open and constructive communication including feedback on the maturity of the entity's process to prepare the service performance information, the suitability of its service performance criteria or how the information compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of what service performance to report on, concerns regarding management bias or the quality of the presentation of the information.

Planning (Ref: Para. 19–20)

A16. Information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference.³⁵ Such information is part of the financial statements. Service performance information that is incorporated into the general purpose financial report by cross-reference is part of the general purpose financial report and is subject to the audit in accordance with this NZ AS.

³⁵ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A2

- A17. The applicable financial reporting framework may allow flexibility in where and how an entity reports its service performance information. It may be appropriate for an entity to report service performance information about service performance provided by other entities. ISA (NZ) 402³⁶ may be relevant to the audit of the service performance information, if the user entity makes use of a service organisation for the preparation of service performance reporting with another entity or where the entity outsources aspects of their business to organisations that provide services ranging from performing a specific task under the direction of the entity to replacing an entity's entire business units or functions that are significant to the service performance information. Alternatively, ISA (NZ) 600³⁷ may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about goods and services provided by other entities.
- A18. The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:
- (a) Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1.
 - (b) The other practitioner's professional competence.
 - (c) The extent of the engagement teams' involvement in the work of the other practitioner.

Understanding the Entity and Its Environment, the Applicable Service Performance Criteria, and Including the Entity's System of Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 21–30)

Obtaining an Understanding of the Entity and its Environment and the Applicable Service Performance Criteria

- A19. The entity may follow its own process to identify what and how to report its service performance to implement the applicable financial reporting framework to its circumstances. Without suitable service performance criteria, the entity does not have an appropriate basis on which to prepare the service performance information and the auditor is unable to meet the objectives of the audit. Without the frame of reference provided by transparent assumptions and service performance criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of what and how to report service

³⁶ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

³⁷ ISA (NZ) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

performance is context-sensitive, that is, it is determined in the context of the entity's circumstances.

- A20. The selection of what service performance to report on, how to measure or describe that service performance, and then aggregate, disclose and present the information is more judgemental than reporting on financial information. An entity may have a wide variety of performance frameworks, guidance, or codes (or a combination thereof) to choose from in the preparation of this information.
- A21. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance criteria, including pre-established performance measures and/or descriptions from guidance, standards, laws or regulation, or it may need to apply judgement to develop its own internally developed service performance criteria for measuring or describing its service performance. The need for such judgement makes the preparation of the service performance information inherently more susceptible to the risk of management bias.
- A22. The application of professional scepticism by the auditor is particularly important when assessing the neutrality and completeness of the service performance criteria due to the level of judgement to be exercised by the entity. This is particularly important if the entity's service performance criteria are not substantially based on established service performance criteria generally used in the entity's sector or are inconsistent with such criteria. The auditor may need to apply significant professional judgement in the assessment of the suitability of the service performance criteria in situations where a well-designed due process is not followed or where the intended users were not involved in the selection of what service performance to report on and/or how to evaluate the underlying service performance.
- A23. The process applied by the entity to determine what to report on and how to report its service performance may affect the work that the auditor carries out. The level of potential management bias in selecting what and how to report its service performance directly correlates with the amount of work that the auditor may need to perform when considering the design of the entity's service performance criteria. For example, use of performance measures specified by external benchmarks, industry guidance, or developed in consultation with intended users may require less work than internally generated performance measures as external guidance reduces the risk of management bias. Transparency about the entity's process to select what and how to report its service performance and the entity's consideration of materiality may also affect the work that the auditor carries out.
- A24. Factors that the auditor may consider in obtaining an understanding of the entity's process for identifying what and how to report its service performance include:
- Whether there are factors that are outside the control of the entity or there are long time frames that are required to make assessments of the entity's service performance.
 - Examples of the impact of the source of the service performance criteria:
 - The scope of what service performance to report on or how to evaluate such service performance may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability. In the absence of indications to the contrary, such service performance criteria are presumed to be suitable and

are publicly available.

- The entity may use a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders, for example, a local authority's Long-Term Plan, statement of intent, charter, recent plans and strategies or in funding contracts or agreements with key funders. Service performance criteria that have been pre-agreed with key stakeholders may have a lower risk of management bias.
- Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information. The auditor may need to evaluate the suitability of these guidelines to the entity's circumstances and how these align to intended users' needs. More detailed service performance criteria may be more appropriate.
- Results of surveys, e.g., satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints, targeted interviews or stakeholder workshops, providing information about who the intended users are and what information they may find helpful to assess the performance of the entity. A well-designed process in developing service performance criteria with involvement of intended users lowers the risk of management bias.
- Other external requirements or agreements with external parties that influence the entity's service performance accountability.
- Other contextual information, including strategic and operational objectives. For example, an entity's constitution, trust deed, mission statement, recent plans and strategies.
- How the entity assesses its service performance for the purposes of internal decision making.
- Whether the entity's service performance criteria have been validated through research conducted to be well correlated with what they are intended to measure or describe.
- Changes from the prior period in the nature or extent of operations.
- Whether it is appropriate to report on information that falls outside of the boundary of the reporting entity.

Suitability

A25. When evaluating whether the service performance criteria are suitable, the auditor is evaluating the judgements made by the entity in applying the qualitative characteristics referred to in the applicable financial reporting framework. The qualitative characteristics described in some of the applicable financial reporting frameworks are similar to the characteristics of suitable criteria described in paragraph 22 but may differ in the words used. Appendix 2 illustrates the similarities. The characteristics in paragraph 22 are framework neutral.

- A26. The characteristics are not mutually exclusive, and the relative importance of each characteristic varies according to the circumstances. The entity may exercise significant judgement to select what and how to report its service performance to meet the qualitative characteristics. The auditor applies professional scepticism recognising that circumstances may exist that cause the service performance criteria to be biased, incomplete or otherwise contrary to the qualitative characteristics required by the applicable financial reporting framework.
- A27. The auditor's role is to evaluate whether the entity has appropriately applied the qualitative characteristics and pervasive constraints, as required by the applicable financial reporting framework, in preparing the service performance information. In doing so, the auditor evaluates whether the service performance criteria are suitable. This evaluation is based on a consideration of the process adopted, choices and trade-offs made by the entity in determining the most appropriate manner to tell its service performance story.
- A28. The service performance criteria are suitable when:
- (a) The entity has appropriately applied the qualitative characteristics and pervasive constraints to enable users to make an informed assessment of the entity's service performance; and
 - (b) Include reasonable quantitative or qualitative measures or descriptions of service performance against which the entity's service performance may be assessed and are of particular value or importance for accountability and decision-making purposes.
- A29. When evaluating the suitability of the service performance criteria, as required by paragraph 22, the auditor may consider:
- (a) The intended users of general purpose financial reports and the decisions that may be influenced on the basis of the service performance information,
 - (b) Whether users were involved in the selection of the service performance criteria and if not, reasons why not;
 - (c) How the qualitative characteristics applied by the entity have influenced the selection of what service performance to report on and how to measure or evaluate that performance (e.g., service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
 - (d) The various components of the entity's service performance and check for credible links, internal logic and consistency with the financial information;
 - (e) How the entity plans to present and disclose its financial statements and service performance information where material;
 - (f) The complexity of the underlying service performance;
 - (g) Other potentially more suitable service performance criteria that could have been used and reasons why those were not considered;
 - (h) Potential misunderstanding of the resultant service performance information by intended users;
 - (i) Knowledge of other similar entities reporting format; and
 - (j) Open source searches.

A30. The evaluation required by paragraph 22 may be iterative and may require re-evaluation as the auditor's understanding of the entity or the types of decisions that may be influenced by the service performance information grows, if the entity makes changes to its service performance criteria or as the auditor gathers audit evidence.

A31. Factors that the auditor may consider when evaluating relevance include:

- The rationale for the selection of what service performance to report on, for example, whether the service performance relates to a significant risk to the public (e.g., the purity of water supply) or that could have a positive or negative effect on social, economic, or environmental wellbeing.
- Whether the service performance information is likely to meet the needs of intended users so as to be useful for decision making, for example, is of significant community interest.
- The extent to which consultation with users has influenced the selection of what service performance to report and how to evaluate the entity's service performance.
- Information that could significantly affect the reputation of the entity.
- Whether the service performance information shows clear and logical links between the service performance to be measured or evaluated and the entity's overall purpose and strategies so that the rationale for their selection is evident.
- Whether the service performance information is clearly linked with the financial information, for example, relates to service performance that is financially material; or relates to a performance measure that may have a significant effect on management performance rewards.

A32. Factors that the auditor may consider when evaluating completeness include whether:

- All significant aspects of service performance that would enable the user to make an informed assessment are included;
- The service performance information includes negative aspects of performance or areas where there is a significant risk of performance failure by the entity.

Completeness relates more to a balanced reflection of service performance rather than an overly comprehensive and extensive set of performance measures which can result in too much information, reducing the relevance of the service performance information.

A33. Factors that the auditor may consider when evaluating reliability include whether:

- The service performance is capable of measurement or description in a consistent manner from period to period;
- The process is well defined and there is likely to be evidence to support the information generated;
- The service performance information is capable of validation by the auditor and will not result in unsubstantiated claims, including whether there is a robust and reliable collection process;
- The service performance criteria are likely to result in service performance information that is free from material misstatements, including omission of fact, or

misrepresentation of trend;

- The service performance criteria are consistent with industry benchmarks, where these are available.

A34. Factors that the auditor may consider when evaluating neutrality include whether:

- The service performance criteria are balanced, and are likely to result in information that is aggregated, where appropriate, and covers all important aspects, with suitable emphasis, to fairly reflect the significance to the entity's service performance;
- The selected service performance criteria cover both favourable and unfavourable aspects of the entity's service performance in an unbiased manner;
- The selected service performance criteria are not changed arbitrarily to remove negative aspects of performance year on year.

Special care may be necessary to evaluate neutrality where, for example, there are no externally established service performance criteria, no predetermined performance measures established with key stakeholders or no guidelines developed by an external industry group.

A35. Factors that the auditor may consider when evaluating understandability include whether:

- The format adopted is clearly laid out and presented in a way that will enable the user to identify the main points of the entity's service performance in that year;
- The assessment of service performance is coherent, easy to follow, and will result in service performance information that is clear and logical;
- The service performance information is concise and aggregated where appropriate;
- The information is explained and presented in a way that makes its significance clear.

A36. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify what and how to report its service performance and may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of any such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities may be at varying stages of maturity in respect of preparing service performance information.

A37. For example, in the early stages of an entity generating service performance information, an entity may focus its reporting on a particular area of service performance because reporting systems have not yet been established and implemented for other areas. The auditor may still be able to conclude that the service performance criteria are suitable if there are:

- (a) Clear disclosures in the service performance information of the facts and reasons surrounding the exclusion of some service performance. However, if the entity makes no progress in developing reporting systems over time or continues to exclude service performance once reporting systems are established and implemented, the auditor may no longer be satisfied that the service performance criteria are suitable; and
- (b) The auditor concludes that the disclosures provided will assist intended users in their

decision making.

A38. Service performance information reported because it is readily quantifiable may not be suitable and may not meet the principles of the applicable financial reporting framework. For example, the entity may select service performance to report on the basis that the selected performance is readily measurable. However, it may not be the most relevant information to enable the user to understand or assess the service performance of the entity during the year.

Availability

A39. Entity-developed service performance criteria need to be made available to intended users to enable them to understand how the service performance has been measured or evaluated. The service performance criteria may be made available in one or more of the following ways:³⁸

- (a) Publicly.
- (b) Through inclusion in a clear manner in the presentation of the service performance information. Some performance measures may rely on complex methodologies. The auditor may consider whether complex service performance criteria are transparent, explained with sufficient detail and clarity so that they are considered to be available and enable the intended user to understand how the service performance has been assessed.
- (c) Through inclusion in a clear manner in the audit report.
- (d) By general understanding, for example, the method for measuring time in hours and minutes. The auditor may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

A40. In determining whether the service performance criteria are available to intended users, the auditor may consider whether there will be enough context for the service performance information, including whether the rationale for determining:

- (a) What service performance to report on; and
- (b) Whether to include information about the role of other entities, collaborative relationships and the provision of resources to others

is transparent to users so that users can understand the judgements made in preparing the service performance information.

A41. Disclosure of the judgements made by the entity may be important in making the service performance criteria available to intended users, where, for example, the service performance criteria are internally generated. Alternatively, the service performance criteria used may originate from an external performance framework supplemented by disclosures

³⁸ EG Au1 Framework for Assurance Engagements, paragraph 47

or cross references in the general purpose financial report.

Communication

A42. Communication with those charged with governance in a timely manner may enable improvements to be made to the service performance information.

A43. Factors the auditor may consider in determining whether to perform further audit procedures include:

- (a) The pervasiveness of the matter;
- (b) The materiality of the matter;
- (c) Whether the auditor's concern is with respect to the presentation of the information only;
- (d) Whether further audit procedures will enable the auditor to express an opinion on some of the service performance information.

Obtaining an Understanding ~~the Components of the~~ Entity's System of Internal Control (Ref: Para. ~~3029a~~)

A44. Controls in the control activities component that may be relevant to the audit of the service performance information include policies and procedures that pertain to internal management performance reviews,³⁹ including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another.

Materiality in Planning and Performing the Engagement (Ref: Para. 31–32)

Consideration of what service performance is included in the report

A45. The relevance of what service performance is selected to be included in the general purpose financial report is strongly linked with judgements made by the entity about the materiality of information. Service performance information is deemed to be material if it could reasonably be expected to influence the decisions of intended users taken on the basis of the general purpose financial report. The service performance information will not be considered to be complete if it does not contain all material service performance.

A46. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information.⁴⁰ Such a discussion provides a frame of reference to the auditor in determining materiality. The auditor's consideration of the entity's process to select what and how to report its service performance provides context in determining materiality.

A47. The evaluation required by paragraph 22 and factors considered by the auditor in paragraph A31 and A32, provides a frame of reference to the auditor in understanding what service performance information is of most significance to intended users, and may assist in

³⁹ ~~ISA (NZ) 315 (Revised), Appendix 1, paragraph 9~~

⁴⁰ PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 46A.1–2 and Explanatory Guide A7: *Materiality for Public Benefit Entities*

identifying the risks of material misstatement in the service performance information.

