

## Board Meeting Agenda

7 April 2022  
9:15 am to 5.00 pm

Apologies:

Est. Time	Item	Topic	Objective		Page
<b>A: PUBLIC SESSION</b>					
9.20 am	<b>1</b>	<b><u>Board Management</u></b>			
	1.1	Action list	Note	Paper	
	1.2	Chair's report	Note	Verbal	
	1.3	AUASB Update	Note	Verbal	
	1.4	Update from CE	Note	Verbal	
	1.5	March IAASB update	Note	Late	
	1.5.1	Comments from audit reference group	Note	Paper	
10.00 am	<b>2</b>	<b><u>Non-Assurance Services</u></b>			<i>Misha</i>
	2.1	Board meeting summary paper	Note	Paper	
	2.2	Issues Paper	Consider	Paper	
	2.3	Compelling reason test	Consider	Paper	
11.00 am	<i>Morning tea</i>				
11.15 am	<b>3</b>	<b><u>Capital raising ED</u></b>			<i>Sharon</i>
	3.1	Board meeting summary paper	Note	Paper	
	3.2	Draft standard	Consider	Paper	
	3.3	Illustrative letters and reports	Consider	Paper	
	3.4	Mapping document	Note	Paper	
12.15 pm	<b>4</b>	<b><u>IESBA's proposed changes relating to engagement team and group audits</u></b>			<i>Lisa</i>
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Issues paper	Consider	Paper	
	4.3	IESBA ED	Note	Paper	
1:00 pm	<i>Lunch</i>				
1.45 pm	<b>5</b>	<b><u>Public interest entity</u></b>			<i>Tracey</i>
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Issues Paper	Consider	Paper	
	5.3	Draft ITC and NZ ED wording	Consider	Paper	
2.35 pm	<b>6</b>	<b><u>IESBA Technology exposure draft</u></b>			<i>Anna</i>
	6.1	Board meeting summary paper	Note	Paper	

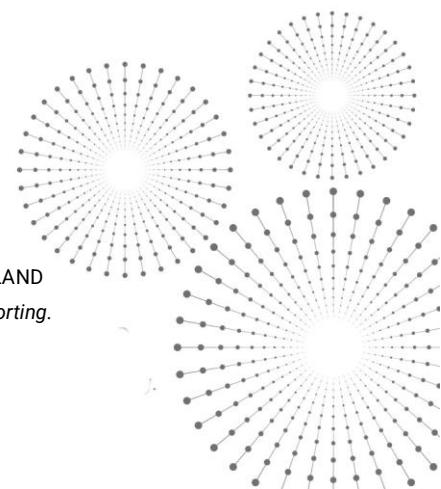
Est. Time	Item	Topic	Objective		Page
	6.2	Issues paper	Consider	Paper	
	6.3	IESBA ED	Note	Paper	
3.30 pm	<b>7</b>	<b><u>National Standard Setters Meeting</u></b>			<i>Misha</i>
	7.1	Board meeting summary paper	Note	Paper	
3.45 pm	<i>Afternoon tea</i>				
4.00 pm	<b>8</b>	<b><u>Service Performance Information</u></b>			<i>Lisa</i>
	8.1	Board meeting summary paper			
4.15 pm	<b>9</b>	<b><u>Quality management conforming amendments</u></b>			<i>Vivian</i>
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Signing memorandum – conforming amendments to other standards	Approve	Paper	
	9.3	Conforming and consequential amendments to other standards	Approve	Paper	
	9.4	Signing memorandum – annual improvements	Approve	Paper	
	9.5	Annual Improvements and Conforming Amendments to Domestic Assurance Standards	Approve	Paper	
4.30 pm	<b>10</b>	<b><u>Post implementation review of SAE 3100 Compliance Engagements</u></b>			<i>Tracey</i>
	10.1	Board meeting summary paper	Note	Paper	
4.40 pm	<b>11</b>	<b><u>Environmental scanning</u></b>			<i>Anna</i>
	11.1	International Update	Note	Paper	
	11.2	Domestic Update	Note	Paper	

**Next meeting:** 1 June 2022, In person

**NZAuASB Action list**

Following February 2022 meeting

Meeting Arose	Board Action	Target Meeting	Status
December 2018	Reach out to CA ANZ re international activities on SMP/SME audits	Ongoing	CA ANZ developing implementation support material for revised quality management standards.
April 2021 and December 2021	Need to promote awareness and use of the EER guidance.	Ongoing	Verbal update
December 2021	Update on progress on GHG assurance project	Ongoing	GHG advisory panel established. Third meeting scheduled 16 March to consider comparison of quality management standards
December 2021	Continue to work with the APESB to identify possible Trans-Tasman solutions.  Engage with the IRD and FMA to identify evidence of if, and where, the provision of tax advisory and tax planning services has impacted on auditor independence.	April 2022	Refer to agenda item 2 and to correspondence
Dec 2021 and Feb 2022	Develop a report on how the XRB auditing standards respond to audit quality matters	April 2022	Verbal update
February 2022	Write a letter of support in response to the Reserve Bank's consultation:  <a href="https://www.rbnz.govt.nz/regulation-and-supervision/banks/consultations-and-policy-initiatives/active-policy-development/assurance-reports-on-bank-disclosure-statements">https://www.rbnz.govt.nz/regulation-and-supervision/banks/consultations-and-policy-initiatives/active-policy-development/assurance-reports-on-bank-disclosure-statements</a>	April 2022	Refer to correspondence



## Auditing Standards Reference Group Discussion on topics for IAASB March 2022

8 March 2022

**Apologies:** Victoria Turner, Simon Brotherton, Kerry Price, Glen Waterhouse?

### Discussion 1: Going Concern (*IAASB Agenda Item 3*)

*Objectives: Provide input on views and recommendations of the task force as noted in the issues paper, and on the draft project proposals. Have the key issues been identified to be addressed by this project?*

- Objective of the project:
  - Going concern should be an assessment of determining the carrying value of assets and liabilities, not an output of the audit.
  - View that the ISAs enable a robust assessment of going concern. The issue is more around the communication of the auditor's responsibility/work effort and the understanding of stakeholders about the auditor's responsibility.
  - The project proposal needs to link to the public interest and why the IAASB is doing this.
  - The project proposal does not address the expectation gap. View that most of what is trying to be addressed is about expectations. Changing semantics in the standard won't necessarily address a change in practice.
- Key Issues:
  - Risk assessment, technology, professional scepticism and transparency are common issues across all IAASB projects.
  - Transparency helps to deal with the expectation gap. Transparency about what the auditor does in relation to going concern is relevant, useful and needed.
  - Timeline – there needs to be global consistency in the timeline used for assessing going concern and alignment with the accounting standard.
  - XRB Staff noted a lack of consistency between IFRS and IPSASB requirements related to going concern. Differences in timeline for Going concern
    - End of the reporting period for Profit entities (IFRS)
    - From approval of the financial statements (IPSASB)
  - The Auditor-General requires a minimum of 12 months from the date of signing the audit report. Would like to see the standard have sufficient flexibility to cope with a longer time frame if necessary.
  - A balanced view is need to help address the expectation gap. There needs to be clearer guidance about when a going concern issue is a KAM vs MURGC.
  - Audit evidence – additional guidance is needed to achieve consistency in practice, e.g., when someone is providing a letter of financial support. How far does the auditor have to go to ensure the evidence is persuasive rather than simply relying on the letter?
  - Support for additional guidance around definitions of key terms to drive consistency in practice.



## Discussion 2: Listed Entities and PIEs (IAASB Agenda Item 3)

*Objectives: Provide input on views and recommendations of the task force as noted in the issues paper, and on the draft project proposals. Have the key issues been identified to be addressed by this project?*

### Objectives of the agenda item

The objectives of this agenda item are to:

- (a) approve a project proposal for the narrow scope maintenance of standards project on listed entity and PIE; and
- (b) discuss the PIE Working Group (PIE WG) initial proposals related to enhanced transparency about independence in the auditor's report. The IAASB's views on these proposals will help inform the PIE WG in developing an exposure draft which will be tabled for discussion and approval at the June meeting.

**Lyn asked the TRG if there anything that should stop her voting for approval of the project's proposals?** TRG members did not provide any reasons for her not to vote in favour of the project's proposals.

In terms of Track 1 of the project, the IAASB is asked for their views on the disclosure options. Should the disclosure that the audit is subject to the IESBA Code's PIE requirements be made in the audit report (options 1 and 2) or should application guidance be provided but not mandate disclosure in the audit report (option 3). Should the three options be included in the ED?

### TRG comments:

- Not sure how helpful option 3 is. Supportive of including options in the ED. General preference for option 2.
- NB: The NZAuASB 3 May 2021 comment letter to the IESBA on ED – *Proposed Revision to the Definitions of Listed Entity and Public Interest Entity (PIE) in the Code* noted that:
  - the NZAuASB has mixed views with respect to disclosing whether or not an audit client has been treated as a PIE.
  - some members were supportive of enhanced transparency, others were yet to be convinced of the problem that IESBA is trying to solve.
  - an alternative suggestion to a disclosure requirement is to provide more transparency as to the impact of treating an entity as a PIE, rather than simply disclosing that the PIE requirements have been applied.

The IAASB is asked for their views on the PIE WG proposals to revise ISA 260 (Revised). The TRG commented that the PIE WG recommendation in relation to ISA 260 (Revised) seems reasonable.

## Discussion 3: Fraud (IAASB Agenda Item 4)

*Objectives: Provide input on views and recommendations of the task force as noted in the issues paper, on identifying and addressing the risks of material misstatement due to fraud, communication with TCWG and transparency in reporting on fraud.*

- Issue 1: Identifying and Assessing the Risks of Material Misstatement
  - Agree with the proposal to structure ISA 240 to align with the flow of ISA 315 (Revised 2019)

- One of the biggest challenges for auditors in relation to fraud is in the planning, in particular in understanding the entity and then in challenging their own mindset to ask is fraud possible and if it is possible in what areas will it occur. While a standard can direct that, it's a challenge for auditors as they need to think differently. Anything in the standard that encourages a stand back will be helpful. We also need to acknowledge that this is difficult for auditors.
- Risk analytics are key to identifying fraud risks but they need to be the appropriate risk analytics for the entity/industry. A simple year on year analytic will not always identify the fraud risks.
- Issue 2: Communication with those charged with governance
  - Engaging with management and those charged with governance about fraud/ fraud risk factors is critical. Management and those charged with governance have a big role to play in the identification of fraud risks and education in this area is key.
  - Very few frauds are identified by the auditor. Internal controls pick up the largest percentage of frauds. The auditor does act as a deterrent.
  - A big effect of fraud is the reputational harm that it does – not just the financial harm to the entity, but the reputational harm to the entity, to management, to directors and to the audit firm.
  - Boards of Directors tend to shy away from these types of conversations. It would be helpful for application material to include some themes/talking points for discussions with those charged with governance.
- Issue 3: Transparency in reporting fraud
  - Option 1 (detailed response) was not supported by the TRG members. Concerns were expressed that providing a detailed description of fraud risks identified, the auditor's report and the auditor's findings/observations might lead to a loss of unpredictability in the audit and becoming a road map to see what the auditor is doing. Including additional information in the auditor's report that is not included in the audited information also creates risks and might open the auditor up to additional liability.
  - Option 2 (Netherlands approach) and option 3 (UK approach): concerns were expressed that these additions might become boiler plate and therefore lose their value. The language used in the illustrations presented was technical, leading to difficulties in understanding it and therefore reducing its usefulness.
  - Option 4 using the existing mechanism of the KAM was seen as a good option. If there was a fraud that was a big focus of the audit, that should flow through in the KAM in terms of a significant judgement area, or area of audit significance or audit effort. The communication with TCWG needs to be a lot more robust.
  - There might be useful information in options 2 and 3 that could be used to enhance the description of the auditor's responsibility.
  - An important role of the auditor around fraud is in helping the entity improve its internal controls through discussion and through the management letter, rather than through the assurance report.
- Issue 4: Non-authoritative support
  - The TRG was supported materials developed by the task force.