A48. When determining materiality, the auditor may:

- Discuss the entity's process for determining material service performance information with management and those charged with governance (and, if necessary and appropriate, external stakeholders). It may be appropriate to discuss matters with external stakeholders when the determination of the entity's material service performance information includes, for example, contentious issues or performance measures for which there is no evidence to support the entity's role in the improvements reported.
- Consider whether the entity's determination of material service performance information is consistent with the auditor's knowledge of the entity and the environment, including reporting by similar entities and previous reporting by the entity and information obtained from sources such as minutes of meetings, media reports and any stakeholder outreach activities, including satisfaction surveys, feedback and complaints received, open source searches, targeted interviews or stakeholder workshops.

Materiality levels and factors

A49. The materiality levels are expressed in terms of the appropriate unit of account for each element or performance measure reported. The materiality level determines what level of misstatement will be tolerated by the auditor. Using a percentage is another commonly used way to establish such a level. It may be possible to group similar service performance information and make materiality decisions on the same basis if they have the same unit of account. The basis and level may differ from the basis and level for determining materiality as required by ISA (NZ) 320.

A50. There are multiple factors that may lead to a material misstatement:

- (a) Omissions of fact – could omissions result in misleading the user?
- (b) Misstatements of fact – could a misstatement result in misleading the user?
- (c) Misrepresentation of trend – does the service performance information make claims that do not represent the facts available?
- (d) Bias – does the service performance information focus unduly on positive aspects of performance, or omit negative aspects?
- (e) Unsubstantiated claims.

A51. The following factors may assist the auditor when exercising professional judgement in determining whether there are material misstatements in either the qualitative or quantitative service performance information:

- (a) How the information is presented. For example, does the presentation draw attention to particular information? The auditor may be less tolerant of misstatement in information that is given the most prominence.
- (b) The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.

- (c) The number of persons or entities affected.
- (d) The importance of the activity to achieving the entity's service performance objectives. For example, whether the performance measures relates to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
- (e) The extent of interest shown in particular aspects of service performance by, for example, the applicable legislation, funders, the media or the public and whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the auditor may be less accepting of potentially misleading or inaccurate information.
- (f) The type of performance measures and/or descriptions adopted, including the sensitivity of the information to error or the wording chosen to express a description. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts are acceptable.
- (g) The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures or relates to an activity that is financially significant. The auditor may be less tolerant of misstatement for information that is given the most prominence.
- (h) The economic, social, political and environmental effect of a project or an entity's work, for example, there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to activity that could be a significant risk to the public.
- (i) Whether there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, if the entity compares actual performance to a previously reported target, the auditor may be particularly diligent where a target has only just been achieved.
- (j) Whether a misstatement is the result of an intentional act or is unintentional. For example, intentional attempts to mislead users may result in the auditor performing more detailed work.
- (k) Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.
- (l) Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.

A52. The auditor is unlikely to be able to set an overall materiality level because there is unlikely to be a common unit of account. It is also unlikely that the auditor will be able to aggregate misstatements. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively, as required by paragraph 46.

A53. For historical financial information extracted from the audited financial statements, the auditor may determine that the materiality level used in the audit of the financial statements are acceptable for the purposes of the service performance information.

Identifying and Assessing Risks of Material Misstatement (Ref: Para. 34)

Assertions about service performance and related disclosures

A54. The auditor may use the assertions as described in paragraph A56 or may express them differently provided all aspects described below have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution.

A55. In the public sector, the entity may assert compliance with law or regulation, in addition to the assertions set out in paragraph A56.

A56. Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:

- (a) Occurrence – service performance that has been reported has occurred.
- (b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
- (c) Completeness – all significant service performance that should have been reported has been included in the service performance information.
- (d) Accuracy – service performance has been reported, measured and described appropriately and is not inconsistent with financial statement information.
- (e) Cut-off – the service performance has been reported in the correct period.
- (f) Presentation – service performance is appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable.

The Auditor's Responses to Assessed Risks (Ref: Para. 35–37)

A57. Procedures that may be performed include:

- (a) Testing and evaluating the systems, processes and controls that capture, record, analyse and monitor the service performance information;
- (b) Performing analytical review procedures;
- (c) Performing other substantive or re-performance tests.

A58. The quality of the systems used to record and control results, and the nature and quality of evidence available, may have an effect on the mix of procedures used. For instance, a weak recording or control system may force the auditor to use primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

A59. In some instances, there may not be controls ~~activities in the control activities component~~ that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit

evidence.

Audit Evidence (Ref: Para. 38)

- A60. Making correlations with audit evidence obtained in the audit of the financial statements, as far as possible, maximises the effectiveness of the audit of the general purpose financial report.
- A61. The mix of procedures to be performed may vary compared with the mix used in regard to the financial information but does not alter the need to obtain sufficient appropriate audit evidence.
- A62. The auditor's procedures may include:
- (a) Agreeing or reconciling amounts reported in the service performance information to any underlying financial records;
 - (b) Agreeing cross references between the service performance information and the financial statements;
 - (c) Understanding any allocation methods adopted and assumptions made, and determining whether the methods adopted are suitable, have been applied consistently and are consistent with the applicable financial reporting framework; and
 - (d) Reconciling the aggregate amounts reported in the service performance information to the amounts reported in the financial statements.

Written Representations (Ref: Para. 42)

- A63. The representation letter for the audit of the general purpose financial report includes references to the service performance information. An example of an illustrative representation letter for the audit of the general purpose financial report that includes service performance information is set out in Appendix 5.

Using the Work of an Auditor's Expert (Ref: Para. 43)

- A64. Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Examples may include expertise in relation to such matters as:
- The measurement of complex performance measures, for example:
 - Climate change calculations;
 - Specific scientific measurements;
 - Social impact measurement;
 - Human rights performance;
 - People and diversity disclosure.
 - Assertions made about the entity's performance, for example, when reporting on the difference that the entity has made;
 - Conformity assessments, ecolabelling and certification programmes.

Forming an Opinion and Reporting (Ref: Para. 44–45)

- A65. The auditor's conclusion on the service performance information covers both:
- (a) Whether the service performance criteria are suitable so as to result in service performance information in accordance with the applicable financial reporting framework; and
 - (b) Whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.
- A66. Those charged with governance will make a number of judgements about the selection, measurement, description, aggregation, presentation and disclosure of the service performance information reported. In considering the qualitative characteristics described in the applicable financial reporting framework, the auditor may become aware of management bias. The auditor may conclude that the collective effect of the lack of neutrality, together with the effect of uncorrected misstatements causes the service performance information to be materially misstated.
- A67. The disclosure of significant judgements made in selecting, measuring, describing and aggregating service performance information is particularly important so that users can understand how particular service performance is reported in the service performance information.

Report Content (Ref: Para. 7(b), 48–51)

- A68. The auditor's report on the general purpose financial report includes references to the service performance information. An illustrative report that includes references to the service performance information is set out in Appendix 6.
- A69. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised). However, this NZ AS allows for flexibility and an auditor may include additional information, as described in paragraphs A70-A71, resulting in a long-form report.
- A70. The auditor's report identifies or refers to the service performance criteria so the intended users can understand the basis for the auditor's opinion.
- A71. The auditor's report may describe additional details relevant to the audit of the service performance information that do not affect the auditor's opinion. This information may be required by legislation or agreed in the terms of the engagement to assist intended users in decision making based on the service performance information. A long-form report should not be worded in a manner that it may be regarded as a modification of the auditor's opinion. The auditor's report may describe, for example:
- The underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
 - The source of the service performance criteria, and whether they are externally established (e.g., established in section xxx of applicable legislation or externally established performance frameworks).

- Any significant interpretations made in selecting or applying the entity's service performance criteria in the circumstances.
- Whether there have been any changes in the service performance criteria (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance information.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.

A72. The auditor is encouraged to report their findings or recommendations where the auditor considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting over time.

Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 28, 53–54)

A73. A misstatement of the service performance information may arise in relation to:

- (a) The suitability of the service performance criteria;
- (b) The application of the service performance criteria;
- (c) Inadequate disclosure of judgements made, where applicable; or
- (d) Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

A74. In relation to the suitability of the service performance criteria, material misstatements of the service performance information may arise, for example, when:

- (a) The entity's service performance criteria are not consistent with the principles in the applicable financial reporting framework.
- (b) The entity has not appropriately applied the qualitative characteristics, in accordance with the applicable financial reporting framework and therefore the service performance information does not enable a meaningful assessment of performance to be made by intended users.

A75. The auditor may determine that a material misstatement exists in the service performance information:

- (a) When, in the auditor's professional judgement, the service performance criteria are likely to mislead the intended users. A qualified opinion or adverse opinion would be appropriate in the circumstances depending on how material and pervasive the matter is.
- (b) In other cases, a qualified opinion or a disclaimer of opinion would be appropriate depending on, in the auditor's professional judgement, how material and pervasive the matter is.

A76. In relation to the application of the service performance criteria, material misstatements of

the service performance information may arise:

- (a) Due to a misapplication of the criteria (e.g., an unintentional error in application of a formula developed to report a performance measure). A qualified opinion may be appropriate in the circumstances where there is a material misstatement that is not pervasive.
- (b) When the criteria are not applied consistently to the service performance, or not applied consistently between periods.

A77. In relation to the appropriateness or adequacy of disclosures in the service performance information, material misstatements may arise when:

- (a) The service performance information does not provide all disclosures required by the applicable financial reporting framework.
- (b) The service performance information does not provide all disclosures necessary to achieve fair presentation of the service performance information.

A78. Appendix 4 includes illustrative auditor's reports with a qualified, adverse or disclaimer of opinion with respect to the service performance information.

A79. In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements.

Other Information (Ref: Para. 60)

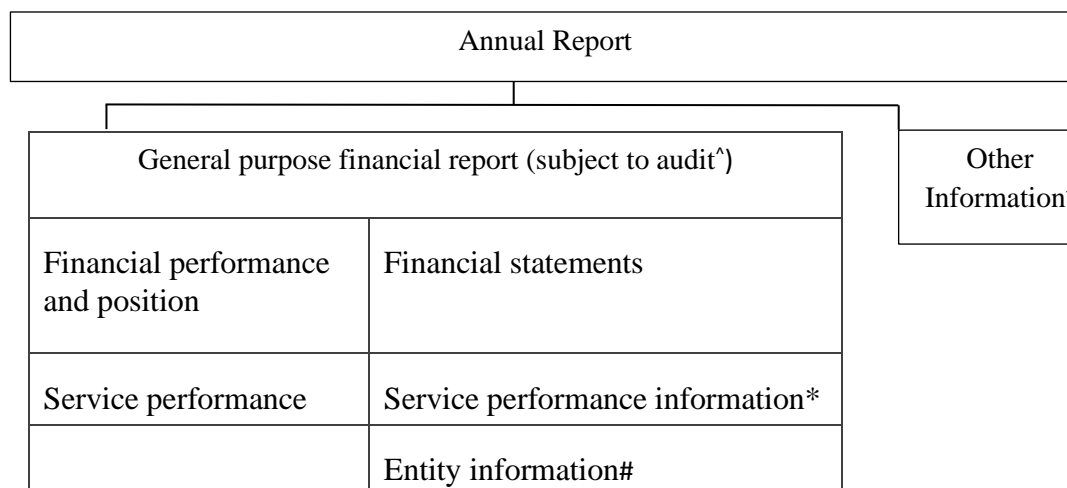
A80. Appendix 1 illustrates what constitutes other information for the purposes of this NZ AS.

A81. Other information, whether financial or non-financial information (other than the financial statement information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information within the annual report, but located outside of the general purpose financial report as defined in this NZ AS, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

Appendix 1

(Ref: Para. 3,7, 8, A3, A80)

What Constitutes the General Purpose Financial Report



- [^] Some entities are required by law or regulation to have the general purpose financial report audited or reviewed. Other entities may elect to include service performance information within the scope of the audit. Where the service performance information is not included within the scope of the audit, this NZ AS does not apply.
- ^{*} Service performance information may be included in the general purpose financial report by cross-reference where the applicable financial reporting framework permits disclosures to be cross referenced.
- [#] Where entity information is required to be included in the general purpose financial report by the applicable financial reporting framework.
- ⁺ Other information may include forward looking information, other historical information and management discussion and analysis. ISA (NZ) 720 (Revised) addresses the auditor’s responsibilities with respect to other information. ISA (NZ) 720 (Revised) applies to the service performance information when service performance information is not included within the scope of the audit.

Appendix 2

(Ref: Para. 22)

Service Performance Criteria

	Financial reporting framework	Preparer	Auditor
Financial statements	Detailed recognition and measurement requirements established in PBE Standards	Apply the recognition and measurement requirements and disclose the accounting policies applied	The recognition and measurement requirements from PBE Standards are suitable
Service performance information	Principles in PBE Standards require the preparer to apply the qualitative characteristics and pervasive constraints	Apply the entity’s process to select what service performance to report and how to measure, describe, aggregate, present and disclose its service performance	Auditor evaluates whether the service performance criteria are suitable

Are the service performance criteria suitable? (Ref: Para 22) ⁴¹
Relevance
Reliability
Completeness Neutrality
Understandability

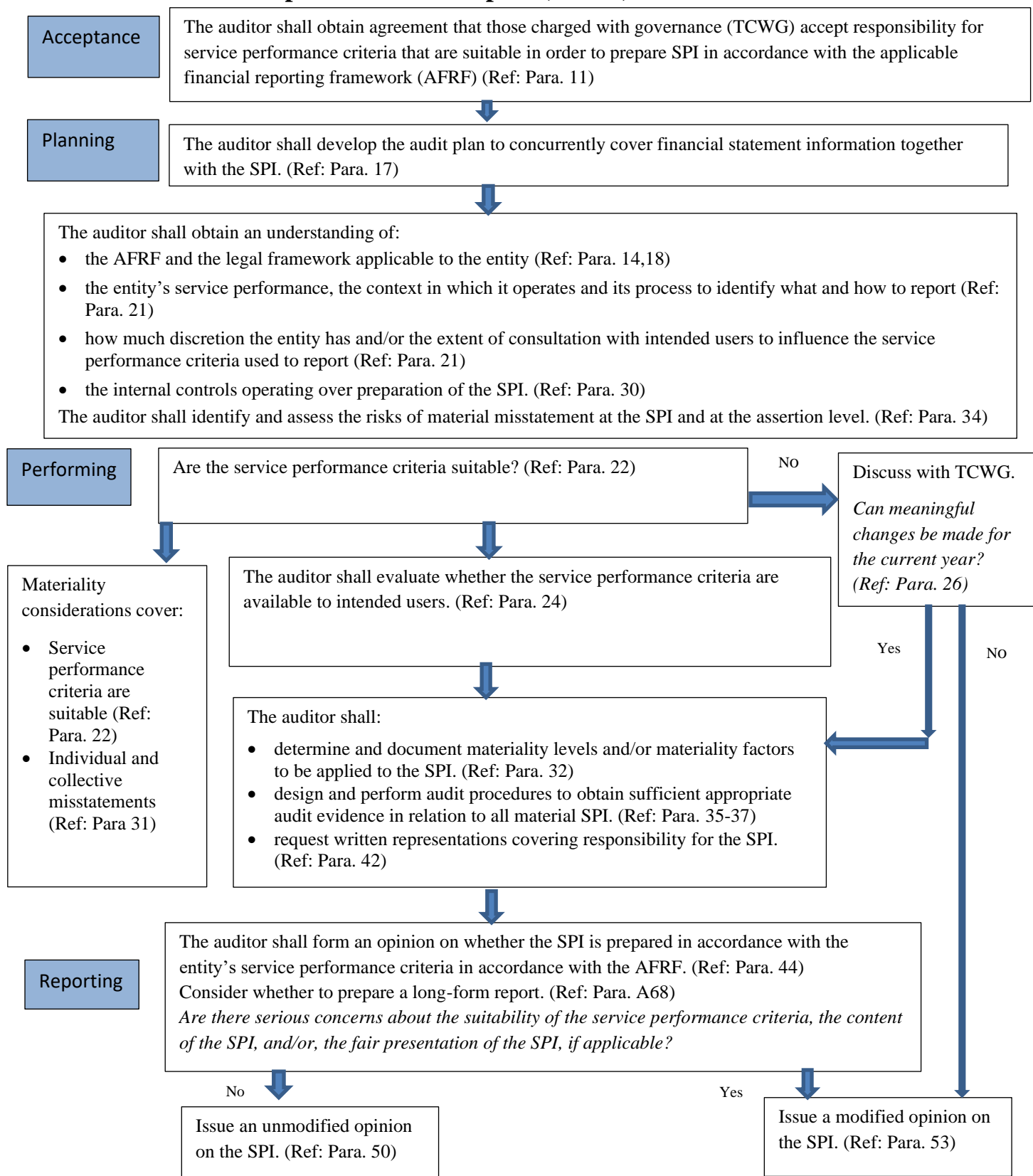
These may be articulated differently in the applicable financial reporting framework (Ref: Para. A25) ⁴²
Relevance including timeliness
Includes verifiability
Faithful representation including: Completeness Neutrality
Understandability and comparability

⁴¹ EG Au1A, *Framework for Assurance Engagements*, paragraph 44.

⁴² These qualitative characteristics are described in PBE FRS 48 paragraph 9 and in PBE Simple Format Reporting – Accrual paragraph A10.

Appendix 3

Flowchart of the Audit of Service Performance Information (SPI) included in the General Purpose Financial Report (GPFR)



Appendix 4

(Ref: Para. A13)

Illustrative Engagement Letter Including Service Performance Information

The following is an example of an audit engagement letter for an audit of the general purpose financial report, including service performance information prepared in accordance with an applicable fair presentation financial reporting framework issued by the New Zealand Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) including this NZ AS 1. It will need to be varied according to individual requirements and circumstances.

To the Chairperson:⁴³

[The objective and scope of the audit]

You have requested that we audit the *[general purpose financial report/performance report]* of ABC [Entity], which comprise the financial statements, the *[service performance information/statement of service performance]* *[and the entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the *[entity information]*, financial statements as a whole, *[and the service performance information/statement of service performance]* are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this *[general purpose financial report/performance report]*.

[The responsibilities of the auditor]

We will conduct our audit of the financial statements in accordance with ISAs (NZ) and the audit of the service performance information in accordance with the ISAs (NZ) and NZ AS 1. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional

⁴³ The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*entity information, the financial statements and the service performance information*], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of [*the entity information*], the financial statements and the service performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's [system of](#) internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [*general purpose financial report/performance report*] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the service performance criteria are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] [in a manner that achieves fair presentation].
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [*general purpose financial report/performance report*] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ).

[The responsibilities of those charged with governance and identification of the applicable financial reporting framework]

Our audit will be conducted on the basis that [those charged with governance] acknowledge and understand that they have responsibility on behalf of the entity for:

- (a) The preparation [and fair presentation] of the [*entity information*], financial statements and [*service performance information/statement of service performance*] in accordance with [*Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*];
- (b) Service performance criteria that are suitable in order to prepare service performance information in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*]; and
- (c) Such internal control as [they] determine is necessary to enable the preparation of the [financial statements and [*service performance information/statement of service performance*]] that are free from material misstatement, whether due to fraud or error; and
- (d) To provide us with:
 - (i) Access to all information of which [management and those charged with governance] are aware that is relevant to the preparation of the [*general purpose financial report/performance report*] such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management or the directors] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.*]

[Reporting]

[*Insert appropriate reference to the expected form and content of the auditor's report.*]

The form and content of our report may need to be amended in the light of our audit findings [and may be in long-form], including findings or recommendations related to the entity's service performance information.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the [*general purpose financial report/performance report*] including our respective responsibilities.

[Governing body]

Acknowledged and agreed on behalf of the [Governing body] by

(signed)

.....

Name and Title

Date

Appendix 5

(Ref: Para. A61)

Illustrative Representation Letter Including Service Performance Information

The following illustrative letter includes written representations that are required by this standard and ISAs (NZ). It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the [*general purpose financial report/performance report*]⁴⁴ of ABC Entity for the year ended December 31, 20XX which comprise the financial statements, the [*service performance information/statement of service performance*] [*and the entity information*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies for the purpose of expressing an opinion as to whether the [*general purpose financial report/performance report*] presents fairly, in all material respects, (or gives a true and fair view of):

- [*the entity information as at December 31, 20XX*];
- the financial position of the [entity] as at December 31, 20XX, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20XX in accordance with the entity's service performance criteria

in accordance with [*Public Benefit Entity (PBE) Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].

We confirm that (*to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves*):

[*General Purpose Financial Report/Performance Report*]

We have fulfilled our responsibilities on behalf of [the entity], as set out in the terms of the audit engagement dated [insert date]:

- For the preparation, and fair presentation of the [*entity information*], financial statements and [*service performance information/statement of service performance*] in accordance with

⁴⁴ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

[*PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

- To select service performance criteria that are suitable in order to prepare service performance information in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] (NZ AS 1)
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA (NZ) 540 ([Revised](#)))
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*]. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the financial statements as a whole and [*service performance information/statement of service performance*]. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with⁴⁵:
 - Access to all information of which we are aware that is relevant to the preparation of the [*general purpose financial report/performance report*] such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements and [*service performance information/statement of service performance*] may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or

⁴⁵ If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

- Others where the fraud could have a material effect on the [*general purpose financial report/performance report*]. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's [*general purpose financial report/performance report*] communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a [*general purpose financial report/performance report*]. (ISA (NZ) 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.⁴⁶ (ISA (NZ) 720 (Revised))
- [Any other matters that the auditor may consider necessary.]

Governing body member

Governing body member

⁴⁶ This is only required when the other information is not available until after the date of the auditor's report.

Appendix 6

(Ref: Para. A66)

Illustrative Auditor's Report Including Service Performance Information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a general purpose financial report/performance report of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework⁴⁷. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).**
- **The general purpose financial report/performance report is prepared by management of the entity in accordance with a general purpose framework.**
- **The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **The auditor has no other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To Appropriate Addressee

Opinion

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the financial statements on pages *x to xx*, the [*service performance information/statement of service performance*] on pages *x to xx* [*and the entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the [*statement of financial performance/statement of comprehensive revenue and expense, statement of*

⁴⁷ The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework.

changes in net assets/equity], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*):

- [*the entity information as at December 31, 20X1*];
- the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X1 in accordance with the entity's service performance criteria

in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

[For a long-form report, include a separate section, under an appropriate heading, for example:

- Underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
- The source of the service performance criteria, and whether they are externally established. (e.g., established in section xxx of applicable legislation or externally established performance frameworks).
- Any significant interpretations made in selecting or applying the entity's service performance criteria in the circumstances.
- Whether there have been any changes in the service performance criteria (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance information.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.]

Basis for Opinion

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (~~Revised~~) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

Those charged with governance are responsible on behalf of the [entity] for:

- (a) the preparation and fair presentation of the [*entity information*], financial statements and [*service performance information/statement of service performance*] in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board;
- (b) service performance criteria that are suitable in order to prepare service performance information in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*]; and
- (c) such internal control as those charged with governance determine is necessary to enable the preparation of the financial statements and [*service performance information/statement of service performance*] that are free from material misstatement, whether due to fraud or error.

In preparing the [*general purpose financial report/performance report*], those charged with governance are responsible for assessing the [entity’s] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the [entity] or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

Our objectives are to obtain reasonable assurance about whether the [*entity information*], financial statements as a whole, [*and the service performance information/statement of service performance*] are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could reasonably be expected to influence the decisions of users taken on the basis of this [*general purpose financial report/performance report*].

A further description of the auditor’s responsibilities for the audit of the [*general purpose financial report/performance report*] is located at the XRB’s website at <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor’s report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*entity information, the financial statements and the service performance information*], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of [*the entity information,*] the financial statements and the service performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the service performance criteria are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] in a manner that achieves fair presentation.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [*general purpose financial report/performance report*] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Appendix 7

(Ref: Para. A76)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [entity] as at December 31, 20X1, and (of) its, financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] for the year ended December 31, 20X1 in accordance with the entity's service performance criteria and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page xx, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by *[list performance measures and/or descriptions reported]* to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Adverse Opinion on the Service Performance Information

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/ performance report]* does not present fairly (or *does not give a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with the entity's service performance criteria and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include [list appropriate goods and services] and measured and evaluated this performance with reference to [describe performance measures and/or descriptions reported] to report its service performance. We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the

Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report] section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (~~Revised~~-International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the financial statements on pages *x to xx*, the [*service performance information/statement of service performance*] on pages *x to xx* [*and the entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*) the [*entity information and the*] financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] for the year ended December 31, 20X1 in accordance with the entity's service performance criteria and with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as (*give examples*). The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, [*describe performance measure and explain where information comes from that we are unable to independently test.*]]

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 ~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Qualified Opinion on the [General Purpose Financial Report/Performance Report/

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the financial statements on pages *x to xx*, the [*service performance information/statement of service performance*] on pages *x to xx* [*and the entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects (or *gives a true and fair view of*):

- [*the entity information as at December 31, 20X1*];
- the financial position of the [entity] as at December 31, 20X1, and (*of*) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X1 in accordance with the entity's service performance criteria

in accordance with [Public Benefit Entity Standards/*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion

[As outlined on page *xx* of the [*general purpose financial report/ performance report*], [entity] has not applied the requirements of the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] to its grant expenditure. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the [*statement of comprehensive revenue and expenses*]; assets, liabilities and equity in the statement of financial position, [*total comprehensive revenue and expense*] and opening and closing equity in the [*statement of changes in equity*] and grants expense reported in the [*service performance information/statement of service performance*].]

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (~~Revised~~) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report /Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Conforming Amendments to Other Pronouncements

New text is underlined.

Conforming amendments to XRB Au1 *Application of Auditing and Assurance Standards*

Appendix 2 lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

Appendix 2A will be added as follows:

Appendix 2A

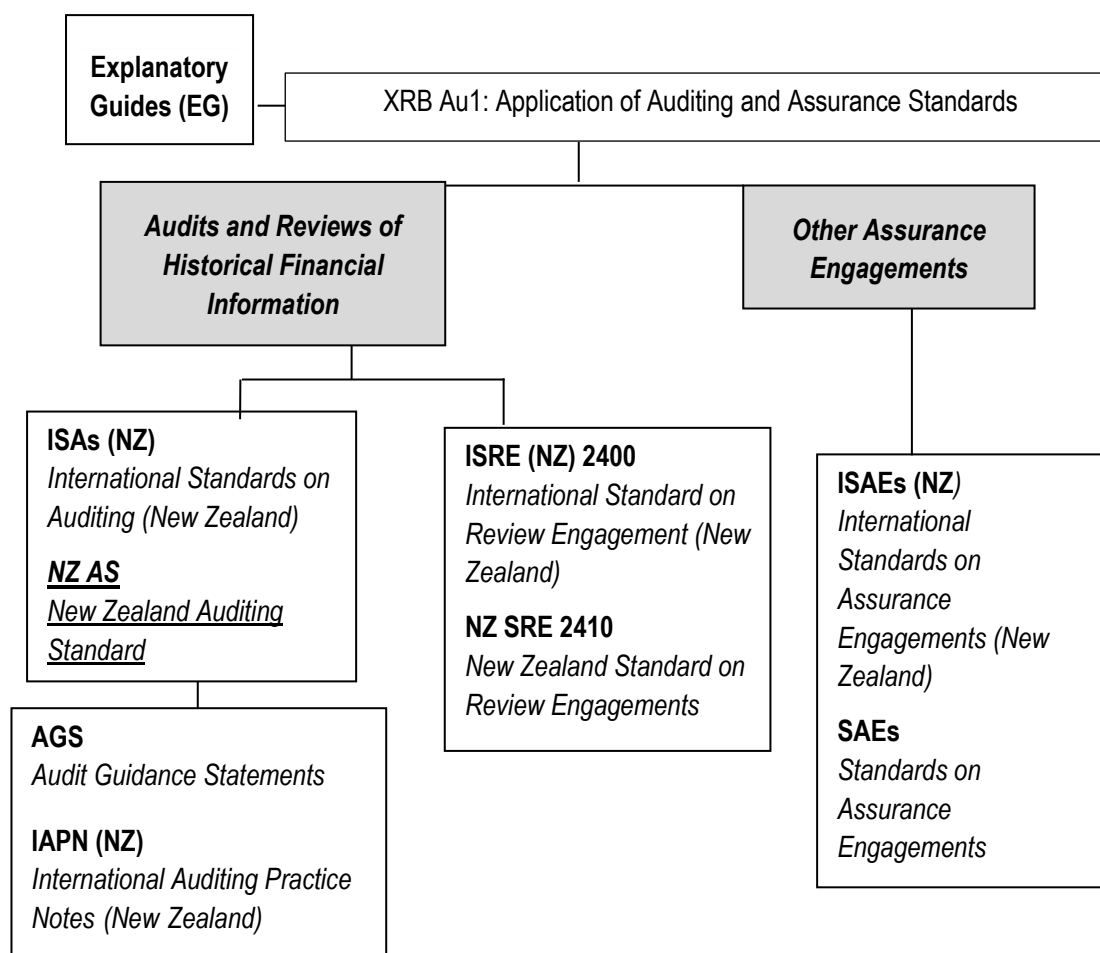
New Zealand Auditing Standards

This appendix is an integral part of the Standard

This appendix lists the New Zealand Auditing Standards to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 The Audit of Service Performance Information

Appendix 6 Overview of Auditing and Assurance Standards of the XRB is to be amended as follows:



ACCOMPANYING ATTACHMENT: CONFORMITY TO INTERNATIONAL AND AUSTRALIAN STANDARDS ON AUDITING

This conformity statement accompanies but is not part of NZ AS 1.