#### Discussion 4: Audit Evidence (IAASB Agenda Item 5)

Objectives: *Provide input on views and recommendations of the task force*

- Issue B.1: Designing and performing audit procedures to obtain sufficient appropriate audit evidence
  - Definitions: 7(a) appropriateness (of audit evidence), 7(d) sufficiency (of audit evidence). General agreement with the definitions. Questions were raised about how to measure quality – the reference relevance and reliability of the information – has been removed from the definition. This could be addressed by linking to appropriate application material.
  - Para A18 (discussion of the use of automated tools and techniques) was considered helpful in terms of driving a change in behaviour.
  - Support for moving additional guidance to an appendix.
- Issue B.2: Relevance and reliability of information intended to be used as audit evidence
  - Agreed with clarity of accuracy and completeness in para 9(b), i.e., as applicable.
  - Support the examples in A35
  - Consider that use of “may also be affected by” in para A50 may not be reflective of practice, i.e., expectations from regulators are heavily impacted by whether the internal controls are operating. *Use of “may” in this instance likely reflects IAASB drafting conventions.*
  - Concern that material in para A61 duplicates A18-A19. Sylvia to compare.
- Issue B.3: Information prepared by a management’s expert
  - There seems to be a lot of application material supporting paragraph 10. Question whether all of it is helpful.
  - Material on using management’s expert doesn’t have a “home”. Consider these principles should apply to the use of all experts. In NZ we have a separate guidance statement on the of management’s experts (based on the Australian guide)
- Issue B.4: Doubts about the relevance and reliability of information intended to be used as audit evidence
  - Question whether para 11 should refer to “relevance and reliability” or “relevance or reliability” [*Note for Sylvia: check IAASB drafting conventions, I think “and” is used to mean and/or whereas “or” is used when it is either one or the other*]
  - Is the distinction between paragraphs 11 and 12 too granular? If you have an inconsistency, there is already an issue of relevance and reliability Could paragraphs 11 and 12 be combined? Para A75 deals with where information is inconsistent with other information.
- Issue D: Introduction and objective
  - Objective does not address the purpose for obtaining the audit evidence, i.e., to support

## Discussion 5: Sustainability (IAASB Agenda Item 6)

*Objectives: Provide feedback on the various factors that the Sustainability Assurance Consultation Group (SACG) has identified that the IAASB needs to consider in formulating recommendations for further possible action(s), which may inform a project proposal on Sustainability / ESG assurance.*

- Why is financial sustainability not included in the mix? In NZ, the Treasury reports on the financial sustainability of the government, so it is not clear why financial sustainability is not considered in the scope of the project. Quite widespread in the public sector, e.g., prudence in local government.
- There is a nexus between financial and non-financial information and it is important that the developments in relation to assurance over ESG information does not prevent flexibility in this relation.
- What are the issues to be addressed?
  - issue of other practitioners (non-accountant practitioners) doing other types of assurance. There are other practitioners doing verification, certification for a range of purposes. It goes to the purpose for the users. How can the assurance practitioner build on the work that others have been doing for another purpose? Competition between IAASB and ISO. Important for IAASB to consider how its standards will interplay with others.
  - Proliferation of standards is not in the public interest. How can we bring it all together?
  - There is an artificial barrier between audits/reviews of financial statements vs assurance over any other types of information (both financial and non-financial).

**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	2.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	Non-Assurance Services (NAS)
<b>Date:</b>	24 March 2022
<b>Prepared By:</b>	Misha Pieters

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 **Action Required** **For Information Purposes Only**

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**Agenda Item Objectives**

1. The objective for this agenda item is to consider the recommendation for the way forward for the New Zealand standard on NAS with respect of tax planning and advisory services considering the wide range of views we have heard in response to the XRB exposure draft.

**Background**

2. At the December 2021 NZAuASB meeting, the Board held an initial discussion on the submissions received in response to its exposure draft proposing to adopt the IESBA's revised NAS provisions but to amend those provisions for New Zealand by proposing to:
  - Prohibit the provision of tax planning and advisory services to public interest entity audit clients.
  - Move "advising an audit client in its tax return preparation" from a tax preparation activity (as described by IESBA) to a tax advisory and tax planning service.
  - Add application material acknowledging that there may be benefits in the auditor performing certain audit-related services, and to provide examples of such services, that generally would not create a threat to independence.
  - Limit the application of the transitional provision to a period of 12 months from the effective date of the amendments.
3. Respondents were generally supportive of the proposal to adopt the international standard but our outreach activities highlighted strongly opposing views on the New Zealand amendments. In summary, the Auditor-General would like to see the XRB's standards go further; the FMA supported the New Zealand proposals; but CAANZ and the majority of the firms' submissions opposed moving as far as a prohibition on tax advisory and tax planning services.
4. Given the wide range of views further work has been undertaken to ensure we more fully understand the views expressed. Staff have been working closely with the APESB given there are clear benefits to a harmonised trans-Tasman approach where an approach is in the public interest in both respective jurisdictions.
5. In addition, we have reached out to IESBA staff to explore in more depth concerns from both New Zealand and Australia and the intent of the IESBA changes.

## **Matters to Consider**

6. The Board has agreed that there is merit in exploring other options to the proposed position of prohibiting the provision of tax planning and advisory services to public interest entities. Staff advice, supported by the Chair, is that having taken account of the submissions there is a compelling reason to enhance the international standard having regard to principles and practices in New Zealand in the public interest, taking a principles-based approach (rather than an approach based on prohibition). The recommendation of the Chair of the NZAuASB and the Director of assurance to this effect is included in the attached issues paper. The recommendation addresses, first, a need to clarify the meaning and application of the section on tax planning and tax advice for New Zealand purposes; and secondly, to ensure that the practices which firms use to apply the ethical requirements are appropriately documented both for internal purposes and to ensure effective regulatory oversight.
7. **The Board is asked to CONSIDER the recommendations and AGREE a way forward.**

## **Next steps**

8. The XRB Chair intends to ask the XRB Board to consider the outcome of the NZAuASB's deliberations, given the strategic importance of this project. That is expected to happen at the XRB Board's April meeting.
9. The revised IESBA NAS provisions are effective from December 2022. In order to ensure that PES 1 remains at least as stringent as the IESBA Code of Ethics, the XRB will need to at a minimum adopt and enable implementation of the global revisions by December 2022. For this reason, staff recommend that the Board agrees to approve and issue a NAS standard at the June 2022 meeting.
10. Following the Board discussion and agreement on the way forward, the options for approving the New Zealand standard in June are:
  - Include no New Zealand amendments (not recommended).
  - Include the NZ refinements as exposed in 2021 (not recommended).
  - Include principles-based NZ refinements where the board agrees there is no need for re-exposure.
  - Simultaneously approve and expose further proposed changes to PES 1, if re-exposure is considered necessary.
  - Signal an intent to expose further changes to PES 1 at a later date.

We note that the IESBA's technology exposure draft includes further requirements that impact on the NAS provisions, so there is an option to re-expose any amended New Zealand position (if agreed and considered necessary) and align the effective date of the NZ NAS provisions with the IESBA technology related NAS changes.

11. Staff will continue to monitor the developments in Australia and work with the APESB to the extent practicable with a view to there being a harmonised trans-Tasman approach, but we note that the APESB timeline for adoption may differ from the XRB's timeline which is dictated by the December 2022 effective date.

## **Material Presented**

Agenda item 2.1	Board Meeting Summary Paper
Agenda item 2.2	Issues paper
Agenda item 2.3	Compelling reason test

## Non-Assurance Services (NAS) Issues Paper

1. This issues paper sets out the recommendation of the Chair of the NZAuASB and Director of Assurance Standards for the way forward for the New Zealand standard on NAS, specifically in respect of tax planning and advisory services. It also explores opportunities for additional non-authoritative guidance.
2. The second part of this memo explores other outstanding issues from the exposure draft.

### Background

3. Given the wide range of views received in response to the XRB's exposure draft on non-assurance services it has become apparent that a common and key underlying concern is a lack of clarity around how and why the global Code has adopted a different approach to the "self-review threat (SRT) prohibition" for PIEs, with reference to "will not create a SRT" and a "likely to prevail" threshold in the application material for tax planning and advisory services.
4. In the NZAuASB's submission to the proposed NAS text, the NZAuASB commented that, "The NZAuASB is concerned that tax advisory and tax planning services are specifically scoped out of the self-review threat." This concern was one of the underlying factors in the approach taken by the NZAuASB in its 2021 Invitation to Comment and exposure draft. The discussions of the NZAuASB to date in response to submissions on the ITC made clear that the Board remains concerned about this point considering the finalised text, although a different approach may be necessary in addressing it.
5. We note that in Australia, the APESB raised similar concerns in its submission to the IESBA stating "*it is not appropriate to state categorically that tax advisory and tax planning will not create a threat in paragraph 604.12 A2 when compared to paragraph 604.6 A1, which states that tax return preparation does not usually create a threat.*"
6. Extant Code para 604.7 A3 notes *factors that are relevant in evaluating threats* including the following in a bullet point:

Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.  
 For example, whether the advice provided as a result of the tax planning and other tax advisory services:

- a. Is clearly supported by a tax authority or other precedent.
- b. Is an established practice.
- c. Has a basis in tax law that is likely to prevail.

7. However, in the revised text the example explaining this factor is removed from factors to consider and is now a definitive statement that providing tax advisory and tax planning services **will not** create a SRT provided (a), (b) or (c) above are met.
8. This is also different from the drafting in relation to tax return preparation services, where revised 604.6 A1 is less definitive as to when existing tax law and precedent creates a threat, using the words does not *usually* create a threat.
9. In ongoing outreach with the FMA following receipt of its written submission on the ITC, a key concern of the regulator is a lack of clarity around why advising on tax would not create a self-review threat in circumstances where it is supported by a tax authority, it is an established practice or when it is likely to prevail.

IESBA position

10. Under the revised NAS text, the “might create” prohibition creates a robust standard, where the possibility of a SRT results in a prohibition.
11. The further outreach with IESBA since the February Board meeting has confirmed that the change from being only one factor to consider to a definitive “carve out” from the SRT prohibition was intentional and was made in light of the new SRT prohibition. The revised text is a definitive statement that in these limited circumstances the tax planning and advisory services are permitted. If left as a factor, the effect of the principled SRT prohibition would otherwise have been to prohibit these services.
12. The circumstances are limited and specific. They relate first to where the advice is (a) supported by a tax authority or precedent and (b) based on established practice that has not been challenged by the tax authority. In these circumstances the amount of judgement being exercised by the firm is not significant. In instances where the advice is a “straight forward” application of the tax law or has been cleared by the tax authority, the intent was not to prohibit the tax advisory service. Globally the IESBA did not receive significant concern on these two points.
13. The majority of the firms have argued in their submissions on the ITC that providing tax advice that involves very little judgement is cost effective, given that the firm knows the client and has the expertise to provide the advice. They argue that there may be unintended consequences, that are not in the public interest, of prohibiting firms from advising on “straight forward” tax matters which are a replication of the tax law or have been effectively signed off in law or by the tax authority.
14. The circumstance (c), that the services had a basis in law that would be “likely to prevail”, did generate more debate globally. In this circumstance, there is no “signoff” by the tax authority, rather it is a judgement call by the firm.
15. The IESBA’s [Basis for conclusions](#) explores this matter in more detail, noting that the IESBA considered replacing the term “likely to prevail” with “more likely than not”, analogous with the PCAOB Rule 3522 or specifying the meaning of the threshold but agreed to retain the term “likely to prevail”. The IESBA agreed to retain the drafting to preserve language that is already well understood globally. The PIOB expressed the view during the process of finalising the standard that the term “more likely than not” would be perceived as being too low a threshold. The IESBA responded to this public interest concern by adding the words “is confident”. The intention was to clarify IESBA’s expectations. Minutes from the IESBA September meeting highlight that IESBA members generally agreed that the audit firm should have a high level of confidence in the tax advice.
16. We understand that in instances where the firm is confident that its advice is likely to prevail, i.e., that it would not be subject to challenge by a tax authority, the IESBA did not wish to impose a prohibition for the same reasons for (a) and (b) i.e., if in the professional judgement of the firm, the firm is so confident that its advice will not be disputed by the tax authority, it is not in the public interest to prohibit firms from advising on these tax matters.
17. This is a definitive “carve out”. Use of the drafting “does not usually” create, would bring in the element of judgement as to whether the SRT prohibition was intended to apply or not, whereas the intent was clearly to exclude the SRT prohibition in these limited circumstances.

Australian perspective



18. We have been collaborating closely with staff from the APESB on this matter. The APESB released a survey in Australia in October 2021 to obtain feedback on whether provision of NAS impacts the perception of an auditor’s independence. At the March 2022 APESB meeting, the APESB considered the results of the survey. The following extract is from the APESB March papers for the information of the NZAuASB:

Questions 4 and 5 of the survey asked respondents to rate the effect of NAS on the trust in the financial statements and on advocacy threats, respectively. The following tables include extracts of responses to Questions 4 and 5 specific to tax advisory and tax planning services for all responses, auditors from the Big Six, and SMP and mid-tier auditors.

<b>Responses to Q4 indicating that tax advisory and tax planning services have a low, moderate or high negative effect on trust in financial statements</b>					
<b>Respondents</b>	<b>Number</b>	<b>High</b>	<b>Moderate</b>	<b>Low</b>	<b>Total</b>
<b>All responses</b>	48	31.25%	18.75%	10.42%	60.42%
<b>Auditors Big Six</b>	11	0.00%	18.18%	9.09%	27.27%
<b>Auditors (SMP and mid-tier)</b>	9	55.56%	33.33%	11.11%	100.00%

<b>Responses Q5 indicating that tax advisory and tax planning services have a low, moderate or high negative effect on advocacy threats</b>					
<b>Respondents</b>	<b>Number</b>	<b>High</b>	<b>Moderate</b>	<b>Low</b>	<b>Total</b>
<b>All responses</b>	48	27.08%	22.92%	12.50%	62.50%
<b>Auditors Big Six</b>	11	0.00%	9.09%	27.27%	36.36%
<b>Auditors (SMP and mid-tier)</b>	9	55.56%	33.33%	11.11%	100.00%

19. We understand that the APESB will meet in June to determine next steps, noting that it has not yet exposed an Australian position on NAS. Both Boards have committed to exploring a harmonised trans-Tasman approach.

XRB exposure draft

20. The Board’s primary objective in relation to tax services in the exposure draft was to address perception issues created by audit firms providing NAS in the New Zealand context, by enhancing the global changes with a prohibition of tax planning and advisory services. It remains our objective to address the perception issues to an appropriate extent in the public interest.
21. The NZAuASB had proposed to prohibit tax planning and advisory services by adding the following NZ paragraphs:

NZ R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit or review client that is a public interest entity.

NZ604.15 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.

22. Considering the feedback received in response to the exposure draft, and as analysed in the December NZAuASB meeting papers, staff do not, on balance, consider the compelling reason test has been met to prohibit the provision of tax planning and advisory services in all circumstances. We do not recommend including these paragraphs in the final New Zealand

standard. The Chair supports this recommendation, based on the submissions received and the subsequent engagement as noted below.

23. As requested by the NZAuASB, further outreach with Inland Revenue and the FMA and others (refer to inward correspondence) has not provided robust evidence that we consider meets the compelling reason test for either the prohibition as exposed or a principles-based strengthening of the tax services provisions of the standard. Our further outreach has resulted in a consistent message that there is currently little evidence of the aggressive tax schemes in New Zealand that were more prevalent going back 20 years. Entities appear to be taking a conservative approach (and so are their advisors). The role of governance, and increasing expectations around accountability, have seen those charged with governance seeking a more risk adverse position and taking more control of the entity's tax positions.
24. However, throughout our ongoing outreach with auditors, regulators and users it has also become apparent that there is a lack of clarity as to what the revised standard means. This is an application issue, not a perception issue albeit it does have the potential to exacerbate auditor independence concerns. The staff and the Chair of the NZAuASB consider that an alternative way to address the perception issue in relation to tax-related NAS (which was a focus of the ITC and exposure draft) is to focus on addressing the lack of clarity, which is creating uncertainty as to how the internationally revised standard will be applied in New Zealand in practice. We consider there are particular issues in New Zealand application which reinforce the need for a clearer approach than the international standard now offers.
25. We consider that the intent of the IESBA Code, as confirmed by IESBA staff and set out above (paragraphs 10 to 18) to be appropriate for adoption in New Zealand and we therefore do not recommend an approach which removes or amends the "carve out" for the provision of tax planning and advisory services in the limited and straight forward specified circumstances as intended by the IESBA. Options which involve changing the intent of the IESBA provisions, for example removing the "carve out" approach which states that a self-review threat will not exist if the specified circumstances exist, or strengthening the threshold which applies for the firm's judgement, would not in staff's view meet the compelling reason test.
26. We do however consider there is a need to clarify the intent of the global code to ensure it is understood and consistently applied in New Zealand. The words "likely to prevail" are in the current Code and no concerns have previously been raised with the XRB on those words specifically. As noted above, the IESBA agreed to retain the drafting to preserve language that is already well understood globally. However, because these words are now used as the threshold for determining whether the carve out from the SRT prohibition applies or not, the need for clarity for that purpose is heightened.
27. We consider that there is a compelling reason for the Board to consider amending the global standard to address the need for clarity and conciseness, together with the ability for consistent application and enforcement, through clearly stated responsibilities.<sup>1</sup> We have also considered whether there is a need to develop additional guidance. We will address this in two parts: clarification of the intent, and the need for appropriate documentation of the judgements involved.

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<sup>1</sup> In line with the qualitative characteristics in assessing a standards responsiveness to the public interest. Refer to appendix 1 of the [NZAuASB Policy and Process for International Conformance and Harmonisation](#)

**Recommended way forward: Clarify that the “likely to prevail” threshold is a high threshold to reduce the risk of subjectivity and to support consistent application and mitigate perceptions of auditor independence concerns**

28. As previously discussed by the Board, the “likely to prevail” test is subjective (rather than objective). However, this is unclear on the face of the wording. Similar concerns were raised by many stakeholders in response to the IESBA’s NAS exposure draft and continue to be discussed in Australia and raised by New Zealand stakeholders. This was also the clear message we heard in our engagement with representatives from the IRD.
29. To address concerns raised on exposure, the IESBA did add “the firm is confident”.
30. In our further outreach in New Zealand, stakeholders continue to raise concerns that as drafted:
  - a. the test does not make sense (at least in the New Zealand context) because no firm will advise a tax treatment that it is not “confident” is likely to prevail; and
  - b. the test is subjective not objective.
31. It is notable that the statutory test under tax law that applies to determine whether an unacceptable tax position has been taken is as follows (emphasis added):

“A taxpayer takes an unacceptable tax position if, *viewed objectively*, the tax position fails to meet the standard of being *about as likely as not to be correct*”.<sup>2</sup>
32. As to the “likely to prevail” test, it is helpful to understand that the “about as likely as not” test in the Act means that there must be, at least, about an equal chance of an interpretation being likely to be correct as it is to be incorrect. The use of the word “about” makes the test less stringent, but the interpretation still needs to be close to or around 50% likely to be correct.
33. We understand that the intent of the IESBA in using the words “is confident is likely to prevail” is setting a bar higher than close to or around 50%. This is different from what the tax legislation says (“about as likely as not”) and from how “likely” is applied in other legal contexts in New Zealand. For example, the courts have interpreted the term “likely to prejudice the maintenance of the law” as a withholding ground for official information under the Official Information Act 1982 (OIA) to mean that there is “a distinct or significant possibility” that the specified result may occur. If used to interpret the standard, this could result in a lower threshold being applied than IESBA intended. It is also notable that the OIA decision involved an express rejection of a percentage-based approach to applying the “likely to prejudice” test.
34. The IESBA has not, and is not expected to, set a % threshold. However, the Task Force had previously indicated that “likely to prevail” implies a clear probability that the advice will prevail and the minutes of the [September 2020](#) IESBA meeting indicate that the IESBA members agreed that the audit firm should have a high level of confidence. The IESBA intent is that this is a very high threshold.
35. Given these circumstances, and the fact that PES 1 is a legislative instrument for the purpose of legal interpretation, there appears to be a compelling reason for the standard to be clear as to the meaning of the term “likely to prevail” in its particular context. Staff recommend that the New Zealand standard should ensure that the very high threshold intended by

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<sup>2</sup> s141B Tax Administration Act 1994

IESBA, which is neither the percentage-based approach of the legislation nor the “distinct or significant possibility” test of the OIA, is consistently understood and applied.

36. The second question concerns the subjective nature of the test. Staff seek the views of the Board as to whether this should be clarified by inserting a reference to the test being objective (in similar terms to section S141B of the Tax Administration Act). There would be benefits in aligning the type of judgement in this respect with the approach which must also be taken in determining whether a tax treatment meets the statutory threshold.
37. In conclusion, if the NZAuASB agrees that the IESBA’s response of adding the words “is confident” does not adequately address concerns about subjectivity and lack of clarity, an option to clarify that the threshold is very high, in light of the legal interpretation of “likely” may be to add an additional New Zealand application paragraph as follows:

NZ 604.12 A3

The firm will need a high level of confidence, that the tax advisory or tax planning services have a basis in New Zealand tax law that is likely to prevail. The firm will gain that confidence if there is a high probability if viewed objectively that the tax advisory or tax planning services will be likely to prevail.

38. Given all of the discussion, debate and varying views on this topic in New Zealand, on balance, we consider that there is a compelling reason to amend the NZ Code to provide clarity and ensure consistency of application, and have prepared a separate compelling reason test document laying out the rationale.
39. **We seek the views of the NZAuASB as to whether the Board:**
- a. **Intends that the New Zealand Code should align with the intent of the IESBA provisions?**
  - b. **Considers that there is a compelling reason to amend the Code to promote consistent application having regard to the principles and practices in the public interest in New Zealand?**
  - c. **If the Board considers there is a compelling reason, we seek the Board’s views on the drafting explored above.**

**Recommended way forward: Add a documentation requirement**

40. The firms have described the robust processes they go through to determine whether or not a service is permissible or not. This includes a need for the firm to identify and evaluate all the threats that providing the service might create. The practitioner members of the Board have confirmed in discussions that these processes are carefully applied, at least in the larger firms.
41. The FMA’s submission in response to the exposure draft highlighted the importance of a significant emphasis on auditors following a robust process. In further discussions with the FMA, we heard a concern about a lack of documentation to reflect how the firms have thought about whether a threat to independence exists or how safeguards applied have reduced any threat. A documentation requirement in the Code could assist to ensure that the Code is enforceable and enable the FMA to perform their regulatory oversight.
42. As noted above, the firm’s level of confidence in its own tax advice, informed by the extent to which there is a risk that the advice will be challenged by the tax authority, is a key part of whether the SRT prohibition applies or not.

43. Given all of the feedback received, we recommend that the NZAuASB consider adding a documentation requirement, in the instances where the firm may determine that providing tax planning and tax advisory services is permissible.
44. In paragraph 600.27 A1 of the revised IESBA text, the Code sets out what documentation the firm *might* prepare, including key elements of the firm's understanding of the nature of the NAS to be provided, whether and how the services might impact the financial statements, the nature of any threat created, the extent of management involvement, safeguards applied, the firm's rationale for determining that the service is not prohibited, etc.
45. In its Basis for Conclusions the IESBA states that it envisages that a firm may *choose* to document, in situations that are not apparent, the factors considered in determining its confidence that the proposed treatment has a basis in applicable tax law and regulation that is likely to prevail.
46. We consider that a requirement to document matters related to tax planning and advice would strengthen the Code and may aid in addressing an underlying concern of the regulator. We consider that, having regard to the principles and practices in the public interest in New Zealand, there is a compelling reason to require documentation by the firm in the instances where it has made use of the "carve out" from the SRT prohibition.
47. We doubt this requirement would be onerous. Our further outreach with the firms suggests that such documentation would be consistent with current best practice in New Zealand in determining whether a service is permissible or not. (Refer to the section below for more detail on the processes the firms apply). This NZ addition might be drafted as follows:

NZ R604.12 xx The firm shall document the factors considered and conclusions reached in determining that the tax advisory or tax planning service is supported by a tax authority or other precedent; is based on established practice or why the firm is confident that providing the tax advisory and tax planning services described in paragraph 604.12 A2 has a basis in tax law that is likely to prevail.

48. We consider that requiring documentation of the factors and the rationale may have the outcome of driving consistency in practice. Taken together with the recommended changes to improve clarity of application, we recommend this meets the public interest driver in the compelling reason test.
49. **We seek the views of the NZAuASB:**
  - a. **As to whether there is a compelling reason to require firms to document the factors considered in determining why the firm is confident their advice is likely to prevail in the instances where the audit firms consider the service to be permissible.**
  - b. **If the Board considers there is a compelling reason, the Board's views on the drafting explored above.**

#### **Developing non-authoritative guidance outside of the standard**

50. The key concern around a lack of clarity as to what the requirements will be applied in practice and if the Code should be amended based on the compelling reason test also raises the question as if and what further non-authoritative material could be prepared.
51. We have identified the following options for developing non-authoritative guidance outside of the standard in addition to the compelling reason changes explored above:

- d. Option a: Guidance on what “might create” a SRT means with a broader focus than on tax services
- e. Option b: Clarifying the meaning of the IESBA text relating to tax planning and advisory services in a FAQ rather than amending the text of the IESBA standard
- f. Option c: Guidance about the processes that firms work through in determining when to perform NAS and tax services to ensure that firms apply the same standards. Guidance will add transparency and may help to enhance user confidence.