Conformity to International Standards on Auditing

There is no equivalent International Standard on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Comparison with Australian Auditing Standards

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	9.1
Meeting date:	2 June 2021
Subject:	NZAuASB Implementation Plan 2021-2022 DRAFT
Date:	20 May 2021

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

To APPROVE:

- 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.

Background

1. At the April meeting, the NZAuASB provided input into the NZAuASB Action Plan 2021-2026 in support of the XRB's Strategic Plan for 2021-2026. An updated Action Plan, reflecting the changes requested in April is included in agenda item 9.2. In developing the implementation plan for 2021-2011, a few additional changes were identified for the Action Plan 2021-2026.
2. At the June meeting, we have prepared 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.

Matters to consider

3. Board members are asked to provide thoughts on the proposed actions for the 2021/2022 year. In particular, views are sought about:
 - The priority of the numerous domestic projects identified which include: corporate fundraising, a standard on prospective information for the public sector, alternative engagement for smaller entities, a review standard for service performance information, a post implementation review of the compliance engagement, and potential assurance implications arising from climate reporting.
 - What guidance should be prioritised for development. Possible ideas include: guidance on comfort letters, any guidance on technology.
 - Possible research opportunities.
 - Developing a research report on the effectiveness of KAM reporting during the COVID pandemic.
 - Further steps needed to follow up with the RBNZ with respect to auditor reporting.

- Seeking opportunities to engage with those involved in the external reporting of Maori incorporated entities.

Action

- Note the updated NZAuASB Action Plan 2021-2026.
- Consider and approve the NZAuASB Implementation Plan 2021/2022.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	NZAuASB Action Plan 2021-2026 (For Noting - Updated since April)
Agenda item 9.3	NZAuASB Implementation Plan 2021-2022 (For Approval)



**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

Contents

	Page
Introduction	3
Planned actions	6
1. Maintaining and enhancing existing standards	6
2. Influencing the development of international standards	11
3. Maintaining and enhancing constituency engagement and support	13
4. Supporting the XRB to influence delivery of high-quality auditing and assurance services	15
Summary of NZAuASB's planned actions	16
Appendix A — XRB Strategic Plan 2020–2021: At a Glance	19

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 [strategic alignment with the New Zealand Accounting Standards Board \(NZASB\)](#) 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:

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.

- 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 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.

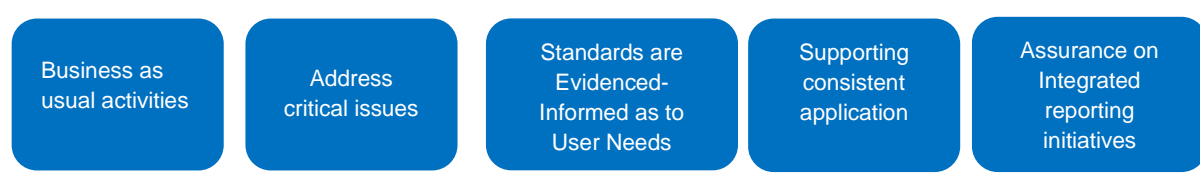
The focus of the NZAuASB planned actions in support of the XRB strategy is on ensuring convergence and harmonisation is maintained, including actively monitoring any issues emerging from the implementation of standards both in New Zealand and internationally, and responding to those issues where appropriate.

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

The planned actions are grouped into five main areas of activity.



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, to achieve convergence, as appropriate, and 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.

	<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> <p>g-f. 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>
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<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 and 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. 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. a-b. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact. b-c. 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).

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 Corporate Fundraising	Developing the an assurance 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 The Audit of Service Performance Information three years post implementation (2023/2024)	Performing a post implementation review of NZ AS 1- <i>The Audit of Service Performance Information</i> .
<p>Standards are Evidenced-Informed as to User 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> <p>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.</p>	
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>
<p>Supporting consistent application</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.

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.

Action 1.10: Development of guidance material to support the consistent application of auditing and assurance standards

- 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.

Action 1.11: Improving the accessibility & usability of auditing and assurance standards

- 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.

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

- 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.

[actively monitoring and seeking opportunities to provide input into the work undertaken by the NZASB on the Management Commentary project;](#)

- b. [Contribute to the development of assurance standards and guidance to address the assurance implications of the Financial Sector Climate Related Disclosures Bill, once finalized, and other types of non-financial reporting, as needed.](#)

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.

The planned actions are grouped into four main areas of activity.

Maintaining and enhancing relationships with IAASB and IESBA

Contributing to IAASB and IESBA due process

Contributing to the development of IAASB and IESBA projects

Maintaining and enhancing relationships with national standard setters

Maintaining and enhancing relationships with the IAASB and the IESBA

<p>Action 2.1: Maintaining and enhancing relationships with the IAASB</p>	<p>a. Attending relevant meetings and events (including NSS meetings);</p> <p>b. Taking opportunities to meet with IAASB members and staff;</p> <p>c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups;</p> <p>d. Hosting IAASB members and staff in visits to New Zealand as appropriate;</p> <p>e.d. Responding, as appropriate, to requests for information from the IAASB and any other relevant working groups.</p> <p>f.e. 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;</p> <p>g.f. Inviting IAASB members and staff to present at NZAuASB meetings and other XRB constituent outreach events; and</p> <p>h.g. Inviting Lyn Provost to Board meetings and providing high level support for her role (and monitoring the inputs of the Technical Advisory Group);</p>
<p>Action 2.2: Maintaining and enhancing relationships with the IESBA</p>	<p>a. Attending relevant meetings and events (including NSS meetings);</p> <p>b. Taking opportunities to meet with IESBA members and staff;</p> <p>c. Fostering relationships with Australian representatives on the IESBA;</p> <p>d. Hosting IESBA members and staff in visits to New Zealand;</p> <p>e.d. Responding, as appropriate, to requests for information from the IESBA and any other relevant working groups.</p> <p>f.e. 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;</p> <p>g.f. Inviting IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events;</p>
<p>Contributing to the IAASB and the IESBA due process</p>	
<p>Action 2.3: Contributing to International Due Process</p>	<p>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:</p> <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 <u>consultation</u> with the AUASB and the APESB where appropriate;

	<ul style="list-style-type: none"> Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.
Contributing to the development of IAASB and IESBA projects	
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	<ol style="list-style-type: none"> a. Be an active participant in the NASS collaboration project with the AUASB, Canadian and Netherlands NASSs, including: <ol 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.

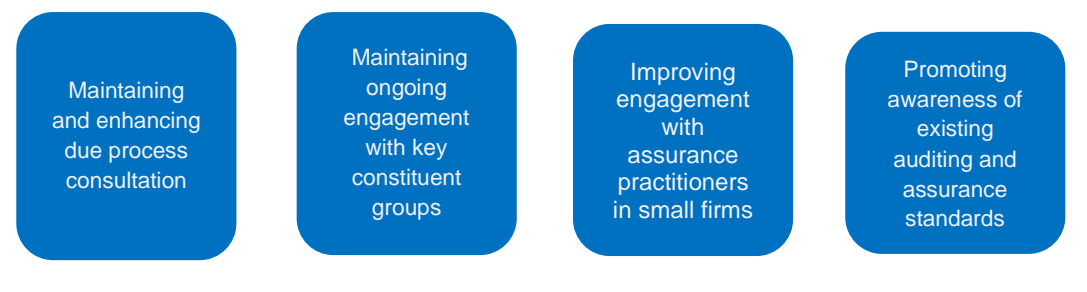
A primary objective of conducting constituent engagement activities is promoting awareness and communicating why a new standard or amendment has been proposed and/or issued. It is important to explain how new pronouncements will improve accountability, transparency, and better decision making by users 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. [Recognising that the constituent group is widening all the time](#), 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.

The planned actions are grouped into four main areas of activity.



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> <ol style="list-style-type: none"> Contribute continue to publish, on a regular basis, online XRB newsletters, social media posts and alerts to promote an awareness of the NZAuASB’s activities, any new standards or guidance issued, and other standard-setting developments; Identifying and implementing innovative, targeted consultation methods with a focus on “why” the change, that are high value-

⁷ CAANZ, CPA, FMA, IOD, NZX and others

	<p>added but relatively low-effort from the constituents' point of view; and</p> <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, <u>as needed</u>.</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><u>b.</u> Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and</p> <p>b-c. 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>

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.



Action 4.1: Support the XRB to promote Understanding of the Factors that Affect Audit Quality	<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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NZAuASB Action Plan Summary

The NZAuASB's planned actions are summarised in the table below.

1.	Maintaining and enhancing existing standards		
	Business as Usual 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 to continue the convergence and harmonisation approach (where relevant) for auditing and assurance standards.	Action 1.1: Maintaining New Zealand Standards Action 1.2: Monitoring the Assurance Environment Action 1.3: Working together with the NZASB	
		Address Critical Issues This strategy is to address any deficiencies or gaps in existing standards that are critical	Action 1.4: Developing an Assurance Standard on the Examination of Prospective Information

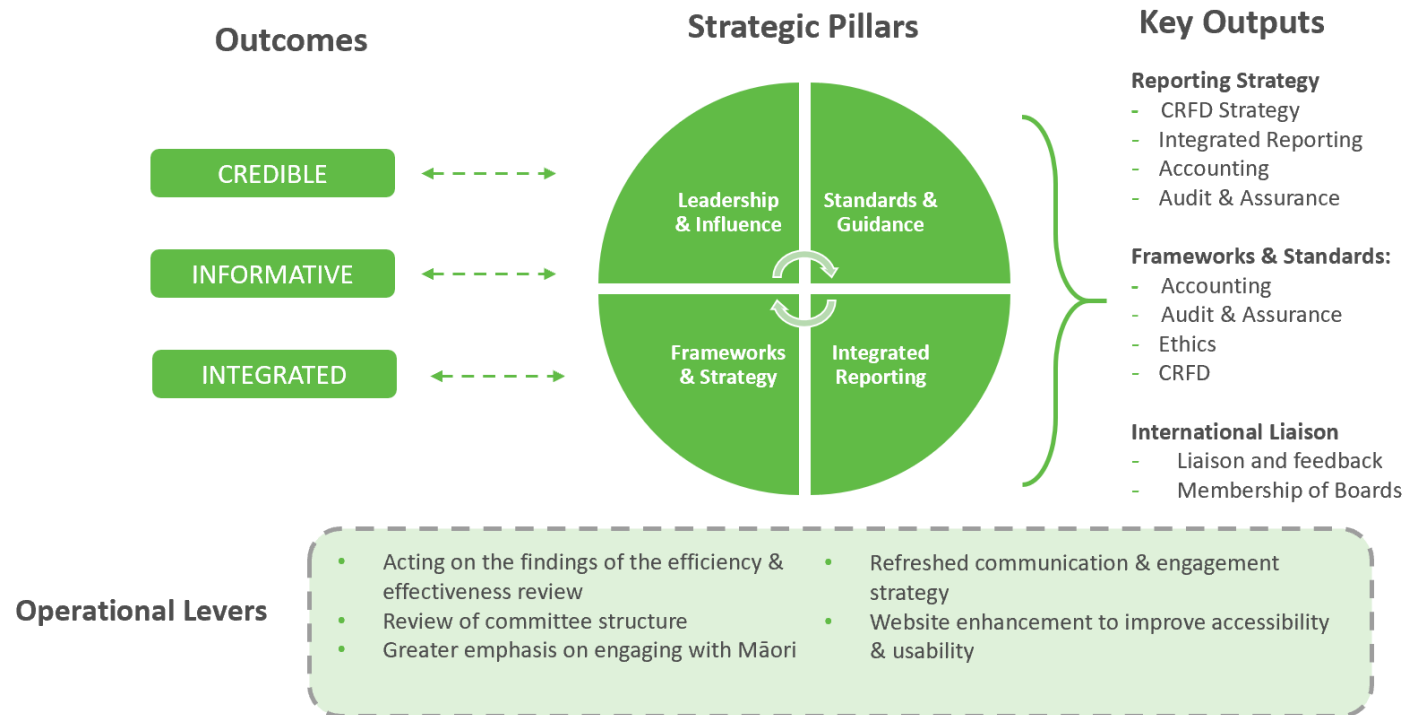
	<p>to user-needs and the quality of financial reporting.</p> <p>The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.</p>	<p>Action 1.5: Developing a Review Standard on Service 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> <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>
	<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>	<p>Action 1.9 Promoting evidence informed standard setting</p>
	<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>	<p>Action 1.12: Contribute to the XRB's initiative on non-financial disclosures</p>
<p>2.</p>	<p>Influencing the development of international standards</p>	
	<p>The NZAuASB's specific planned actions reflects the Board's responsibilities for</p>	<p>Action 2.1: Maintaining and enhancing relationships with the IAASB</p>

	<p>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).</p>	<p>Action 2.2: Maintaining and enhancing relationships with the IESBA</p> <p>Action 2.3: Contributing to International Due Process</p>
		<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>	<p>Action 3.1: Maintaining and Enhancing Due Process Consultation</p>
		<p>Action 3.2: Undertaking On-Going Dialogue</p>
		<p>Action 3.3: Improving engagement with assurance practitioners in small firms.</p>
		<p>Action 3.4 Promoting understanding of the auditing and assurance standards and engagements</p>
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>	<p>Action 4.1: Support the XRB to promote Understanding of the Factors that Affect Audit Quality</p>

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

NZAuASB Proposed 21_22 Implementation Work Plan

(New planned actions are shown in track change)

In support of the XRB’s Strategic Plan 2021-2026, the NZAuASB’s planned actions 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.