52. Depending on what the NZAuASB agrees on the compelling reason changes discussed above, Staff recommend that we wait for further implementation guidance from IESBA before committing to developing any further non-authoritative material.

**Option a: Guidance on what “might create” a SRT means**

53. The IESBA is still expected to issue FAQs on the revised NAS text. The need to add or promote aspects of the FAQs will be best determined once the document is issued.

54. Topics to explore through FAQs may be:

- a. What is a self-review threat?
- b. What is the reasonable and informed third party test?
- c. When and how should a firm determine whether the provision of a NAS might create a SRT?
- d. What is the threshold for “might create”?

55. We consider that these issues are important for global adoption of the revised NAS provisions. While more guidance on this will no doubt be helpful, we recommend that we first see what roll out and implementation support IESBA provides and then focus a communication strategy on raising awareness of that guidance. If further guidance is deemed necessary, this can be developed in due course.

**Option b: Clarifying what the IESBA text means with respect of tax services**

56. The lack of clarity as to why the Code “carves out” the SRT prohibition in the circumstances 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 is also a matter that may be dealt with by the IESBA when it rolls out its implementation support material.

57. We recommend that the Basis for Decisions made document that will be developed once the NZAuASB has agreed a way forward, could clearly lay out why the NZAuASB has determined that there is not a compelling reason to prohibit tax planning and advisory services in New Zealand. This document could describe the intent and rationale, as described in this paper as to how the Code is meant to be applied. The Basis for Decisions will be a document of record, and available to assist in the interpretation of the standard.

58. Further non-authoritative material (FAQs) might be developed to expand on this however the IESBA is still expected to issue FAQs on the revised NAS text. The need to add or promote the aspect will be best determined once the document is issued.

**Option c: Guidance on the firms' processes**

59. During the panel discussion and throughout our outreach, practitioners have highlighted existing strict processes that the firms have in place to ensure that independence is maintained if they do perform non-assurance services.
60. One option would be to develop guidance (or FAQ) that sets out best practice processes that firms apply prior to accepting NAS. This would both promote consistency between firms and shine a light on these robust processes, to further build confidence and trust in the audit.
61. Through further outreach with the firms, we have captured an outline of these processes as follows:

Prior to the acceptance of any engagement, the audit firms apply very strict processes and procedures to identify relationships between the client and existing clients, understand the scope of the work to be undertaken and identify and evaluate any threats that might arise. For the large global firms, these processes include a central database that searches the global client base to assist in identifying threats. The process is as follows:

- When an opportunity for new work is identified, the global database assists to identify all services provided to the client globally and to other entities within the “family tree”.
  - The audit engagement partner is briefed by way of a detailed scope of possible work and the audit engagement partner is required to consider whether the work can be undertaken, having first obtained a full understanding of what the work entails.
  - This is assessed against the Code of Ethics to analyse any permissible services.
  - The process requires documentation of the identified threats, an evaluation of the level of threats and available safeguards to reduce any threats to an acceptable level.
  - Only if the engagement partner concludes that the threats can be reduced to an acceptable level in line with the independence requirements, can the services be approved.
62. If the Board agrees with the recommendation above to add a documentation requirement into the NZ Code, the need for non-authoritative guidance may be reduced. I.e., if it is a requirement to document, firms will necessarily become consistent in documenting the rationale.

**Other matters and outstanding issues**

Valuation for tax purposes

63. We note that similar language (“will not create a SRT”) is used in para 604.17 A3 with respect to performing a valuation for tax purposes:

Performing a valuation for tax purposes for an audit client <i>will not create</i> 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

64. This is not an area where the NZAuASB had previously proposed to amend the IESBA text but considering the above, we seek thoughts as to whether any additional clarification is needed in this context.

#### Other outstanding matters from the exposure draft

#### Audit-related services

65. The Board had proposed to include additional NZ application material:
- a. Stating that additional work performed by the firm will not generally create a SRT to independence when such work is related to the audit or review engagement;
  - b. Providing examples of audit or review related engagements; and
  - c. Reminding the firm that such additional services might create one or more additional threats and that the firm is required to apply the conceptual framework to identify, evaluate and address the threats to independence created by the provision of those additional services.
66. Stakeholders widely acknowledge that the information is helpful, however, several respondents questioned whether this guidance meets the limited circumstances in which it is necessary for the standards adopted in New Zealand to deviate from international. One respondent identified the risks that arise when including NZ specific content, including the risk that the NZ specific content will not be entirely consistent with other parts of the standard and the risk that NZ specific content will be inconsistent with future changes.
67. Consistent with the December agenda papers, staff do not recommend that this additional NZ paragraph be included in the final NZ standard, as it may undermine the requirement to apply the conceptual framework for all types of threats, rather this may be developed as non-authoritative guidance in the format of an FAQ.

#### Effective date

68. The NZAuASB proposed that an open-ended transitional provision which could permit a firm to continue the engagement under the extant provision for an indefinite period was too broad for New Zealand purposes. The majority of respondents supported the proposed NZ transitional provision limited the services to 12 months from the effective date of the standard. However, one respondent expressed concern, in that it added complexity and inconsistency for network firms.
69. The Board is asked to provide thoughts on whether to include the proposed NZ transitional provisions.



Appendix

**Extracts from XRB NAS Exposure draft**

***Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services All Audit or Review Clients***

*All Audit or Review Clients*

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

*604.12 A2 [Amended by the NZAuASB]*

NZ604.12 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services will not create a self-review threat if such services include the extent to which the tax advisory or tax planning 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.

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

- 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 or review client that is a public interest entity has been identified, paragraph R604.15 applies.

*Audit or Review Clients that are Public Interest Entities*

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

NZR604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit or review client that is a public interest entity.

NZ604.15 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.

## Compelling Reasons Test

### Proposed Modifications to the *Non-Assurance Services Standard: "Confident is likely to prevail"*

Reference: [Convergence and Harmonisation Policy](#)

Proposed Modification	
<p>604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:</p> <p>(a) Are supported by a tax authority or other precedent;</p> <p>(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</p> <p>(c) Have a basis in tax law that the firm is confident is likely to prevail.</p> <p><u>NZ 604.12 A3</u></p> <p><u>The firm will need a high level of confidence, that the tax advisory or tax planning services have a basis in New Zealand tax law that is likely to prevail. The firm will gain that confidence if there is a high probability if viewed objectively that the tax advisory or tax planning services will be likely to prevail.</u></p>	
Rationale for the proposed modification	
<p>A. The international standard is not consistent with New Zealand legal and regulatory arrangements. (Para 12 (a))</p>	<p>N/A</p>
<b>OR</b>	
<p>B. The international standard does not reflect, or is not consistent with principles and practices that are appropriate having regard to the public interest in New Zealand (including in the use of different terminology) (Para 12 (b))</p>	<p>The words "confident is likely to prevail" determine whether the self-review threat (SRT) prohibition applies or not.</p> <p>Because these words are now used as the threshold for determining whether the carve out from the SRT prohibition applies, the need for clarity is heightened.</p> <p>Our outreach to date has consistently indicated concern that this wording lacks clarity and is subjective. The drafting of the Code is intended to set a high bar, however based on NZ tax legislation and judicial interpretations of the language in other contexts, the term "likely" is contestable. The tax legislation expressly adopts a probability approach, and applying that approach to the standard might set a precedent that the test is around 50%. There is also significant case law that "likely" does not involve a probability test and means something less than a high degree of certainty. These practices set a lower bar than the intent of the drafting, and therefore we consider that it is in the public interest in New Zealand to clarify the intent of the drafting within the Code.</p>

<b>B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.</b>	
<b>Compelling Reason Test (Para 14)</b>	<b>Consideration</b>
(a) The proposed modification to the standard ensures compliance with principles and practices that the NZAuASB considers appropriate and in the public interest in New Zealand; and	<p>We consider that in line with the intent of the IESBA Code, it is in the public interest to prohibit tax advice on more judgemental matters (i.e. which might be contested by the tax authority in future). This is achieved by the focus on the self-review threat and the IESBA's intent of a high threshold for the tax services "carve out".</p> <p>See also above in relation to the different approaches under New Zealand law in assessing probability and likelihood which have the potential to create confusion and inconsistent application.</p> <p>The "confident is likely to prevail" test also appears to be subjective, whereas equivalent tax legislation requires an objective focus.</p> <p>The modification is necessary to clarify in the New Zealand legislative context that the threshold is a high bar to reduce the risk of subjectivity and to support consistent application.</p>
(b) The proposed modification to the standard is clear and promotes consistent application by all practitioners in New Zealand; and <i>(For example, excluding options not relevant in NZ and Australia).</i>	The modification is recommended for this purpose.
(c) The proposed modification will promote significant improvement in audit/assurance quality in New Zealand environment; and <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>	The modification will result in compliance with the intent of the material in the New Zealand context.
(d) The proposed modification will not result in a standard that conflicts with, or result in lesser requirements than the international standard; and	The modification does not alter the intent of the standard so will not result in a lesser standard.
(e) The proposed modification overall does not result in the standard being overly complex and confusing; and	The proposed modification is designed to avoid confusion.
(f) The proposed modification does not inadvertently change the meaning of the international standard by imposing more onerous requirements on a practitioner in New Zealand than are necessary; and	The modification does not alter the intent of the standard so will not result the imposition of more onerous requirements.

<p>(g) The benefits of the proposed new or modification requirement to the international standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).</p>	<p>Because “confident is likely to prevail” is now used as the threshold for determining whether the carve out from the SRT prohibition applies or not, the need for clarity for that purpose is heightened. Making the standard clearer, not more onerous, will reduce the risk of inadvertent breaches or inconsistent interpretations and therefore we consider that the benefit of the modification outweighs the cost.</p>
<p><b>Compelling Reason Test criteria met?</b></p>	<p>Yes</p>

**Proposed Modifications to the *Non-Assurance Services Standard: Documentation***

<p><b>Proposed Modification</b></p>	
<p><u>NZ R604.12 xx The firm shall document the factors considered and conclusions reached in determining that the tax advisory or tax planning service is supported by a tax authority or other precedent; is based on established practice or why the firm is confident that providing the tax advisory and tax planning services described in paragraph 604.12 A2 has a basis in tax law that is likely to prevail.</u></p>	
<p><b>Rationale for the proposed modification</b></p>	
<p>A. The international standard is not consistent with New Zealand legal and regulatory arrangements. (Para 12 (a))</p>	<p>N/A</p>
<p style="text-align: center;"><b>OR</b></p>	
<p>B. The international standard does not reflect, or is not consistent with principles and practices that are appropriate having regard to the public interest in New Zealand (including in the use of different terminology) (Para 12 (b))</p>	<p>The firms have consistently referred in their submissions to the robust processes they undertake in order to determine whether a service is permissible or not.</p> <p>The likely to prevail threshold is a judgement to be made by the firm.</p> <p>The FMA has supported a stronger approach and noted that this is an area where regulatory oversight is needed.</p> <p>To address the themes of both sets of submissions we consider that a requirement to document the factors considered in determining why the firm is confident that providing the tax advisory and tax planning has a basis in tax law that is likely to prevail would be in line with best practice in New Zealand.</p>

<p><b>Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.</b></p>	
<p><b>Compelling Reason Test (Para 14)</b></p>	<p><b>Consideration</b></p>
<p>(a) The proposed modification to the standard ensures compliance with principles and practices that the NZAuASB considers</p>	<p>Informed by further outreach with the firms, we consider that a requirement to document its considerations, in the circumstances where the</p>

<p>appropriate and in the public interest in New Zealand; and</p>	<p>firm is relying on its judgement that it is confident that the tax advice is likely to prevail.</p> <p>We consider that this is consistent with current best practice in New Zealand in determining whether a service is permissible or not. Given the role of the firm in exercising its judgement as to the level of confidence it has that its tax advice will not be contested by the tax authority, we expect that firms would be documenting this rationale in reaching its conclusion as to whether the service is permissible.</p> <p>Although it appears that the larger firms may already be meeting this standard, it is important that PES 1 itself states what the expected standard is.</p>
<p>(b) The proposed modification to the standard is clear and promotes consistent application by all practitioners in New Zealand; and <i>(For example, excluding options not relevant in NZ and Australia)</i></p>	<p>A requirement in the Code, rather than an encouragement in the basis for conclusions document issued by IESBA is more accessible and therefore more likely to promote consistent application by all practitioners.</p> <p>We expect that the NZ regulator would be looking for this documentation in the instances where the firm is making this judgement based on its confidence that the advice is likely to prevail. It is in the public interest that the standard itself sets the expected level of documentation.</p>
<p>(c) The proposed modification will promote significant improvement in audit/assurance quality in New Zealand environment; and <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>A requirement to document would strengthen the Code by requiring what is considered to be best practice to ensure that all firms, of all sizes, are applying best practice.</p>
<p>(d) The proposed modification will not result in a standard that conflicts with, or result in lesser requirements than the international standard; and</p>	<p>In its Basis for conclusions the IESBA states that they envisage that a firm may choose to document, in situations that are not apparent, the factors considered in determining its confidence that the proposed treatment has a basis in applicable tax law and regulation that is likely to prevail. The modification is in line with the IESBA intent and adds to rather than reduces the standard.</p>
<p>(e) The proposed modification overall does not result in the standard being overly complex and confusing; and</p>	<p>We do not consider the addition to be complex or confusing.</p>
<p>(f) The proposed modification does not inadvertently change the meaning of the</p>	<p>The modification is requiring what is encouraged by the IESBA in its basis for conclusions document.</p>

international standard by imposing more onerous requirements on a practitioner in New Zealand than are necessary; and	
(g) The benefits of the proposed new or modification requirement to the international standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).	We consider the benefits of documentation outweigh the costs of doing so.
<b>Compelling Reason Test criteria met?</b>	<b>Yes</b>

**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	3.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	Capital Raising
<b>Date:</b>	23 March 2022
<b>Prepared by:</b>	Sharon Walker

**Action Required****For Information Purposes Only**

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**Agenda Item Objectives**

1. The objective of this agenda item is for the Board to provide feedback on the developing exposure draft of a standard dealing with the provision of assurance over financial information prepared in connection with a capital raising.