Key:

Green – ongoing activity and on track

Orange – action is work in progress and on track

Red – no action taken

1. Maintaining and enhancing existing standards

Action 1.1	Timing	2021/22 Planned Actions	2021/22 Actual Actions
Maintaining New Zealand Auditing and Assurance Standards			
<p><i>The NZAuASB will amend 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.</i></p> <p>The Action will comprise:</p>			
a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, as	Ongoing	• Amend standards following due process as documents issued by	

<p>appropriate, and including working with the AUASB to ensure any changes are appropriately harmonised; and</p>		<p>IAASB, which are expected to include:</p> <ul style="list-style-type: none"> o ISA 600 (Revised) o Conforming amendments arising from Quality Management standards o LCE (ED) o Implications of the PIE definition on the IAASB standards (ED) <ul style="list-style-type: none"> • Liaise with AUASB in accordance with harmonisation process protocol 	
<p>b. Incorporating any ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, to achieve convergence, as appropriate, and including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IESBA, which are expected to include: o Finalising the NAS and Fees standards for New Zealand o Revisions to the PIE definition o Technology (ED) • Interact with APESB staff and Chair, and Board as appropriate • Chair and staff to observe some APESB meetings to build relationships with staff and the Board and to discuss mutual issues. 	

Commented [MP1]: Suggest this is covered in the above bullet point

		<ul style="list-style-type: none"> • Agree a communications protocol with the APESB • Develop harmonisation process protocol to work towards trans-Tasman consistency, as appropriate, with APESB • Apply APESB harmonisation protocol 	
c. Responding as appropriate to any gaps /issues identified with the current suite of standards.		<ul style="list-style-type: none"> • Develop an appropriate response where such matters are identified. <ul style="list-style-type: none"> ◦ Consider request for guidance on example of compliance framework audit report for small NFPs • Utilisation of research and stakeholder engagement where appropriate. 	
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"> • Amend standards following due process and agreed policy, which are expected to include: <ul style="list-style-type: none"> ◦ Conforming amendments to NZ AS 1 ◦ Conforming amendments from QM standards. 	
e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure,		<ul style="list-style-type: none"> • Develop or amend domestic standards 	

where relevant, domestic standards are appropriately harmonised.		<p>following due process and agreed policy.</p> <p>3 domestic standards identified for 2021-2022:</p> <ul style="list-style-type: none"> i. Assurance engagement standard on the performance and reporting of a Corporate Fundraising (refer action 1.4) ii. Review standard on service performance information (refer action 1.5) iii. Engagement standard/guidance for smaller NFPs (refer action 1.6) 	
f. Ensuring that all 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.		<ul style="list-style-type: none"> • Approve signing memorandum with approval of standards • Include gazette notice in subsequent agenda following approval 	
Action 1.2: Monitoring the Assurance Environment	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will monitor the wider assurance environment, liaise with key participants in the financial and non-financial reporting "supply chain", and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			

Commented [MP2]: To prioritize corporate fundraising standard. Views sought as to the priorities for the other 2

<p>a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate.</p>	<p>Ongoing</p>	<p>Passive monitoring via media, public sources, and relationship contacts, specifically implementation of recently effective standards:</p> <ul style="list-style-type: none"> • implementation of new auditor-KAM reporting for FMC reporting entities • implementation of auditing of accounting estimates • implementation of the revised and restructured Code of Ethics • Auditing of SSPs • Role and Mindset changes • Identifying and assessing risks of material misstatements <p>Monitor modified auditor reports and report half yearly to Board, in Febr and Sept.</p> <p>Monitoring matters regarding COVID-19 including:</p> <ul style="list-style-type: none"> - ongoing meetings with FMA and with assurance leaders about standards re Covid -19. - Director liaising with group of NSS representatives and IAASB staff to discuss possible issues. 	
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		- Issue guidance as appropriate	
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> Take action as appropriate as matters arise during the year. 	
c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB and considering the implications for the New Zealand auditing and assurance standards ⁷ .	Ongoing	<ul style="list-style-type: none"> Monitor projects, including: <ul style="list-style-type: none"> global extended external reporting and assurance developments academic research use of data analytics and artificial intelligence in auditing. 	
d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards ⁷ .	Ongoing	<ul style="list-style-type: none"> Interim Director participate at FMA Audit Oversight Committee meetings and report as necessary to the Board Analyse results of QA reviews for standards issues. Liaise with FMA on reviews conducted. 	
e. Assisting the XRB to contribute to government policy work relating to auditing and assurance and other related services -standards ² .	Ongoing	<ul style="list-style-type: none"> Interact with MBIE and other agencies as requested by them, or as identified as necessary Follow up with RBNZ regarding auditor reporting. 	

Commented [MP3]: What further actions does the Board consider needed. Recently responded to RBNZ consultation raising this issue again and offering assistance.

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.		<ul style="list-style-type: none"> Monitor developments and consider if any action is required. 	
g. Monitor issues in respect of the Covid-19 crises and the implications for assurance in New Zealand, including the implementation of the auditing and assurance standards		<ul style="list-style-type: none"> Director to continue to liaise with other NSS and the IAASB about emerging issues. Ongoing meetings with the FMA and assurance practitioners about emerging issues. Take action as appropriate as matters arise during the year. 	
Action 1.3 Working together with the NZASB	Timing	2021/22 Planned Actions	2021/22 Actual Actions
This action will comprise:			
a. Liaising with the NZASB during the development stage of new or amending accounting standards and any post-implementation reviews, to identify any audit or assurance considerations.		<ul style="list-style-type: none"> Identify projects in collaboration with Chair and Director Accounting Standards Include Raise awareness of issues on agenda and arrange for discussion when required. 	

Commented [MP4]: Suggest this can be deleted now, continue monitoring under a above, but no longer need its own line item?

<p>b. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact.</p>		<ul style="list-style-type: none"> • Liaise with the NZASB as appropriate, expected to include: <ul style="list-style-type: none"> ○ IASB's disclosure project ○ IPSASB's Measurement ED 	
<p>c. Periodically meeting with the NZASB and relevant staff to provide an update on the NZAuASB workplan (and vice versa receiving an update on the NZASB work plan).</p>		<ul style="list-style-type: none"> • Invite NZASB Chair and Director to meetings to provide update on NZASB workplan. 	
<p>Action 1.4 Developing an Assurance Standard on the Examination of Prospective financial information Corporate Fundraising</p>	<p>Timing</p>	<p>2021/22 Planned Actions</p>	<p>2021/22 Actual Actions</p>
<p><i>The NZAuASB will develop an assurance engagement on the performance of and reporting on a Corporate Fundraising, and consider the need to develop an assurance standard on Prospective Financial Information.</i></p> <p>This action will comprise:</p>			
<p>Developing an assurance standard on- the performance and reporting of a Corporate Fundraising in accordance with the due process for domestic standards, and in collaboration with the AUASB as appropriate.</p>	<p>Whole year. Approval of ED in October</p>	<ul style="list-style-type: none"> • Continue development of standard of Corporate Fundraising in accordance with the agreed project plan. • Liaise with the AUASB staff on the proposed standard. • Liaise further with the OAG and consider the need to develop a 	

		standard on Prospective Information.	
Action 1.5 Developing a review standard on service performance information	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p>The NZAuASB will develop a review standard on service performance information for Public Benefit Entities (PBEs)</p> <p>The action will comprise:</p>			
Developing the-a review standard on service performance information in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year	<ul style="list-style-type: none"> • New timeline to establish to complete in 2021/2022. • New sub-committee to be formed • Update from OAG on status and uptake of NZ AS 1 • Monitor results of NZASB PIR of T3 and T4 standards 	
Action 1.6: Developing an engagement standard/guidance for smaller NFPs	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p>The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</p> <p>The action will comprise:</p>			
Developing the-an engagement standard/guidance for smaller NFPs in accordance with the due process	Whole year.	<ul style="list-style-type: none"> • New timeline to establish to complete in 2021/2022. 	

Commented [MP5]: This would be a separate project. What are the boards views on the priority of such work?

Commented [MP6]: What are the Board's views on the priority of this work?

Commented [MP7]: What are the Board's view on the priority of this work?

for domestic standards and in collaboration with the AUASB as appropriate.		<ul style="list-style-type: none"> • Liaise with Charities and other stakeholders to obtain understanding of needs, and if can assist. 	
Action 1.7 Perform a post implementation review of the Compliance Engagement Standard	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will perform a post implementation review of the Compliance Engagement standard jointly with the AUASB to determine if further guidance is needed.</i></p> <p>This action will comprise:</p>			
Performing a post implementation review of the Compliance standard jointly with the AUASB. Considering if further application guidance is needed.	Timeline to establish with AUASB staff	<ul style="list-style-type: none"> • Liaise with the AUASB and develop a joint project plan for the post implementation review • Perform the post implementation review in accordance with the approved project plan • Consider the results together with the AUASB and decide whether further application guidance is needed. 	

Commented [MP8]: Boards views on need to prioritize this work in 21/22?

Action 1.9: Promoting evidence informed standard setting	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<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> <p>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.</p> <p>This action will comprise:</p>			
<p>a. Identifying applicable user needs research to undertake where appropriate.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> • Monitor developments and provide feedback on possible areas/ topics for research. • Research the effectiveness of KAM reporting during the COVID 19 pandemic and issue a report summarizing the findings. 	
<p>b. Taking opportunities through the XRB's academic forum to identify and encourage areas for research related to auditing and assurance standards</p>		<ul style="list-style-type: none"> • Consider and provide feedback on possible areas/ topics for research. • Identify and agree any assurance related research areas for Academic on sabbatical to XRB in July. 	

c. Considering output of research available (including in liaison with the AUASB) and how this can best contribute to the quality of standard setting work.	Ongoing	<ul style="list-style-type: none"> • Monitor outputs of research projects conducted on assurance matters • Perform search to identify available research on current IAASB, IESBA and NZAuASB projects and consider relevance of research output to the projects 	
Action 1.10 Developing guidance material to support the consistent application of auditing and assurance standards	Timing Ongoing	2021/22 Planned Actions	2021/22 Actual Actions
<i>The focus of the NZAuASB specific actions will be to develop guidance material to support the consistent application of auditing and assurance standards</i>			
This action will comprise:			
a. Developing staff FAQs and other non-authoritative guidance material to support consistent application of new and existing standards (where deemed required)	Ongoing	<ul style="list-style-type: none"> • Consider ways to work with NSS and professional bodies as necessary, including a focus on <ul style="list-style-type: none"> ◦ Implementation support for the QM standards 	
b. Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement	Ongoing	<ul style="list-style-type: none"> • Communication plans to include ways to promote awareness through LinkedIn 	

		<ul style="list-style-type: none"> • Consider ways to make BFCs, and other IAASB/IESBA material available through the XRB website • Host events, write blogs or articles to raise awareness of standards and implementation support, including a focus on <ul style="list-style-type: none"> ◦ Promotion of EER assurance guidance 	
c. Considering what further guidance is needed in the New Zealand environment and develop the guidance.	Ongoing	<ul style="list-style-type: none"> • Monitor NZ need for additional guidance and develop as needed. • Consider need for and priority of developing guidance on comfort letter engagements. • Consider need for and priority for guidance relating to technology. 	
Action 1.11 Improving the accessibility and usability of auditing and assurance standards			
<p><i>The focus of the NZAuASB specific actions will be to assist the XRB in exploring opportunities to improve the accessibility and usability of the standards in response to evolving user expectations.</i></p> <p>The action will comprise:</p>			

<p>a. Monitor IFAC and AUASB digital publication projects and contribute as needed. Consider and assess most appropriate action to recommend to the XRB regarding digitisation of XRB standards</p>		<ul style="list-style-type: none"> • Monitor IFAC and AUASB digital publication project and report back to NZAuASB as appropriate. 	
<p>b. Working with the IESBA to ensure NZ specific provisions can be incorporated into the eCode</p>		<p>Interim Director to continue to assist Working Group and to update Board on progress.</p>	
<p>Action 1.12 Contribute to the XRB’s initiative on non-financial disclosures</p>	<p>Timing Ongoing</p>	<p>2021/22 Planned Actions</p>	<p>2021/22 Actual Actions</p>
<p><i>The implementation of non-financial reporting strategies will be led by the XRB Board with a priority focus to develop a strategy and guidance for climate related disclosures.</i></p> <p><i>The focus of the NZAuASB specific actions will be to play a role in ensuring financial and non-financial reporting standard setting developments remain connected to support an integrated approach to quality and trusted external reporting.</i></p> <p><i>The action will comprise:</i></p>			

<p>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.</p>		<ul style="list-style-type: none"> • Monitor demand for and developments in assurance over non-financial reporting. • Liaising with the CRD team during the development stage of the climate standards, to identify any audit or assurance considerations. 	
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		<ul style="list-style-type: none"> • Address matters arising as appropriate. • 	
Actively monitoring and seeking opportunities to provide input into the work undertaken by the NZASB on the Management Commentary project.			
b. Contribute to the development of assurance standards and guidance to address the assurance implications of the Financial Sector Climate Related Disclosures Bill, once finalized, and other types of non-financial reporting, as needed.		<ul style="list-style-type: none"> • Consider the need for guidance/standard changes to enable non-accountant practitioners to apply XRB auditing and assurance standards, including the quality management and ethical requirements, as needed • Consider whether assurance standards are fit for purpose or what amendments or additional standards may be required 	
2. Influencing the development of international standards			
Action 2.1	Timing Ongoing	2021/22 Planned actions	2021/22 Actual Actions

Commented [MP9]: No longer a priority project for the NZASB.

Maintaining and enhancing relationships with the IAASB			
<p>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</p> <p>The Action will comprise:</p>			
<p>a. Attending relevant meetings and events (including National Standard Setters meetings).²⁷</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Chair and Interim Director to attend NSS meetings in May 2021 • Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	
<p>b. Taking opportunities to meet with IAASB members and staff.²⁷</p>		<ul style="list-style-type: none"> • Interact with key staff and Chair as appropriate • NZAuASB Chair and Interim Director to attend the NSS meeting in May 2021. 	
<p>c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups.²⁷</p>		<ul style="list-style-type: none"> • Have high-level discussions with Lyn Provost when appropriate • Invite Roger Simnett, IAASB member and Chair of the CUSP Task Force to provide an update on CUSP project. • Work with AUASB at chair and staff level to influence international agenda. 	

Hosting IAASB members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> • Host IAASB members and staff as appropriate 	
d. Responding as appropriate to requests for information from the IAASB and any other relevant working groups.		<ul style="list-style-type: none"> • Respond to requests for information as appropriate 	
e. 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.		<ul style="list-style-type: none"> • Seeking opportunities to partner with international bodies on the XRB's climate work, as it relates to assurance matters. • Present on relevant topics at NSS meetings. 	
f. Inviting IAASB members and staff to present at NZAuASB meetings and other XRB constituent outreach events.		<ul style="list-style-type: none"> • Invite Task Force Chairs or IAASB staff to present on relevant topics to the NZAuASB and outreach events. Possible topics include: <ul style="list-style-type: none"> ◦ Technology ◦ QM standards ◦ LCE exposure draft ◦ Group audits 	
g. Inviting Lyn Provost to Board meetings and providing high level support for her role.		<ul style="list-style-type: none"> • Invite Lyn Provost to at least 2 NZAuASB meetings. • Monitoring the inputs of the Technical Advisory Group. 	

Commented [MP10]: While travel restrictions remain in place, explore opportunities to host virtually. Combine with g?

		<ul style="list-style-type: none"> Monitor updates on IAASB meetings. 	
NZAuASB Action 2.2:	Timing	2021/22 Planned Actions	2021/22 Actual Actions
Maintaining and enhancing relationships with the IESBA			
<p><i>The NZAuASB will seek to build and maintain relationships with IESBA members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including NSS meetings).	Ongoing	<ul style="list-style-type: none"> Chair and Interim Director to attend NSS meeting in May 2021. Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	
b. Taking opportunities to meet with IESBA members and staff.		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	
Hosting IESBA members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IESBA members and staff as appropriate 	
d. Responding, as appropriate, to requests for information from the IESBA and any other relevant working group.		Respond to requests for information as appropriate	
e. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IAASB-IESBA events and other international forums.		<ul style="list-style-type: none"> Consider if there are relevant topics to present on at NSS meetings 	

Commented [MP11]: While travel is restricted consider combining with g

f. Inviting IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events.		<p><u>Possible topics include:</u></p> <ul style="list-style-type: none"> o NAS and Fees implementation o PIE definition o Long association PIR o Technology 	
NZAuASB Action 2.3: Contributing to International Auditing and Assurance Standards Due Process	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will actively contribute to the “due process” activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>			
a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB.	Ongoing	<ul style="list-style-type: none"> • Issue alerts when international documents issued • Organise consultation events as appropriate, in accordance with a consultation plan, with a focus on “why” the change • Promote awareness on social media in accordance with the XRB policies. 	
b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents,		<ul style="list-style-type: none"> • Prepare comment letters 	

discussion papers and exposure drafts) and doing so in conjunction consultation with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate.		<ul style="list-style-type: none"> • Liaise with AUASB in accordance with established protocol before letters finalised • Liaise with APESB to the extent considered appropriate in each case 	
c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.		<ul style="list-style-type: none"> • Participate in events in NZ or Australia (or elsewhere on an exceptional basis) and online. 	
Action 2.4 Contributing to the development of IAASB and IESBA projects	Timing	2021/2022 Planned Actions	2021/22 Actual Actions
The action will comprise:			
a. 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 the IESBA work as appropriate and achievable.	Ongoing	<ul style="list-style-type: none"> • Consider volunteering to assist IAASB or IESBA on topics of strategic significance to the XRB, as appropriate and as needed. These may include: <ul style="list-style-type: none"> ◦ Fraud ◦ Going concern ◦ EER assurance 	
Action 2.5:	Timing	2020/21 Planned Actions	2020/21 Actual Actions

Collaborating with other NASSs to ensure global standards are fit for purpose at jurisdictional levels.			
<p><i>The NZAuASB will be an active participant in the NASS collaboration project with the AUASB, Canadian and Netherlands NASSs.</i></p> <p>The action will comprise:</p>			
<p>a. Participating in the exploration internationally of how NASSs can work more collaboratively with each other to address issues associated with current and recently released IAASB standards (e.g. the impact of technology on the audit, SMP/LCE audit issues, and the implementation of new or updated standards).</p>		<ul style="list-style-type: none"> • Agree Vision with the wider NASS group at the next in person NSS meeting in 2021/2021 • Have quarterly phone calls with the NASS G4 group, and in-person meetings alongside the IAASB meetings. • Establish and maintain a NASS communications network • Continue to share and collaborate on work plans and specific projects identified amongst NASS G4 group to collaborate on. 	
<p>b. Identifying and exploring opportunities for the IAASB and National Assurance Standard Setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work.</p>		<ul style="list-style-type: none"> • Liaise with the IAASB staff on NSS matters to work collaboratively on. • Contribute to planning NSS meetings. 	
<p>c. Continuing to develop an understanding of how NASS as a stakeholder group can better</p>		<ul style="list-style-type: none"> • Participate in NASS meetings 	

inform the implementation of the IAASB's current and future strategies, through global and regional actions that increase the value and perception of the audit.		<ul style="list-style-type: none"> • Build relationships with other NASS in the ASIA PACIFIC region. • Develop a database of NASS contacts and invite them to join the NASS communications network. • Obtain support for a wider participation at annual NASS meetings 	
d. 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.		<ul style="list-style-type: none"> • Consider implications of the public interest framework, within the context of XRB's operations. 	

3. Maintaining and enhancing constituency engagement and support

NZAuASB Action 3.1:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
Maintain and Enhance Due Process Consultation			
<p><i>The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.</i></p> <p>The Action will comprise:</p>			
a. Contribute to the regular online XRB newsletters, social media posts and alerts to promote an awareness of the NZAuASB's activities of any	Ongoing	<ul style="list-style-type: none"> • Awareness raising to focus on 'why the 	

new standards or guidance issued, and other standard setting developments.		change' in the public interest	
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.	Ongoing	<ul style="list-style-type: none"> • Continue current due process engagement methods • Develop new communications & engagement approach that reflects different target groups and helps to explain "why" changes are needed. 	
c. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> • Maintain and update a constituent contact list, recognising that our constituents are widening all the time • Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences • Promote other Topics as arise • Identify and engage with relevant groups about major new exposure drafts and standards. 	
d. Proactively seeking opportunities to engage with those involved in the external reporting of Maori		<ul style="list-style-type: none"> • Participate in XRB engagement with Maori incorporated entities to 	

incorporated entities – including preparers, advisors and users, as needed .		identify any assurance related matters	
Action 3.2: Undertaking On-Going Dialogue	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i>			
The Action will comprise:			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB’s regular meetings.	Ongoing	<ul style="list-style-type: none"> Update and include liaison schedule as a standard agenda item. Organise regular meetings with key stakeholders identified on the liaison schedule 	.
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups.	Ongoing	<ul style="list-style-type: none"> Organise seminars & round tables Attend other fora Attend mid-tier forum Participate in Audit Summit meetings arranged by CAANZ and practitioners. Hold discussions with assurance leaders to discuss assurance matters. 	
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> Build relationships with key groups identified. 	

Commented [MP12]: Seek Board views on specific actions

Action 3.3 Improving engagement with assurance practitioners in small firms			
<p><i>The NZAuASB will seek to improve engagement with assurance practitioners that are small firms and sole practitioners.</i></p> <p>The action will comprise:</p>			
<p>a. Specifically targeting this group when consulting about relevant standards using customised consulting approaches.</p>		<p>Maintain an updated contact list of SMPs and ensure they are included in outreach events targeted specifically customised to their circumstances and interests.</p>	
Action 3.4 Promoting understanding of the auditing and assurance standards and engagements	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will undertake activities throughout the life-cycle of developing standards to promote an increased understanding of the auditing and assurance standards</i></p> <p>The Action will comprise:</p>			
<p>a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness of:</p> <ul style="list-style-type: none"> • assurance practitioners about new and revised auditing and assurance standards • users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility 		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Targeted meetings with users • Journal articles • Targeted newsletters • Social media notifications 	

		<ul style="list-style-type: none"> • Joint assurance and accounting update webinar twice annually • CAANZ Audit conference • AUT auditing 3rd year paper guest lecture 	
b. Promoting awareness of the IAASB and the IESBA implementation support activities.		<ul style="list-style-type: none"> • Make material available on the XRB website^{Targeted newsletters} • Social media notifications 	

4. Supporting the XRB to influence delivery of high-quality audit and assurance services

NZAuASB Action 4.1	Timing	2021/22 Planned Actions	2021/22 Actual Actions
Supporting the XRB to Promote Understanding of the factors that Affect Audit Quality			
<i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i>			
This action will comprise:			
a. Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary.		Attend stakeholder collaboration meetings arranged by CAANZ and report on outcome.	
b. Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the		Implement the XRB's strategic direction by:	

Brydon report and the Australian Inquiry where relevant to New Zealand.		<ul style="list-style-type: none"> • considering issues and developing recommendations and project plans as appropriate. • Implementing the agreed actions in accordance with the approved project plans 	
c. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality.	Ongoing	<ul style="list-style-type: none"> • Promote the audit quality framework as opportunities arise • Liaise with IOD and do an awareness raising session as part of the director education series 	
d. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality.		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • XRBrief articleCommunicate awareness raising activities as appropriate in accordance with communications plan • Promote guidance developed. 	



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 21 May 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 April and May 2021.

International Federation of Accountants (IFAC)

1. Together with Chartered Professional Accountants of Canada (CPA Canada), today the International Federation of Accountants (IFAC) released [The Professional Accountant's Role in Data](#).
As economies digitize, the accountancy profession must adapt to contribute strategically. *The Professional Accountant's Role in Data* outlines a new model, the data management value chain, in which accountants can, by building upon key competencies, reimagine their roles to meaningfully contribute to the digital economy.
Stathis Gould, director of advocacy at IFAC says: "This is an urgent and opportune moment for the accountancy profession to leverage the disruption of the expanding digital economy, embrace enhanced roles in the data management value chain, and guide businesses and organizations of all kinds into a sustainable and prosperous future."
2. On 6th of May 2021 IFAC published a revised [building blocks approach to reporting sustainability information](#)—enhancing its previously issued roadmap, [The Way Forward](#). IFAC hopes to foster discussion on how this approach can deliver a global system for consistent, comparable, and assurable sustainability-related information that best meets the needs of investors and other stakeholders.
3. IFAC welcomes the publication of the much-anticipated draft text of the European Union's revised Corporate Sustainability Reporting Directive. This ambitious proposal demonstrates leadership on the issue of corporate reporting. The legislation seeks to put sustainability-related reporting on the same footing as traditional financial reporting. This is long overdue. Specific proposals, such as where sustainability information is reported, mandatory assurance, a digital reporting taxonomy, and expanded scope for oversight by audit committees, are all important elements of enhancing the corporate reporting ecosystem to include sustainability-related information.
4. To provide thought leadership, IFAC and the IIRC launched a vision for [Accelerating Integrated Reporting Assurance in the Public Interest](#) in March 2021 with the aim of providing clarity on what integrated reporting assurance involves for organizations, auditors and others.

Guidance and practice need to develop further in this immature part of the reporting and assurance world. Solutions based largely on historical assurance approaches will likely not be sufficient when there is much more emphasis on qualitative, forward-looking information, and self-selected performance metrics.

Anti-Fraud Collaboration (AFC):

1. Artificial intelligence (AI) has become one of the fastest-growing priorities for many companies in the digital era and, consequently, will have a wide-ranging impact on businesses across the globe. [This post](#), part of an emerging technology series from the AFC, examines the implications of AI and one of its most commonly known applications—machine learning—when it comes to mitigating fraud risk.
2. Over the years, the Securities and Exchange Commission’s (“SEC”) enforcement efforts have focused on a wide range of alleged misconduct, related but not limited to, intentional and non-scienter frauds, issuer reporting and disclosures, auditor shortcomings, absent or insufficient internal controls, deficient disclosure controls, non-GAAP measures, the Foreign Corrupt Practices Act, securities offerings, insider trading, broker dealer, and cyber-related misconduct.

Given the unique impact of financial statement frauds and relevance to companies, auditors, and investors, the Anti-Fraud Collaboration (“AFC”) undertook a study to classify common financial statement fraud schemes based on an analysis of SEC enforcement actions involving accounting or auditing issues where the SEC has issued an Accounting and Auditing Enforcement Release (“AAER”).

The SEC issued a total of 531 AAERs from January 1, 2014 through June 30, 2019. This study focused on 204 enforcement actions related to financial statement frauds from which we identified 140 fraud schemes. The objective of this study is to provide observations on higher risk areas that are susceptible to fraud and insights into what companies can do to identify and mitigate these types of fraud risks more effectively.

The most common types of fraud identified included:

- Improper revenue recognition
 - Reserves manipulation
 - Inventory misstatement
 - Loan impairment deferral
- (download the [full report here](#))

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1).

International Ethics Standards Board for Accountants (IESBA)

1. Since Q2 of 2020, members of a Working Group formed by IESBA and National Standard Setters (NSS) from Australia, Canada, China, South Africa, the U.K., and the U.S. have been meeting regularly to discuss the key ethics issues exacerbated by COVID-19. The Working Group’s charge is to develop implementation support to assist professional accountants in effectively applying the Code when facing circumstances created by the COVID-19 pandemic. [In this article](#) there is an examination of several ethics considerations that will be especially pressure tested during this period of recovery. Facing these conditions simultaneously demands renewed focus on the dynamics that exist in the relationship between professional accountants and entities as they face extraordinary circumstances for at least the next few years.