**Background**

2. The NZAuASB approved a project proposal to develop a standard for the performance of, and reporting on, assurance over prospective financial information at its October 2017 meeting. The directive of the Board at that time was to use ASAE 3450<sup>1</sup> as a base and that the proposed standard would deal with both assurance for engagements involving corporate fundraisings as well as prospective financial information for more general purposes. Following discussions at the September 2019 meeting, the scope of the project was narrowed to deal only with assurance over financial information prepared in connection with a capital raising.
3. The Board has previously agreed:
  - The NZ standard should be principles based and framework neutral.
  - The NZ standard will build on ISAE (NZ) 3000 (Revised) but does not need to duplicate the requirements of that standard.
  - The type of assurance is restricted to limited assurance on all types of financial information.
  - The scope of the engagement is restricted to transactions involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014.
  - To use ASAE 3450 as a starting point for the draft standard.

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<sup>1</sup> Standard on Assurance Engagements ASAE 3450 *Assurance Engagements Involving Corporate Fundraisings and/or Prospective Financial Information*

4. Staff has been assisted in this project by members of PwC. We would like to acknowledge and thank them for their guidance in the preparation of the draft.
5. At its April 2021 meeting, the Board received an educative briefing on the assurance landscape in New Zealand related to capital raisings. An extract of the discussion summarised in the April 2021 minutes is included in the appendix to this paper, for the Board's reference.
6. In October 2021, the Board considered the requirements and application material relating to the following sections of the draft:
  - Preconditions for the assurance engagement
  - Agreeing the terms of the engagement
  - Planning and performing the engagement
7. In response to Board comments, the following changes have been made to that draft:
  - We have more closely aligned the definition of pro forma financial information with the definition in ASAE 3450 definition. (paragraph 10(h))
  - The Board questioned what underlying subject matter means in the context of the capital raising engagement. The term *Underlying subject matter* has been replaced by the *source and basis of preparation of the financial information*. (paragraphs 19, 20 and A28)
  - In paragraph 20, reference to internal control has been reinstated.
  - In paragraph 25, the understanding of whether experts are to be used has been removed. Understanding whether experts are to be used in the preparation of the subject matter information is required by ISAE (NZ) 3000 (Revised)<sup>2</sup>. The application material has been moved to paragraph A59.
8. Material added to the October draft is shown with grey shading. The requirements were previously seen by the Board at its [April 2021](#) meeting. The application material has not been seen previously by the Board. The requirements and application material in these sections are based on ASAE 3450.
9. Illustrative letters and reports are included in agenda item 3.3.

#### Issues for Board Consideration

##### *(i) Naming of the lead assurance partner*

10. The Board has previously<sup>3</sup> asked staff to add a requirement in the draft standard to name the engagement partner in the assurance report. Disclosure of the engagement partner's name in the auditor's report improves transparency for users of the auditor's report and provides the engagement partner with a greater sense of personal responsibility and accountability, which may translate to improved audit quality.<sup>4</sup>
11. ISAE (NZ) 3000 (Revised) paragraph 69 and NZ69.1 establishes the basic elements of the assurance report. It does not require that the engagement partner be named in the report.

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<sup>2</sup> ISAE (NZ) 3000 (Revised), paragraph 45(c)

<sup>3</sup> April 2021 [NZAuASB Minutes April Website Version.pdf](#)

<sup>4</sup> [Exposure Draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing, paragraphs 98-101](#)



12. ISA (NZ) 700 (Revised)<sup>5</sup> requires the name of the engagement partner to be included in the auditor's report on the financial statements of FMC reporting entities considered to have a higher level of public accountability, with exceptions permitted in rare circumstances.
13. Paragraph 48(q) of the draft requires, as a basic element, the name of the lead assurance practitioner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. This requirement has been drafted based on the requirement in ISA (NZ) 700.

- Does the Board agree with the proposal to include the name of the lead assurance practitioner in the report?

*(ii) Historical Financial Information*

14. In a capital raising engagement, there is usually a mix of historical, prospective and pro forma financial information.
15. ISAE (NZ) 3000 (Revised)<sup>6</sup> deals with assurance engagements other than audits or reviews of historical financial information. When providing assurance over prospective financial information and pro forma financial information, the assurance practitioner will need to comply with ISAE (NZ) 3000 (Revised) and the requirements of the draft.
16. When an engagement covers historical financial information the assurance practitioner will need to comply with the relevant review engagement standard and the requirements of the draft.
17. This nuance had not been fully appreciated in earlier versions of the draft which referred only to ISAE (NZ) 3000 (Revised) for all types of financial information.
18. The New Zealand, review engagement standards consist of:
  - ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*
  - NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*
19. NZ SRE 2410 (Revised)<sup>7</sup> states, "NZ SRE 2410 (Revised) is to be applied, adapted as necessary, when an entity's auditor undertakes an engagement to review historical financial information other than financial statements of an audit client." There is no similar statement in ISRE (NZ) 2400 although adapting it as necessary for an engagement to review historical financial information other than financial statements of the entity would not be precluded.
20. When historical financial information is included in the scope of the assurance engagement, the engagement needs to be performed in accordance with the applicable review engagement standard and the draft standard. This is because ISAE (NZ) 3000 (Revised) does not deal with historical financial information and the draft supplements the core standard with subject matter specific requirements and guidance. The requirements of the draft standard are not sufficient on their own to enable the assurance practitioner to obtain sufficient appropriate evidence on which to base their conclusion.

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<sup>5</sup> ISA (NZ) 700 (Revised), paragraph NZ46.1

<sup>6</sup> ISAE (NZ) 3000 (Revised), paragraph 1

<sup>7</sup> NZ SRE 2410 (Revised), paragraph 4

21. To incorporate the review engagement standards into the draft, we have
- Added new paragraph 5, modelled off ASAE 3450, which describes the relationship of the proposed draft to other standards issued by the NZAuASB, specifically ISAE (NZ) 3000 (Revised) and the Review Engagement Standards.
  - Added paragraph 10.1 which identifies “review engagement standards” as either ISRE (NZ) 2400 or NZ SRE 2410, as applicable.
  - Where references are made to ISAE (NZ) 3000 (Revised), references to review engagement standards have been added.
22. ASAE 3450 does not require being the auditor of the entity as a precondition for performing the capital raising assurance engagement. In practice in New Zealand, firms generally do not accept the review of historical financial information components of the engagement unless they are the entity’s auditor. Reasons for this include the risk associated with the engagement when the assurance practitioner does not have the necessary understanding of the entity, its environment, and its internal control. The practitioner will need to do a lot more work, driven by ISRE (NZ) 2400, on the historical financial information when they are not the auditor of the entity.
23. Application material has been included at paragraph A12 to provide guidance about the difficulties the assurance practitioner may face when the assurance practitioner is not also the auditor of the entity.

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| <ul style="list-style-type: none"><li>• Does the Board agree to include the requirements for review engagements by reference to the review standards (in the same way that reference is made to ISAE (NZ) 3000 (Revised))?</li><li>• Does the Board consider that it should be a precondition that the engagement be performed by the auditor of the entity when the engagement includes assurance over historical financial information?</li></ul> |
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*(iii) Reference to Applicable Standards in the Assurance Report*

24. The assurance report may be on a single type of financial information (individual assurance report) or on multiple types of financial information. In practice, it is common for assurance practitioners to report on multiple types of financial information in a single report.
25. For assurance engagements performed in accordance with ISAE (NZ) 3000 (Revised) and a relevant subject matter specific ISAE (NZ) or SAE, the assurance report would ordinarily refer to the engagement having been performed in accordance with the subject matter specific standard. The requirement in the draft standard is prepared on this basis (refer to paragraph 48(h)).
26. As noted in the preceding section, ISAE (NZ) 3000 (Revised) does not apply to historical financial information. When the assurance engagement includes assurance over historical financial information, the applicable review engagement standard applies.
27. The assurance practitioner may wish to include in the assurance report the applicable standards that have been applied. This is not precluded by the draft. We consider referring to both the underlying standard and the draft standard in the assurance report will help users to understand the standards under which the various types of financial information have been performed. This is consistent with ISAE (NZ) 3000 (Revised) which provides, where a subject matter specific ISAE (NZ) or SAE applies to only part of the subject matter information, it may be appropriate to cite both that subject matter specific ISAE (NZ) or SAE and this ISAE (NZ).<sup>8</sup> Refer to paragraph A70 of the draft.

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<sup>8</sup> Para A170

- Does the Board agree that if the assurance practitioner wishes to include reference in the assurance report to ISAE (NZ) 3000 (Revised) and/or the applicable Review engagement Standard, the assurance practitioner should not be precluded from doing so?

28.

**Matters to Consider**

29. The Board is asked to PROVIDE feedback on the developing draft.

**Next Steps**

30. The Board had requested that the next draft be circulated to transaction services practitioners for comment. Due to time constraints this was not possible prior to development of the papers for this meeting. Our intention is to circulate this draft among the practitioners and arrange one on one interviews to obtain their feedback prior to the June meeting.

31. At the Board's June meeting we expect present an exposure draft for approval.

**Material Presented**

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Developing exposure draft
Agenda item 3.3	Illustrative letters and report
Agenda item 3.4	Mapping ASAE 3450

### Extract of April 2021 Meeting Minutes

#### 5. Corporate Fundraising Education Session

The Board welcomed Ian McLoughlin, Managing Partner Deals, PwC New Zealand and member of the subcommittee developing a New Zealand exposure draft, to the meeting. Mr McLoughlin provided the Board with a briefing on the assurance landscape in New Zealand in relation to corporate fundraisings highlighting that:

- There is no statutory requirement for these engagements, rather such engagements are voluntarily sought by entities that undertake significant IPOs.
- These assurance reports are available from the disclosed register on the Companies Office website.
- The need for a New Zealand assurance standard arises in an environment where directors involved in capital raising seek independent assurance to help them give their sign off. This is timely given the outlook for increased funding opportunities in the domestic market. As there is no international standard, practitioners would welcome a standard that promotes consistency in practice.
- A standard will be welcomed by practitioners, as it will also clarify expectations with the engaging party. Currently practitioners look to the Australian standard for guidance but that standard is complicated by the legislative requirements in Australia, and is therefore not fit for purpose in New Zealand. It is however important for the standards to be aligned, given that there may be dual listings
- The scope of the developing standard is very limited. It largely is applicable to mainstream equity IPOs, but could, in theory, apply to debt.
- In practice, these engagements are limited assurance engagements and therefore the recommendation is to exclude reasonable assurance engagements which are covered in the Australian standard ASAE 3450.
- The different types of information to be covered in the standard including historical, pro forma historical, prospective and pro forma prospective financial information prepared in connection with a corporate fundraising.