2. In March 2021, the IESBA reflected on the progress made to date on its technology Initiative, and considered next steps and timing, also recognizing the increased burdens stakeholders have shouldered as a result of the pandemic.
Click on the [IESBA Update](#) to learn more.

Accountancy Europe (AE) (former FEE)

1. Following the 2013 Accounting Directive, small European Union (EU) companies are no longer required to have a statutory audit. However, the EU legislation allows Member States to impose an audit on their small companies based on their specific circumstances.
This publication follows up on our [2016 Factsheet](#) and presents the current audit exemption thresholds in Europe and how several countries amended them over the last few years. In addition, we present how the thresholds changed over the last 15 years.

Our survey results show that 5 European countries lowered their audit exemption thresholds while 4 countries increased them between 2016 and 2021. Overall, there was no clear upward or downward trend in the development of the thresholds in this period.

In the longer-term, however, we noted a clear increase in the thresholds in the majority of European countries. On average, countries' thresholds for balance sheet and net turnover tripled between 2006 and 2021. More specifically, 23 countries increased the threshold for their balance sheet amount and 22 countries increased the threshold for the net turnover in this period. We also found diverging national policies and views on auditing smaller entities. (read the full [article here](#))

Public Interest Oversight Board of IFAC (IPIOB)

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

International Integrated Reporting Council (IIRC)

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

International Organization of Supreme Audit Institutions (INTOSAI)

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

International Organization of Securities Commissions (IOSCO)

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

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. The AUASB has released a new AUASB Bulletin on [The Consideration of Cyber Security Risks in an Audit of a Financial Report](#). This Bulletin is designed to assist auditors consider the impact of cyber security on the audit of a financial report performed in accordance with Australian Auditing Standards. (PM: I suggest for the NZAuASB to consider whether we need to adopt this for NZ or otherwise promote it in NZ in the context of increasing importance of Cyber Security).
2. The AUASB Staff have published [a guide to assist assurance prescribers](#) in drafting assurance requirements which are clear and effective. The guide addresses a number of matters including determining the appropriate scope of an engagement, the different levels of assurance and the options in Australia available to perform engagements.
3. The IAASB published a [Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Extended External Reporting \(EER\) Assurance Engagements](#).

The guidance responds to ten key stakeholder-identified challenges commonly encountered in applying ISAE 3000 (Revised). The guidance promotes the consistent high-quality application of the assurance standard EER assurance engagements to:

- strengthen the influence of such engagements on the quality of extended external reporting;
- enhance trust in the resulting assurance reports; and
- increase the credibility of extended external reports so that they can be trusted and relied upon by their intended users.

Two additional items of [non-authoritative support material](#) have also been published which are not integral to the Guidance but are available as additional resources should practitioners wish to refer to them.

The AUASB approved at its 20 April 2021 meeting to issue a Bulletin which contextualises the guidance on EER Assurance in Australia. The AUASB is planning outreach with stakeholders on the application and implementation of the guidance.

4. The AUASB received an update on the preliminary work being done in response to the recommendations of the PJC Inquiry into Regulation of Auditing in Australia that are relevant to the AUASB, including how recommendations relating to Auditor remuneration and Auditor tenure

are classified and disclosed. AUASB Technical Staff have been and will continue to work closely with the FRC, AASB, ASIC, APESB and AICD on this issue.

5. The AUASB considered and provided feedback on the AUASB's proposed revised Preamble ASA 101 Preamble to AUASB Standards, which will replace the existing ASA 100 Preamble to AUASB Standards (issued 2006) and ASA 101 Preamble to Australian Auditing Standards (issued 2009). A final draft of the proposed standard will be brought to the June 2021 AUASB meeting for approval to expose it publicly for a 30-day comment period.
6. The AUASB was provided with an update on the work being done by the AUASB Technical Staff in response to technology and its impact on audit and assurance. The AUASB was supportive of the direction of current priorities and projects which are being supported by the AUASB's Technology Project Advisory Group (PAG).

United Kingdom

FRC

1. In May 2021, the FRC issued [revised International Standard for Review Engagement \(UK\) 2410 \(ISRE \(UK\) 2410\) Review of Interim Financial Information Performed by the Independent Auditor of the Entity](#).

The revised standard provides additional clarity on auditor responsibilities, strengthens the review procedures required on management's going concern assessment and strengthens reporting requirements in relation to going concern.

The standard is available [here](#).

The feedback statement is available [here](#).

2. In May 2021, FRC published a [Thematic Briefing: The audit of cash flow statements](#). The briefing document highlights the results of the FRC's Constructive Engagement key findings and the steps taken by audit firms to strengthen the audit of cash flow statements.

Institute of Chartered Accountants in England and Wales

The ICAEW has published a series of interesting articles on the proposals to restructure audit and corporate governance in the UK. These articles cover topics such as culture, audit quality, fraud etc and could be viewed on:

<https://www.icaew.com/insights/Insights-specials/restoring-trust-in-audit-and-corporate-governance>

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.

Other UK News

1. Upcoming audit reforms sees some Big Four firms "jumping before they're pushed" to get "better prices for functions" to support with future restructuring, according to Franki Hackett, head of audit and ethics at Engine B. KPMG UK announced on Thursday it had sold its UK restructuring practice to Interpath Advisory, a newly formed company backed by HIG Europe, an alternative investment firm. The deal is valued at approximately £400m, according to a report by [Sky News](#). ([Read more here](#))
2. In September 2020 Mazars commissioned Edelman Intelligence to conduct a double-blind survey (Mazars' name was not revealed) to identify the perceptions and needs of businesses (including

public interest entities) and representatives from audit committees regarding audit and their current statutory auditor. The survey findings allow better understanding of expectations concerning auditing services today. They provide objective insight into companies' expectations towards audit and auditors, and help shape recommendations on the evolution of audit and the benefits this evolution could generate.

[This report's](#) chapters include: standout findings, underlining key facts and figures that came out of the survey; myths and realities, which contrasts four commonly-held assumptions about audit with the realities presented by the findings; questions for policymakers, which have been drawn out of the findings in order to question how policy progress can be made for the benefit of all audit stakeholders; and finally, the 'focus on...' chapter, which breaks down some of the findings according to certain geographies and respondent profiles. Countries were broadly consistent in their answers, with very few outliers for any of the survey questions.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. 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. A huge surge this year in the number of special-purpose acquisition companies (SPACs) has led to interest from investors and scrutiny on the part of the SEC. [New guidance](#) from the Center for Audit Quality (CAQ), which is affiliated with the AICPA, provides ideas for auditors and audit committees to consider related to SPACs and the initial public offerings and mergers that are related to them. A SPAC is a shell company formed to raise funds through an initial public offering for the purpose of acquiring an existing company. The surging interest in SPACs is illustrated by the 300 SPAC IPOs that took place in the first few months of 2021, compared with 59 that took place in all of 2019, according to the CAQ. But bringing a private company into the public markets through a SPAC poses unique risks and challenges, and the surge in interest has attracted the SEC's attention. In March, the [SEC warned](#) that investors shouldn't make investing decisions based on a celebrity's involvement with a SPAC.

Canada

Canadian Auditing and Assurance Standards Board (AASB)

1. The AASB discussed matters related to its proposed exposure draft addressing conforming amendments to other Canadian standards, resulting from the January 2021 approval of Canadian

Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. The AASB is expected to approve an exposure draft by the end of May 2021.

2. The AASB received a presentation from International Auditing and Assurance Standards Board (IAASB) staff on the technological innovations that are likely to have the greatest impact on audit and assurance. The presentation included a discussion of the IAASB's initiatives to monitor emerging trends in technology and how disruptive technologies could affect the IAASB's current and future workplans and its strategic direction.

CPA Canada

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

Project	Overview of the project and its current status
<p data-bbox="204 291 434 320">Quality Control</p> <p data-bbox="204 349 434 416">No Update for the period</p>	<p data-bbox="459 291 1388 600">Objective of the Project: Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p data-bbox="459 633 1388 837">Background and current status: The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed project proposals for quality control that were presented at the September 2016 IAASB meeting.</p> <p data-bbox="459 871 1388 938">The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul data-bbox="459 972 1388 1106" style="list-style-type: none"> • Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review; • Determining the scope of the engagements subject to an EQC review; and • The execution of an EQC review. <p data-bbox="459 1140 1388 1207">At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p data-bbox="459 1240 651 1270">QC-Firm Level</p> <p data-bbox="459 1303 1388 1644">In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p data-bbox="459 1677 1388 1845">In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul data-bbox="459 1879 1388 1980" style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

- the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details)
- the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220
- the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer
- the proposed requirements and application material in relation to the eligibility of the EQC reviewer.

The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.

In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.

The Board discussed the exposure draft (ED) of proposed ISQC 1 (Revised)1 and was supportive of the direction that the Quality Control Task Force was taking the standard, noting the improvement in the readability and understandability overall. The Board encouraged the Quality Control Task Force to consider whether there are further opportunities to address scalability, including further refinement and simplification of the standard, where possible. The Board also discussed changing the title of the standard

In finalizing the ED in December 2018, the Board discussed the definition of deficiencies and bringing more emphasis to positive findings from the firm’s monitoring activities and how they may be used in the system of quality management. The Board also discussed the requirement for the firm to establish additional quality objectives beyond those required by the standard and further clarifying the identification and assessment of quality risks. In addition, the Board suggested further simplification of the requirement addressing communication with external parties, although in general agreed to retain an explicit reference to transparency reports in the requirement. The Board also discussed network requirements or network services, and

adjusted the requirement to clearly reflect the expectations of the firm regarding the effect of network requirements or network services on the firm's system of quality management.

The Board supported the Quality Control Task Force's recommendations regarding matters to be addressed in the Explanatory Memorandum, including the proposed questions.

In September 2019, the Board discussed the comment letters received on certain areas of the Exposure Draft (ED) of ISQM 1 (ED-ISQM 1)3 relating to the quality management approach, implementation challenges, the components and structure of the standard and the firm's risk assessment process. The Board concurred that four significant themes had emerged from the comments: scalability; prescriptiveness; addressing firms who do not perform audit or assurance engagements; and challenges with implementation. The Board, in general, supported proposals to address the structure of the standard and clarify the nature of the components and how they interrelate. The Board also supported addressing the granularity of the quality objectives, introducing quality risk considerations, and refining the required responses. The Board agreed with the ISQM 1 Task Force's proposals to simplify the firm's risk assessment process, including addressing concerns about the threshold for the identification of quality risks. The Board did not support the proposal to develop a separate standard for quality management for related services engagements and encouraged exploration of other ways to address scalability concerns. The ISQM 1 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

In December 2019, the Board continued to discuss the key issues highlighted by respondents to the Exposure Draft (ED) of ISQM 13 (ED-ISQM 1) including the scalability, complexity and prescriptiveness of the standard. appropriate tailoring of the system of quality management for their circumstances and the making sure the standard that can be applied in all circumstances.

The Board supported the changes to the structure of the standard, adjusting the quality objectives and responses in the components to be more streamlined and the revisions to the drafting and presentation of the standard to simplify and improve the readability of the standard. The Board also agreed with proposed revisions to the firm's risk assessment process, including introducing factors to consider in identifying and assessing quality risks.

The Board supported the ISQM 1 Task Force's proposals to embed a risk-based approach in the monitoring and remediation component, improve the selection of engagements for inspection such that it is more risk-based, and further clarify the framework for evaluating findings and identifying deficiencies.

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

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

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

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

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

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

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

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

Quality Control – Engagement Level

In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.

The Board discussed a draft ED of proposed ISA 220 (Revised)² and was supportive of the proposed changes. The discussions focused on whether changes were needed to the objective of the standard and the wording of the requirement regarding the engagement partner being “sufficiently and appropriately involved.” The Task Force plans on presenting the ED of proposed ISA 220 (Revised) for approval by the Board at the December 2018 meeting.

In December 2018 the Board supported the requirement for the firm to establish policies or procedures addressing limitations on the engagement partner moving into the role of engagement quality reviewer, including the reference to a cooling-off period in the application material. The Board agreed that stakeholder views were needed relating to the objectivity of the engagement quality reviewer and a cooling-off period and supported the ISQM 2 Task Force’s recommendation for including specific questions in the Explanatory Memorandum on this matter to be developed in coordination with the IESBA. The Board also clarified the requirement for notifications by the engagement quality reviewer to the engagement partner and, when applicable, individual(s) within the firm, as well as the documentation requirements.

The Board discussed the requirements that address firm policies or procedures, the role of the engagement partner vis-à-vis other members of the engagement team and the difference between the usages of the phrases “the auditor shall determine” and “the auditor shall be satisfied.” The board also discussed how best to clarify the requirement addressing communications from the firm about the firm’s monitoring and remediation process.

In September 2019, the Board discussed the comment letters received to ED-ISA 2205 and the ISA 220 Task Force’s proposals for addressing the key issues respondents raised. The Board supported the fundamental principle that the engagement partner has overall responsibility for managing and achieving quality and being sufficiently and appropriately involved in the engagement. The Board also supported clarifying the requirement addressing circumstances when the engagement partner assigns procedures or tasks to other engagement team members, the principles underpinning the proposed engagement team definition and proposals to address scalability of the requirements to audits of larger or more complex entities. The ISA 220 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

	<p>The Board generally supported the ISA 2205 Task Force’s proposals to clarify the engagement team definition, to make clear that the engagement team can ordinarily depend on the firm’s system of quality management, and to better deal with large, complex audit engagements. The Board also discussed professional skepticism, the stand-back provision and the documentation requirements. The ISA 220 Task Force will consider the comments received in preparing a revised full draft of proposed ISA 2202 for discussion at the March 2020 IAASB meeting.</p> <p>In March 2020 The Board discussed clarifications to distinguish requirements that are the sole responsibility of the engagement partner and those the engagement partner is permitted to assign to another engagement team member and the meaning of “resources made available by the firm” in the case of engagement team members who are external to the firm, among other matters.</p> <p>In June 2020, the Board discussed amendments to proposed ISA 220 (Revised)⁴ to clarify how to treat component auditors that are not directly engaged by the firm. The ISA 220 Task Force will present a full draft of proposed ISA 220 (Revised) for IAASB approval via videoconference in September 2020</p> <p>In September 2020, the Board approved ISA 220 (Revised), which will be effective for audits of financial statements for periods beginning on or after December 15, 2022. Once the Public Interest Oversight Board’s confirmation that due process was followed is received, the Board will formally release the standard. In finalizing the standard, the Board focused on clarifying the engagement partner’s responsibilities, the scalability of the standard, and the linkages with ISQM 1.</p>
<p>Group Audits– ISA 600</p> <p>Has update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p>

In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)³ TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.⁴ The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.