<b>[Proposed] SAE 3450 Assurance over Financial Information Prepared in Connection with a Capital Raising</b>	
<b>Introduction</b>	
1. This Standard on Assurance Engagements (SAE) deals with the responsibilities of the assurance practitioner when performing an assurance engagement and reporting on the responsible party's preparation of published financial information prepared in connection with a capital raising. <a href="#">in accordance with general accepted accounting principles</a>	
2. This SAE applies to assurance engagements to provide a limited assurance report on the financial information. (ref: A1)	A1. The assurance report may be on a single type of financial information (individual assurance report) or on multiple types of financial information.
3. The types of financial information covered by this SAE are: <ul style="list-style-type: none"> <li>• historical,</li> <li>• pro forma historical,</li> <li>• prospective and</li> <li>• pro forma prospective</li> </ul> financial information prepared in respect of a capital raising. The financial information may be in respect of one entity or multiple entities (for example, in the case of a merger or acquisition).	
4. Assurance engagements covered by this SAE often involve the assurance practitioner performing an assurance engagement, and reporting, on more than one type of financial information. In such circumstances, the assurance practitioner conducts the engagement in accordance with the applicable requirements and related application and other explanatory material and reports the assurance conclusion for each type of financial information in the assurance report. <a href="#">Non-assurance services are outside the scope of this engagement.</a>	
<i>Relationship with Other Standards issued by the NZAuASB to <del>ISAE (NZ) 3000</del> (Revised)</i>	

**Commented [A1]:** ASAE 3450 covers both 3000 and the related review standard. This is important as 3000 can only be used for information other than historical financial information. When the engagement covers both historical financial information and other components it should reference both 3000 and the applicable review standard (should almost always be NZ SRE 2410 (Revised)). 2410 para 4 indicates that it "is to be applied, adapted as necessary, when an entity's auditor undertakes an engagement to review historical financial information other than financial statements of an audit client."

2410 will therefore apply when historical financial information is in scope for the engagement. Incorporating the review standard would also mean that this standard doesn't have to specify the baseline requirements of 2410 in a similar way as it does not cover the baseline requirements of 3000.

This would also be consistent with the approach taken in EG Au9 – Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities – where there is a mix of historical financial information and other information.

<p><a href="#">5. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ISAE (NZ) 3000 (Revised)<sup>1</sup>. Assurance engagements that are reviews of historical financial information are conducted in accordance with Review Engagement Standards. This SAE deals with specific considerations in the application of ISAE (NZ) 3000 (Revised) and the Review Engagement Standards to engagements dealing with assurance over financial information prepared in connection with a capital raising.</a></p>	
<p>6. The assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised) and <a href="#">Review Engagement Standards, as applicable, and</a> this SAE when performing an assurance engagement to report on published financial information prepared in connection with a capital raising. This SAE supplements, but does not replace ISAE (NZ) 3000 (Revised) <a href="#">or the applicable Review Engagement Standard</a>.</p>	<p><del>A2. ISAE (NZ) 3000 (Revised) includes requirements that apply to assurance engagements (other than audits or reviews of historical financial information), including engagements in accordance with this SAE. In some cases, this SAE may include additional requirements or application material in relation to these topics.</del></p>
<p>7. Compliance with ISAE (NZ) 3000 (Revised) <a href="#">and Review Engagement Standards</a> requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))</i><sup>2</sup> issued by the New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation that are at least as demanding.<sup>3</sup> It also requires the lead assurance practitioner to be a member of a firm that applies Professional and Ethical Standard 3<sup>4</sup>, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and</p>	

<sup>1</sup> [International Standard on Assurance Engagements \(New Zealand\) 3000 \(Revised\), Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#)

<sup>2</sup> In Professional and Ethical Standard 1, the term “engagement partner” should be read as referring to “lead assurance practitioner”.

<sup>3</sup> ISAE (NZ) 3000 (Revised), paragraph 3(a), 20 and 34

<sup>4</sup> Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Ethical Standard 3. <sup>5</sup>	
<b>Effective Date</b>	
8. This SAE is effective for engagements commencing on or after [date]. Early adoption is permitted.	
<b>Objectives</b>	
9. The objectives of the assurance practitioner are: (a) To obtain limited assurance about whether the financial information is free from material misstatement, thereby enabling the assurance practitioner to express a limited assurance conclusion; (b) To report, in accordance with the assurance practitioner’s findings; and (c) To communicate as otherwise required by this SAE.	
<b>Definitions<sup>6</sup></b>	
10. For purposes of this SAE, the following terms have the meanings attributed below:	
(a) Assumption – a view taken about the future for the purpose of preparing prospective financial information, for example views about economic and business conditions and proposed courses of action. (Ref: A2)	A2. The entity uses the best information that could reasonably be expected to be available at the time the prospective financial information is prepared in determining the assumptions and information used in the preparation of the prospective financial information.

<sup>5</sup> ISAE (NZ) 3000 (Revised) paragraphs 3(b) and 31(a)

<sup>6</sup> Terms defined in ISAE (NZ) 3000 (Revised) are not repeated in this SAE and reference should be made to ISAE (NZ) 3000 (Revised) for those terms.

Agenda item 3.2

<p>(b) Assurance report – a written report prepared by an independent assurance practitioner. (Ref: A3)</p>	<p>A3. The assurance report may also be referred to as an “Investigating Accountant’s Report”.</p>
<p><a href="#">(c) Base financial information – financial information that is used as the starting point for the application of the pro forma adjustments. Base financial information is ordinarily historical in nature, however, it can also be prospective. (Ref: A4)</a></p>	<p><a href="#">A4 Base financial information may not or may not have been previously audited or reviewed.</a></p>
<p>(d) Capital raising – any transaction involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014. (Ref: A5)</p>	<p>A5. Capital raisings <a href="#">may</a> include, for example, initial public offerings, takeovers, schemes of arrangement or other corporate restructures.</p>
<p>(e) Financial information – information of a financial nature prepared by the responsible party in the form of:</p> <ul style="list-style-type: none"> <li>(i) Historical financial information</li> <li>(ii) Pro forma historical financial information</li> <li>(iii) Prospective financial information</li> <li>(iv) Pro forma prospective financial information.</li> </ul>	
<p>(f) Pro forma adjustments –adjustments to the <del>unadjusted base</del> financial information to:</p> <ul style="list-style-type: none"> <li>(i) illustrate the impact of a transaction or event as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred or as if it had not occurred at all;</li> <li>(ii) eliminate the effects of unusual or non-recurring events or transactions that are not part of the normal operations of the entity; or</li> <li>(iii) exclude certain events or transactions or present transactions or balances on a different recognition or measurement basis from that required or permitted by generally accepted accounting principles.</li> </ul>	
<p>(g) <b>Pro</b> forma financial information – <del>unadjusted base</del> financial information shown together with pro forma adjustments prepared in accordance with the stated basis of preparation <a href="#">resulting in financial information that is not prepared in accordance with New Zealand generally accepted accounting practice. It is subject to the assumptions inherent</a></p>	

**Commented [A2]:** Amended definition of pro forma financial information as requested by NZAuASB



<p><a href="#">in the responsible party's stated basis of preparation.</a></p>	
<p>(h) Prospective financial information – Future oriented financial information prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs. Prospective financial information is based on assumptions about events that may occur in the future and possible actions by the entity. (Ref: <a href="#">A76</a>)</p>	<p><a href="#">A76</a> Prospective financial information relates to events and conditions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit of historical financial information. The assurance practitioner is, therefore, not in a position to conclude as to whether the results shown in the prospective financial information will be achieved</p>
<p>(i) Published financial information - Financial information prepared for the purpose of the capital raising and that is made available publicly, for example, the product disclosure statement and online register.</p>	
<p>(j) Stated basis of preparation – the basis on which the responsible party has chosen to prepare the financial information that is acceptable in view of the nature and objective of the published financial information, or as required by applicable law or regulation.</p>	
<p>(k) <del>Unadjusted-Base</del> financial information – financial information to which pro forma adjustments are applied by the responsible party. (Ref: <a href="#">A87</a>)</p>	<p><a href="#">A87</a>. <del>Unadjusted-Base</del> financial information is ordinarily historical in nature, however, it can also be prospective, for example, a profit forecast. <del>Unadjusted-Base</del> financial information may or may not have been previously audited or reviewed.</p>
<p><a href="#">10.1. In this SAE, <del>Review Engagement Standards</del> refer to International Standard on Review Engagements (New Zealand) 2400, Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity, and New Zealand Standard on Review Engagements 2410 (Revised), Review of Financial Statements Performed by the Independent Auditor of the Entity, as applicable.</a></p>	
<p><b>Requirements</b></p>	
<p>11. The assurance practitioner shall not represent compliance with this SAE unless the assurance practitioner has complied with the requirements of both this SAE and ISAE (NZ) 3000 (Revised) <a href="#">and Review Engagement Standards, as applicable.</a></p>	

**Commented [A3]:** XRB Au1 refers to review engagement standards.

<i>Preconditions for the Assurance Engagement</i>	<i>Preconditions for the Assurance Engagement</i>
<p>12. In addition to the requirements of ISAE (NZ) 3000 (Revised)<sup>7</sup> <a href="#">and Review Engagement Standards, as applicable</a>, in order to establish whether the preconditions for the engagement are present, the assurance practitioner shall obtain the agreement of the responsible party that they acknowledge and understand their responsibility for: (ref: <a href="#">A89-A156</a>)</p> <p>(a) the preparation of the financial information in accordance with the stated basis of preparation, including the selection of the financial information and the applicable time period to be covered by the financial information (ref: <a href="#">A123-A134</a>)</p> <p>(b) such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement.</p>	<p><a href="#">A98</a>. The engaging party is ordinarily the responsible party. References in this SAE to <i>responsible party</i> are taken to include the <i>engaging party</i> unless otherwise stated.</p> <p><a href="#">A910</a> The responsible party is ultimately responsible for the preparation and presentation of the published financial information. The responsible party may engage experts, for example, tax advisors, business advisors or legal counsel, who may prepare, assist with the preparation of, or provide independent advice on, the financial information included in the published financial information; however, the responsible party retains responsibility for such information. The only exception to this is in respect of reports prepared by other parties, including experts, which are included, by consent, in the published financial information.</p> <p><a href="#">A104</a>. If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on the ability to access records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.</p> <p><a href="#">A121</a>. <a href="#">When the assurance practitioner is not the auditor of the entity, the assurance practitioner may need to consider the type of financial information over which assurance is sought. In particular, when the assurance practitioner is not the auditor of the entity and assurance is sought over historical financial information, the assurance practitioner may consider their ability to obtain sufficient appropriate evidence in relation to that historical financial information in accordance with ISRE (NZ) 2400, given, among other factors, the assurance practitioner’s limited knowledge of the entity, their</a></p>

<sup>7</sup> ISAE (NZ) 3000 (Revised) paragraph 24

	<p><a href="#">understanding of risks and the compressed timeline often involved in these types of assurance engagement.</a></p>
	<p>A123. The responsible party's responsibility for the preparation of the financial information may also include responsibility for the selection of the financial information, including whether it contains comparative information, and for determining the applicable time period to be covered by the financial information.</p>
	<p><i>Pro Forma Financial Information</i></p> <p>A143. In an engagement to provide assurance over pro forma financial information (both historical and prospective), the responsible party's responsibility for the preparation of the financial information may include:</p> <ul style="list-style-type: none"> <li>• Selecting the basis of preparation of the pro forma financial information;</li> <li>• Selecting the <del>unadjusted base</del> financial information used as the source for the pro forma financial information;</li> <li>• Selecting and determining the pro forma adjustments;</li> <li>• Preparing pro forma financial information in accordance with the stated basis of preparation.</li> </ul> <p><a href="#">A144. In circumstances where the assurance practitioner cannot access, or obtain access to, documentation supporting the source of the base historical financial information or the pro forma adjustments, or does not audit one of the entities whose financial information is included in the pro forma historical financial information, the assurance practitioner and responsible party may alternatively agree for an assurance engagement to be conducted to report on the compilation of the pro forma historical financial information.</a></p>

**Commented [A4]:** Added. from ASAE 3450, paras A75-A76

	<p><a href="#">A156. Circumstances such as those outlined in paragraph A15 may occur, for example, when:</a></p> <ul style="list-style-type: none"> <li>• <a href="#">The capital raising involves a takeover transaction in which neither the assurance practitioner nor the responsible party of the entity are able to access the other entity's financial information.</a></li> <li>• <a href="#">The capital raising involves a takeover transaction where the other entity has not been subject to an audit or review.</a></li> <li>• <a href="#">There is insufficient time to which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.</a></li> </ul>
<p><i>Prospective Financial Information</i></p> <p>13 In an engagement to provide assurance over prospective financial information, the acknowledgement obtained in accordance with paragraph 12 shall include acknowledgement from the responsible party that the prospective financial information is based on assumptions that:</p> <p>(a) are reasonable and supportable; and</p> <p>(b) faithfully represent the assumptions and information on which the prospective financial information is based.</p>	
<p><i>Agreeing on the Terms of the Engagement</i></p>	<p><i>Agreeing on the Terms of the Engagement</i></p>
<p>14. The terms of the engagement agreed in accordance with ISAE (NZ) 3000 (Revised)<sup>8</sup> <a href="#">and Review Engagement Standards, as applicable</a>, shall include: (Ref: A16)</p> <p>(a) The objective and scope of the engagement; (Ref: A17)</p> <p>(b) The responsibilities of the assurance practitioner;</p>	<p>A16. An illustrative engagement letter is set out in <a href="#">Appendix 1</a>.</p> <p>A17. The objective and scope agreed in the terms of engagement may include, for example:</p>

**Commented [A6]:** See separate agenda item for appendices

<sup>8</sup> ISAE (NZ) 3000 (Revised), paragraph 27

<p>(c) The responsibilities of the responsible party, including those described in paragraphs 14 and, if applicable, 13;</p> <p>(d) Identification of the stated basis of preparation for the financial information;</p> <p>(e) Reference to the expected form and content of any reports to be issued by the assurance practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content;</p> <p>(f) An expectation that the responsible party will provide written representations at the conclusion of the engagement;</p> <p>(g) An expectation that the responsible party will provide access to all information of which it is aware that is relevant to the preparation of the financial information, including an expectation that the responsible party will provide access to information relevant to disclosures;</p> <p>and</p> <p>(h) Such other terms that the assurance practitioner determines are appropriate in the engagement circumstances. (Ref: A18)</p>	<ul style="list-style-type: none"> <li>• The assurance practitioner’s understanding of the purpose of the assurance engagement, the nature of, and time period covered by, the financial information, and the intended users of the assurance report.</li> <li>• Confirmation that the assurance practitioner will conduct the engagement in accordance with this SAE.</li> <li>• That the responsible party is responsible for the preparation of the financial information.</li> <li>• That the assurance practitioner will assess whether the financial information has been prepared in accordance with the stated basis of preparation.</li> <li>• That an audit is not being performed and that consequently, an audit opinion will not be expressed.</li> <li>• The type(s) and proposed wording of the assurance conclusion.</li> <li>• That the engagement cannot be relied upon to identify fraud, errors, non-compliance with laws or regulations or other irregularities that may exist within the entity.</li> </ul>
	<p>A18. Other terms that the assurance practitioner may consider appropriate to agree include, for example:</p> <ul style="list-style-type: none"> <li>• A description of the assurance procedures to be performed.</li> <li>• Important timelines for the completion of the engagement, for example, the expected date of publication of the financial information and when the assurance practitioner’s consent is required.</li> <li>• Arrangements regarding the planning and performance of the engagement, including the composition of the engagement team.</li> </ul>

**Commented [A5]:** Amended to also include paragraph 12

	<ul style="list-style-type: none"> <li>• Arrangements for the assurance practitioner to:             <ul style="list-style-type: none"> <li>○ Attend meetings such as the due diligence committee meetings, if applicable.</li> <li>○ Receive draft and final versions of the financial information.</li> <li>○ Use the services of the responsible party’s experts.</li> <li>○ Communicate directly with the entity’s external auditor regarding matters relevant to the financial information.</li> <li>○ Provide consent to the inclusion of the assurance practitioner’s assurance report.</li> </ul> </li> </ul>
<p>15. Where there is a change in the terms of the engagement in accordance with ISA (NZ) 3000 (Revised) <a href="#">and Review Engagement Standards, as applicable</a>, such change in the terms shall be agreed, in writing, with the engaging party. (Ref: A19)</p>	<p>A19. Changes in the terms of the engagement are required to be agreed in writing to ensure no misunderstanding occurs between the parties of what has been agreed.</p>
<p><b>Planning and Performing the Engagement</b></p>	<p><b>Planning and Performing the Engagement</b></p>
<p><i>Planning</i></p>	<p><i>Planning</i></p>
<p>16. When planning the engagement in accordance with ISAE (NZ) 3000 (Revised)<sup>9</sup>; <a href="#">and Review Engagement Standards, as applicable</a>, the assurance practitioner shall: (para A20-A22)</p> <ul style="list-style-type: none"> <li>(a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;</li> <li>(b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;</li> </ul>	<p>A20. The type of planning activities the assurance practitioner performs depends on the level of understanding of the entity the assurance practitioner has. The required understanding may be obtained from prior audit or review engagements performed.</p>

<sup>9</sup> ISAE (NZ) 3000 (Revised), paragraph 40

<ul style="list-style-type: none"> <li>(c) Consider the factors that, in the assurance practitioner’s professional judgement, are significant in directing the engagement team’s efforts;</li> <li>(d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the lead assurance practitioner for the entity is relevant;</li> <li>(e) Ascertain the nature, timing and extent of resources needed to perform the engagement, including the involvement of experts and other assurance practitioners; and</li> <li>(f) If applicable, determine whether the entity’s external auditor or assurance practitioner will need to be contacted in respect of the audit opinion or review conclusion expressed on the most recent historical financial statements.</li> </ul>	
	<p>A21. The assurance practitioner may decide to discuss elements of planning with the responsible party when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the entity’s personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the assurance practitioner’s responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the responsible party may compromise the effectiveness of the engagement by making the procedures too predictable.</p>

	<p>A22. The performance of an assurance engagement is an iterative process. As the assurance practitioner performs planned procedures, the evidence obtained may cause the assurance practitioner to modify the nature, timing or extent of other planned procedures. In some cases, information may come to the assurance practitioner’s attention that differs significantly from that expected at an earlier stage of the engagement.</p>
<p><i>Materiality</i></p>	<p><i>Materiality</i></p>
<p>17. The assurance practitioner shall determine materiality for the financial information as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (para A23-A26)</p>	<p>A23. The concept of materiality generally includes the principles that:</p> <ul style="list-style-type: none"> <li>• Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the financial information.</li> <li>• Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and</li> <li>• Judgements about matters that are material to intended users of the financial information are based on a consideration of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs vary widely, is not ordinarily considered.</li> </ul>



	<p>A24. The stated basis of preparation may discuss the concept of materiality in the context of the preparation and presentation of the financial information. Such a discussion, if present in the stated basis of preparation, provides a frame of reference to the assurance practitioner in determining materiality for the engagement. If the stated basis of preparation does not include a discussion of the concept of materiality, the characteristics referred to above provide the assurance practitioner with such a frame of reference.</p>
	<p>A25. The assurance practitioner may not be able to identify all those who will read the assurance report, particularly where there are a large number of people who have access to it. In such cases, particularly where possible users are likely to have a broad range of interests, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example by agreement between the assurance practitioner and the engaging party, or by law or regulation.</p>
	<p>A26. Judgements about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. It should be noted, however, that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement. <a href="#">The materiality calculated for purposes of the financial information may not necessarily be the same amount as would be calculated for an audit or review of the financial statements.</a></p>
<p>18. The assurance practitioner shall revise materiality in the event of becoming aware of information during the engagement that would have caused the assurance practitioner to have determined a different amount initially. (Ref: A27)</p>	<p>A27. The assurance practitioner’s determination of materiality may need to be revised during the engagement as a result of:</p> <ul style="list-style-type: none"> <li>• A change in circumstances a (for example, the disposal of a major part of the entity’s business),</li> </ul>

	<ul style="list-style-type: none"> <li>• New information, or a change in the assurance practitioner’s understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that accounting estimates used are likely to be substantially different from those included in the financial information used to determine materiality.</li> </ul> <p>If during the engagement the assurance practitioner concludes that a lower materiality for the financial information (and, if applicable, materiality level or levels for particular types of accounts or disclosures) than that initially determined is appropriate, it may be necessary to revise performance materiality and the nature, timing and extent of the further procedures.</p>
<p><i>Understanding the <del>Underlying Subject Matter</del> <u>Source and Basis of Preparation of the Financial Information</u> and Other Engagement Circumstances</i></p>	<p><i>Understanding the <del>Underlying Subject Matter</del> <u>Source of the Financial Information</u> and Other Engagement Circumstances</i></p>
<p>19. The assurance practitioner shall obtain an understanding of the <del>underlying subject matter</del> <u>source and basis of preparation of the financial information</u> and other engagement circumstances sufficient to: (Ref: A28)</p> <p>(a) Enable the assurance practitioner to identify areas where a material misstatement of the financial information is likely to arise; and (Ref: A29)</p> <p>(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 19(a) and to obtain limited assurance to support the practitioner’s conclusion.</p>	<p>A28 Obtaining an understanding of the <del>underlying subject matter</del> <u>source and basis of preparation of the financial information</u> –and other engagement circumstances provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the engagement, for example when:</p> <ul style="list-style-type: none"> <li>• Considering the characteristics of the <del>underlying subject matter</del> <u>source of the financial information</u>;</li> <li>• Assessing the suitability of criteria, <u>i.e., its basis of preparation</u>;</li> <li>• Considering the factors that, in the assurance practitioner’s professional judgement, are significant in directing the engagement team’s efforts, including where special consideration may be necessary; for example, the need for specialised skills or the work of an expert;</li> <li>• Establishing and evaluating the continued appropriateness of</li> </ul>

**Commented [A7]:** Board questioned what is meant by “underlying subject matter” in the context of the capital raising engagement.

	<p>quantitative materiality levels (where appropriate), and considering qualitative materiality factors;</p> <ul style="list-style-type: none"> <li>• Developing expectations for use when performing analytical procedures;</li> <li>• Designing and performing procedures; and</li> <li>• Evaluating evidence, including the reasonableness of the oral and written representations received by the assurance practitioner.</li> </ul>
	<p>A29. In a limited assurance engagement, identifying the areas where a material misstatement of the subject matter information is likely to arise enables the assurance practitioner to focus procedures on those areas. For example, in an engagement when the subject matter information is a sustainability report, the assurance practitioner may focus on certain areas of the sustainability report. The assurance practitioner may design and perform procedures over the entire subject matter information when the subject matter information consists of only a single area or when obtaining assurance over all areas of the subject matter information is necessary to obtain meaningful assurance.</p>
<p>20. In obtaining an understanding of the <a href="#">source and basis of preparation of the financial information underlying subject matter</a> and other engagement circumstances under paragraph 19, the assurance practitioner shall <a href="#">obtain an understanding of internal control over the process</a> <del>consider the process</del> used to prepare the financial information. (Ref: A30)</p>	<p>A30. In a limited assurance engagement, <a href="#">obtaining an understanding of internal control over the</a> <del>considering the</del> process used to prepare the <a href="#">subject matter financial</a> information assists the assurance practitioner in designing and performing procedures that address the areas where a material misstatement of the <a href="#">subject matter financial</a> information is likely to arise. In considering the process used, the assurance practitioner uses professional judgement to determine which aspects of the process are relevant to the engagement and may make enquiries of the appropriate party about those aspects.</p>

**Commented [A8]:** Board requested reference to internal control be reinstated.

<p>21. If the assurance practitioner has performed other engagements for the entity, the assurance practitioner shall consider whether information obtained from those other engagements is relevant to understanding the <del>underlying subject matter</del><a href="#">source and basis of preparation of the financial information</a> and other engagement circumstances.</p>	
<p>22. In obtaining the understanding required by paragraph 19, the assurance practitioner shall obtain an understanding of:</p> <ul style="list-style-type: none"> <li>(a) The financial information; (para A31)</li> <li>(b) The stated basis of preparation chosen by the responsible party for the financial information including whether it is different from prior audited or reviewed historical financial information also included in the published financial information, and if so, why; (Ref: A32)</li> <li>(c) Events and transactions that may have a significant impact on the preparation of the financial information;</li> <li>(d) The nature and type of other information to be included with the financial information, if available, sufficient to enable the assessment of whether it is consistent with the financial information;</li> <li>(e) <del>Relevant industry, legal and regulatory requirements</del> <a href="#">Relevant industry, legal and regulatory and other external factors</a> <del>Any applicable legal and regulatory requirements</del> related to the financial information or that may impact the financial information; (Ref: A33-A35)</li> <li>(f) Any recent key changes in the entity's business activities, and how such changes may affect the financial information;</li> <li>(g) Whether experts are required, and the extent to which their work will be used; and</li> <li>(h) The competence of the preparers of the financial information.</li> </ul>	<p>A31. The assurance practitioner's understanding of the financial information generally includes obtaining an understanding of:</p> <ul style="list-style-type: none"> <li>• The type, source and nature of the financial information.</li> <li>• The time period covered and the reasons for its selection.</li> <li>• Its intended use.</li> <li>• The extent to which the financial information may be affected by the responsible party's judgements.</li> <li>• Whether the financial information contains comparative information, whether such comparative information will be restated, and if so, why.</li> <li>• Identifying relevant information available in the public domain.</li> <li>• Identifying expected and plausible relationships within the financial information for use when performing analytical procedures.</li> <li>• Whether the financial information has been previously audited or reviewed and, if so, the type of audit opinion or review conclusion expressed in the assurance practitioner's report.</li> <li>• Whether the financial information has been prepared on a consistent basis with that of any prior period audited or reviewed information included in the document.</li> <li>• Whether adjustments have been made that were considered immaterial in the prior period audit or review.</li> </ul>