In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.

In March 2019, the Board was updated on the work performed by the Group Audit Task Force since the start of the project to revise ISA 600¹ and was asked for its views on issues related to scoping a group audit, the definitions, and the linkages with other ISAs. The Board continued to support developing a risk-based approach for scoping a group audit and generally supported the Group Audit Task Force's approach on the definitions and the issues that were presented in relation to the responsibilities of the group engagement partner, acceptance and continuance, understanding the group and its components, understanding the component auditor, identifying and assessing the risks of material misstatement and responding to assessed risks, the consolidation process, communication between the group auditor and component auditors, and evaluating the audit evidence obtained. These and other issues need to be further developed in the context of the risk-based approach and changes made to other of the IAASB's International Standards. The Group Audit Task Force will continue to work on the issues related to scoping a group audit, the definitions and other issues identified in the [Invitation to Comment](#), and will present it for further discussion at the June 2019 IAASB meeting.

In June 2019, the Board was updated on the ISA 600³ Task Force's progress since the March 2019 meeting and discussed the public interest issues that the ISA 600 Task Force identified, the ISA 600 Task Force's proposals with respect to the risk-based approach to scoping a group audit, and the special considerations related to auditing a group. The Board also discussed indicative drafting related to the risk-based approach to scoping a group audit and the special considerations related to proposed ISA 220 (Revised).⁴ Generally, the Board was supportive of the approach taken but had suggestions on the way forward and the indicative drafting. The ISA 600 Task Force will take these comments into account and will present further drafting at the September 2019 meeting. The ISA 600 Task Force will also continue its outreach to key stakeholders and coordinate with IESBA and other IAASB Task Forces as needed.

In September 2019, the Board was updated on the work of the ISA 600 Task Force since the June 2019 meeting, including the outreach performed and

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

the feedback received from the IAASB's Consultative Advisory Group. The Board discussed, among other matters, the updated public interest issues, a draft of a significant part of the standard and the ISA 600 Task Force's proposals with respect to the scope and structure of the standard, materiality considerations in a group audit and a proposed stand-back requirement. The ISA 600 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

In December 2019, the Board was updated on the work of the ISA 600 Task Force since the September 2019 meeting, including the outreach performed, and discussed a full draft of the proposed revised standard (except the appendices). The draft of proposed ISA 600 (Revised)¹ included updated requirements and application material on sections that were presented to the Board in September 2019 and new requirements and application material on, among other matters, materiality, communications with component auditors and documentation.

The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at its March 2020 meeting. The Task Force will discuss the conforming amendments and the appendices to proposed ISA 600 (Revised) in the January 23, 2020 Board teleconference.

In March 2020, after making amendments in response to the IAASB's comments received during the meeting, the IAASB approved the Exposure Draft (ED) of proposed ISA 600 (Revised)¹ and related conforming and consequential amendments for public exposure with 18 affirmative votes out of the 18 IAASB members present. The ED will be issued in mid-April with a comment period of 120 days.

In finalizing the ED, the IAASB continued to discuss whether it is sufficiently clear how the standard described the involvement of component auditors. On balance, the IAASB was satisfied that the draft sets out acceptable proposals on all significant areas for this project and that it is appropriate to proceed to seek stakeholder views whether the proposals could be effectively implemented.

The IAASB also discussed possible matters to be addressed in the explanatory memorandum that will accompany the ED.

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.

[Update for the period](#)

	<p>In March 2021, The Board discussed proposed changes based on respondents' comments on the Exposure Draft of proposed ISA 600 (Revised) (ED-600)¹ and the Board's discussion in December 2020. In addition, the Board discussed respondents' comments on ED-600 related to materiality and documentation, as well as the ISA 600 Task Force's views and recommendations on the way forward. The ISA 600 Task Force will continue to address respondents' comments on ED-600, and progress changes to proposed ISA 600 (Revised) as appropriate. The Task Force will present further proposed changes at the June 2021 IAASB meeting.</p>
<p>Professional Scepticism</p> <p>No Update for the period</p>	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p> <p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available here.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG's work. The Board also discussed the concept of "levels" of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p> <p>The IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional</p>

	<p>skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a “questioning mind” continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p> <p>In September 2018 meeting, The Board received an update on the activities of the IAASB’s Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB’s efforts to appropriately reflect professional scepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board supported the issuance of the publication and future publications of this nature.</p>
<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> <ul style="list-style-type: none"> 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>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication “The IAASB’s Work to Explore the Growing Use of Technology in the Audit” in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB’s Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p>Emerging External Reporting</p> <p>Has update for the period</p>	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <ul style="list-style-type: none"> 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.

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.

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 inputs that were received in progressing the development of Phase 2 of the guidance for further discussion at the June 2019 IAASB meeting.

In June 2019, the Board was updated on the work of the EER Task Force on the challenges allocated to Phase 2 of the project. These challenges include: determining the scope of an EER assurance engagement; obtaining evidence in respect of narrative and future-oriented information; exercising professional skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and communicating effectively in the assurance 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.

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.

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.

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

	<p>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>Update for the period</p> <p>In March 2021, After final changes to the Non-Authoritative Guidance on EER Assurance Engagements the Board unanimously approved the guidance for issue. On publication, the Guidance may be used with immediate effect (guidance issued by the IAASB does not have an 'effective date').</p>
<p>Agreed-Upon Procedures</p> <p>No Update for the period</p>	<p>The objective of the project is to:</p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</p> <p>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</p> <p>Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' 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.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, <i>Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</i>, 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.</p> <p>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.</p>

	<p>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.</p> <p>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.</p> <p>The Board also acknowledged areas of broad support, including not including a precondition for the practitioner to be independent, using the term “findings” and requiring an explanation of this term in the engagement letter and the AUP report, not requiring or prohibiting a reference to the practitioner’s expert in the AUP report, and not requiring a restriction on use or distribution of the AUP report. The AUP Task Force will deliberate the Board’s input and will present the first read of the post-exposure ISRS 4400 (Revised) to the Board in the second half of 2019.</p> <p>The Board approved ISRS 4400 (Revised)² with 17 Board members voting for approval and one vote against. The revised ISRS will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Once the PIOB’s confirmation that due process was followed is received, the Board will formally release the standard. In finalizing ISRS 4400 (Revised), the Board carefully deliberated the effective date and continued to focus on issues relating to compliance with independence requirements.</p>
<p>LCE</p> <p>Has update for the period</p>	<p>In March 2019 the Board discussed a proposed Discussion Paper (DP), <i>Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs</i>. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP’s overall direction, noting the importance of the project and the need for action by the IAASB and others.</p> <p>The Board liked the simple, clear way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). The Board made suggestions for improvements, particularly with respect to the issues and challenges, the possible actions presented within the DP and the questions to be posed to respondents in order to obtain relevant and useful feedback. Proposed changes to the DP will be presented in a Board call on April 10th, with the final DP targeted to be published for public consultation before the end of April 2019.</p> <p>The Board discussed the feedback received to date related to audits of less complex entities, including from the Discussion Paper (DP), <i>Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the</i></p>

Challenges in Applying the ISAs, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB's work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made. As part of the proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.

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

Notwithstanding the support for some of the overarching principles outlined, the Board requested the LCE Working Group to further consider how the separate standard could be developed so that it is standalone, while also clarifying the linkage back to the ISAs as appropriate. In doing so, the Board also encouraged further consideration of materials to help apply the separate standard, either within the standard (as application material) or outside as support materials. The Board highlighted the importance of the description of an LCE to help in developing the content of the separate standard. The Board encouraged a more prescriptive definition for the application of the standard, although the Board recognized there would always be a level of judgment in making this determination. On this basis, the Board supported that the LCE Working Group commence development of the separate standard as well as prepare a project proposal for approval at the December 2020 IAASB meeting.

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.

[Update for the period](#)

	<p>In March 2021, the Board discussed the full draft of the separate standard for audits of financial statements of less complex entities. Significant concerns were expressed about the applicability of the separate standard as it had been presented, and it was agreed that this needed to be further considered. There were mixed views expressed about whether the standard should be issued as an exposure draft after the June 2021 IAASB meeting, however some Board members strongly emphasized the need for consultation on the standard to obtain views of the IAASB's stakeholders about whether the standard could and would be used. Further discussions about the name and detailed content of the standard indicated that there are mixed views about some of the matters presented in the draft, which would require further consideration by the LCE Task Force. IAASB Meeting Highlights and Decisions March 2021 Page 2 of 2 The LCE Task Force will continue to progress the draft with the intent to consult on the draft after the June 2021 IAASB meeting.</p>
<p>Audit Evidence</p> <p>Has update for the period</p>	<p>The Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence and the use of technology more broadly, and the possible actions to address the issues. The Board concurred that guidance should be developed on the effect of technology when applying certain aspects of the ISAs, and that this should be actioned expeditiously.</p> <p>The Board also indicated that more extensive information gathering and research need to be undertaken to understand the issues related to audit evidence, so that the Board is fully informed of the issues in determining the need for revisions to ISA 5005 and possibly other related standards.</p> <p>In September 2019, the Board was provided with an overview of the development of the Audit Evidence Workstream Plan. The Audit Evidence Working Group will accordingly undertake further information gathering and research, and develop recommendations for possible further actions to be presented to the Board in the first half of 2020.</p> <p>In June 2020, the Board discussed the outcome of the Audit Evidence Working Group's information gathering and targeted outreach activities. Based on the feedback, the Board agreed with the Audit Evidence Working Group's conclusion that the listing of audit evidence related issues, as presented, is appropriate. The Board supported the Audit Evidence Working Group's recommendation to develop a project proposal to revise ISA 500,5 including conforming and consequential amendments to other standards, for approval at the December 2020 IAASB meeting, and to continue in the interim to evolve its approach, as presented, to progress the revision of ISA 500 (and conforming and consequential amendments to other standards). The Board also recommended that the Working Group publish a project update to inform stakeholders about the activities undertaken to date.</p> <p>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</p>

	<p>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>Update for the period</p> <p>In March 2021, the Board provided direction on the initial proposals of the Audit Evidence Task Force (AETF) on the definition of audit evidence and the meaning of audit procedures. The Board also discussed the meaning of sufficient appropriate audit evidence, including the factors the auditor would think about when considering whether sufficient appropriate audit evidence has been obtained. The Board considered the AETF's further proposals to incorporate a principles-based approach in considering the relevance and reliability of information intended to be used as audit evidence. The AETF will present further proposals on these issues and other issues related to this project at the June 2021 IAASB meeting.</p>
<p>Fraud</p> <p>Has 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> <p>Update for the period</p> <p>In April 2021, the IAASB considered the analysis of feedback received from its constituents regarding the Fraud Discussion paper.</p> <p>That analysis is summarised here.</p>

Agenda Item 10.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 21 May 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 April and May 2021.

Financial Markets Authority (FMA)

1. The Financial Markets Authority (FMA) has welcomed the release of [The National Strategy for Financial Capability](#), presented in Parliament today by the Minister for Commerce and Consumer Affairs, Dr David Clark.

The FMA collaborated with the Commission for Financial Capability (CFFC) on the development of the strategy and looks forward to continuing to work with the commission, and other organisations, to build New Zealanders' financial capability.

The New Zealand Institute of Chartered Accountants

1. The CAANZ published the following articles:
 - [The future of non-financial reporting](#)
 - The DIA in NZ has released its second AML Regulatory Findings report and IFAC and ICAEW have released three more guides to help accountants navigate AML risks. [This Article summarises the Regulatory Findings.](#)

CPA Australia

1. No update for the period.

The Institute of Directors (IoD)

1. No update for the period.

The Institute of Internal Auditors New Zealand

1. The board of directors is among the most influential entities in most companies, as it is responsible for setting policies for managing the business. However, when it comes to emerging risks such as cyber, some boards may either lack knowledge about the risk or are hesitant to adapt to the changing reality. [Read the full article: Corporate Risk & Insurance NZ](#).
2. As organizations explore and adopt emerging technologies, governance is rarely if ever at the forefront of their agendas. From a business perspective, it is reasonable to expect that the concern and effort is often focused on reaping the benefits of new and innovative technologies. However, we also recognize that change, let alone change introducing emerging technology, is one of the riskiest endeavors that organizations pursue. Therefore, it stands to reason that proper governance is most important when new and easily underestimated risk associated with new technology enters the environment. Read the full article: [ISACA](#)

Other NZ News

1. NZ becomes first in world for climate reporting. The Bill is introduced to the Parliament in April. More information available at: <https://www.mbie.govt.nz/business-and-employment/business/regulating-entities/mandatory-climate-related-financial-disclosures>
2. PwC's 24th CEO Survey explores the views of New Zealand CEOs as they look to rebuild following the impact of COVID-19. We find an improved outlook among business leaders, increased investment in sustainability and digital transformation, growing M&A activity and a reassessment of risk tolerance. Hear from PwC experts about the main themes emerging from this year's survey and their recommendations for New Zealand business. [Explore our report](#)
3. **How significant was the effect of COVID-19 on July to December NZX50 reporters?** These businesses experienced the full impact of the Alert Level 4 and 3 lockdowns last year. And, those that reported later also experienced the largely COVID-free months that New Zealand was fortunate to experience in the last part of 2020. How did these scenarios play out in their financial reporting? How did auditors respond in their audit report? This latest report follows our publications from last year looking at the impact of COVID-19 on financial reporting for NZX50 companies including:
 - [the likely impact of COVID-19 on audit reports](#)
 - [analysis of the impact of COVID-19 on March to May reporters](#)
 - [analysis of the effect of COVID-19 on June reporters](#).