	<p>A32. The stated basis of preparation of the financial information may differ from prior audited or reviewed historical information also included in the published financial information. When this is the case, the required understanding of the accounting policies that have been adopted, includes an understanding of why the stated basis of preparation differs from prior audited or reviewed historical financial information.</p>
	<p><u><a href="#">A33. Relevant industry factors may include industry conditions, such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the assurance practitioner may consider include:</a></u></p> <ul style="list-style-type: none"> <li>• <u><a href="#">The market and competition, including demand, capacity, and price competition.</a></u></li> <li>• <u><a href="#">Common business practices within the industry.</a></u></li> <li>• <u><a href="#">Cyclical or seasonal activity.</a></u></li> <li>• <u><a href="#">Product technology relating to the entity's products.</a></u></li> </ul>
	<p><u><a href="#">A34. Relevant legal and regulatory factors may include the applicable financial reporting framework in accordance with which periodic financial information is prepared, and the legal and political environment. Examples of matters the assurance practitioner may consider include:</a></u></p> <ul style="list-style-type: none"> <li>• <u><a href="#">Industry specific accounting practices.</a></u></li> <li>• <u><a href="#">The legal and regulatory framework for a regulated industry.</a></u></li> <li>• <u><a href="#">Legislation and regulation that directly affect the entity's or any acquiree's or divestee's operations, including direct supervisory activities.</a></u></li> <li>• <u><a href="#">Taxation.</a></u></li> </ul>

	<ul style="list-style-type: none"> <li>• <a href="#">Government policies that may be relevant to the entity or any acquiree or divestee.</a></li> <li>• <a href="#">Environmental requirements affecting the entity's or any acquiree's or divestee's industry and business.</a></li> </ul>
	<p><a href="#">A35. Other external factors might include the general economic conditions, interest rates and availability of financing.</a></p>
<p><i>Pro Forma Historical Financial Information</i></p> <p>23. In an engagement to provide assurance over pro forma historical financial information, in addition to the understanding required by paragraph 22, the assurance practitioner shall also obtain an understanding of:</p> <ul style="list-style-type: none"> <li>(i) The source of the <a href="#">unadjusted-base</a> historical financial information;</li> <li>(ii) Whether the <a href="#">unadjusted-base</a> historical financial information has been previously audited or reviewed and, if so, the type of opinion or conclusion expressed and the implications, if any, on the engagement; (Ref: A36-A37) and</li> <li>(iii) The pro forma adjustments. (Ref: A38)</li> </ul>	<p><i>Pro Forma Financial Information</i></p> <p>A36. When the <a href="#">unadjusted-base</a> financial information has been previously audited or reviewed, the assurance practitioner may:</p> <ul style="list-style-type: none"> <li>• Request a copy of the audit or review report accompanying the <a href="#">unadjusted-base</a> financial information and, if obtained, read it to understand the type of report issued and, if modified, the reasons for the modification;</li> <li>• Contact the other assurance practitioner to request access to engagement documentation supporting the report and, if provided, read the documentation to assess the appropriateness of the approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the <a href="#">unadjusted-base</a> financial information;</li> <li>• Read the <a href="#">unadjusted-base</a> financial information to which the audit or review report relates to establish if its stated basis of preparation (that is, its accounting policies) and time frame covered are appropriate; or</li> <li>• Plan to perform further procedures as is considered necessary in the engagement circumstances.</li> </ul>

**Commented [A9]:** In practice you get 2 types of engagements. One is where the assurance report covers the base historical information which means you have done a review engagement on them and then do the extra work on assumptions etc. for pro-forma (this is what we see most often). The other is where they do not want you to do any work on the base historical information, just on the assumptions. The report therefore just covers the preparation of the pro-forma information, in all material respects, in accordance with the disclosed basis of prep (assumptions).

	<p>A37. If the assurance practitioner requests access to the engagement documentation of another assurance practitioner and is unable to obtain such access, this may constitute a limitation of scope of the engagement. If the assurance practitioner is unable to obtain sufficient appropriate evidence due to a scope limitation, the assurance practitioner considers the impact on the engagement and the assurance report.</p>
	<p>A38. In respect of the pro forma adjustments, the understanding obtained by the assurance practitioner may include:</p> <ul style="list-style-type: none"> <li>• Identifying the pro forma adjustments;</li> <li>• Understanding the event or transaction that the pro forma adjustments are intending to record;</li> <li>• Understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them.</li> </ul>
<p><i>Prospective Financial Information</i></p> <p>24. In an engagement to provide assurance over prospective financial information, in addition to the understanding required by paragraph 22, the assurance practitioner shall also obtain an understanding of:</p> <ul style="list-style-type: none"> <li>(i) The stated basis of preparation chosen by the responsible party. (Ref: A39)</li> <li>(ii) The accuracy of any prospective financial information prepared in prior time periods, and the reasons for any material variances;</li> <li>(iii) Whether comparative financial information is to be included, and whether it will be restated;</li> <li>(iv) Relevant financial information available in the public domain;</li> </ul>	<p><i>Prospective Financial Information</i></p> <p>A39. The understanding of the stated basis of preparation of the prospective financial information obtained by the assurance practitioner may include an understanding of:</p> <ul style="list-style-type: none"> <li>• Its relevance, completeness, reliability, and understandability; and</li> <li>• Any differences between the stated basis of preparation and that used in the most recent audited or reviewed historical financial information.</li> </ul>

<p>(v) Key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures.</p>	
<p><i>Pro Forma Prospective Financial Information</i></p> <p>25. In an engagement to provide assurance over pro forma prospective financial information, in addition to the understanding required by paragraph 22, the assurance practitioner shall also obtain an understanding of:</p> <p>(a) The source of the <del>unadjusted base</del> financial information used in the preparation of the pro forma prospective financial information including whether it has been previously audited or reviewed; (Ref: A36-A37)</p> <p>(b) The stated basis of preparation of the pro forma prospective financial information;</p> <p>(c) The pro forma adjustments; <del>and</del></p> <p>(d) Any recent key changes in the entity's business activities and how they affect the pro forma financial information; <del>and</del></p> <p>(e) <del>Whether experts are to be used.</del> (Ref: A35)</p>	<p><del>A35. The assurance practitioner may decide to engage an expert to, for example:</del></p> <ul style="list-style-type: none"> <li><del>• Evaluate pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation.</del></li> <li><del>• Evaluate the suitability of the stated basis of preparation.</del></li> <li><del>• Assess the impact of contractual requirements on the pro forma prospective financial information.</del></li> <li>•</li> </ul>
<p>26. The lead assurance practitioner and other key engagement team members shall discuss the application of the stated basis of preparation and the susceptibility of the financial information to material misstatement.</p>	
<p>27. When there are engagement team members not involved in the engagement team discussion, the lead assurance practitioner shall determine which matters are to be communicated to those members.</p>	
<p><i>Obtaining Evidence</i></p>	<p><i>Obtaining Evidence</i></p>
<p>Designing and Performing Procedures</p>	<p>Designing and Performing Procedures</p>

Commented [A11]: Moved, refer para 37

Commented [A10]: Now considered at paragraph 37



<p>28. Based on the assurance practitioner’s understanding obtained in accordance with paragraph 19, the assurance practitioner shall:</p> <p>(a) Identify areas where a material misstatement of the financial information is likely to arise; and (Ref: A40)</p> <p>(b) Design and perform procedures to address the areas identified in paragraph 28(a) and to obtain limited assurance to support the assurance practitioner’s conclusion. <a href="#">(Ref: A41)</a></p>	<p>A40. When identifying areas where a material misstatement is likely to arise and designing procedures to address the risks identified, the assurance practitioner may take into consideration matters such as:</p> <ul style="list-style-type: none"> <li>• the likelihood of intentional misstatement in the financial information;</li> <li>• applicable law or regulatory requirements with respect to the preparation or presentation of the financial information;</li> <li>• the complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and</li> <li>• <u>how the responsible party makes significant accounting estimates and the data on which they are based.</u></li> </ul> <p><a href="#">A41. The nature, timing and extent of assurance procedures is influenced by various factors, for example:</a></p> <ul style="list-style-type: none"> <li>• <u>The identification of areas where material misstatement of the financial information is likely to arise and its impact on the sufficiency and appropriateness of evidence.</u></li> <li>• <u>The stated basis of preparation chosen by the responsible party.</u></li> <li>• <u>Whether some of the financial information has previously been audited or reviewed.</u></li> <li>• <u>Whether the financial information is prepared on the same basis as prior period audited or reviewed historical financial information, and if not, why not.</u></li> <li>• <u>Whether the source and time period covered by the financial information are appropriate and consistent with the stated basis of preparation.</u></li> <li>• <u>Whether misstatements considered immaterial in prior period audited or reviewed historical financial information need to be corrected.</u></li> </ul>
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<p>29 The assurance practitioner shall perform the following procedures on the financial information:</p> <p>(a) In respect of comparative information:</p> <p>(i) read the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information</p> <p>(ii) compare, for consistency, its stated basis of preparation against the entity's previously audited or reviewed historical financial information and if applicable, the most recent unaudited or unreviewed annual or interim financial report, and</p> <p>(iii) evaluate the reasons for any differences; and</p> <p>(iv) determine that any restatements or adjustments made are appropriate;</p> <p>(b) evaluate the reasonableness and appropriateness of the time period covered;</p> <p>(c) enquire of the responsible party in respect of the financial information:</p> <p>(i) that it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;</p> <p>(ii) that it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;</p> <p>(iii) that it reflects the results of any identified misstatements from the prior year's financial statements;</p>	<p>A42. In designing analytical procedures, the assurance practitioner determines the suitability of particular analytical procedures in relation to the financial information, taking into consideration the identified risks of material misstatement of the financial information.</p> <p>A43. Analytical procedures may be effective when disaggregated data is readily available, or when the assurance practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data and some common input controls applied.</p> <p>A44. It may be appropriate for the assurance practitioner to evaluate how the responsible party has considered alternative assumptions or outcomes in determining the accounting estimates, and why it has rejected them.</p> <p><del>A40. Other procedures the assurance practitioner may consider appropriate depending on the nature and circumstances of the engagement may include:</del></p> <ul style="list-style-type: none"> <li><del>• Reviewing key contracts.</del></li> <li><del>• Reconciling key recorded accounts and balances to supporting documentation.</del></li> <li><del>• Re-performing key calculations such as accounting estimates and reconciling differences noted.</del></li> <li><del>• Performing external confirmation procedures.</del></li> </ul> <p>A45 <del>Examples of o</del>Other procedures <u>in the context of material accounting estimates</u> that the assurance practitioner may determine are appropriate in the circumstances include:</p>

<p>(iv) if any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records;</p> <p>(d) assess the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation;</p> <p>(e) perform analytical procedures on the financial information. (Ref: A42-A43)</p> <p>(f) if applicable, in respect of material accounting estimates included in the financial information: (Ref: A44)</p> <p>(i) agree that the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates;</p> <p>(ii) agree the method chosen for making material accounting estimates:</p> <ul style="list-style-type: none"> <li>• has been applied consistently;</li> <li>• is appropriate when compared with the most recent audited or reviewed financial statements;</li> <li>• reflects any changes in method from prior periods; and</li> <li>• any changes in method are consistent with the stated basis of preparation;</li> </ul> <p>(iii) consider whether other procedures are necessary in the circumstances; (Ref: A45)</p> <p>(g) in respect of the stated basis of preparation:</p> <p>(i) understand the process for its selection and approval;</p> <p>(ii) understand what accounting policies have been adopted;</p> <p>(iii) assess its reasonableness and suitability;</p>	<ul style="list-style-type: none"> <li>• testing how the responsible party made the accounting estimate and the data on which it is based</li> <li>• evaluating whether the method of quantification used is appropriate in the circumstances</li> <li>• evaluating whether the assumptions used by the responsible party are reasonable</li> </ul> <p><a href="#">A46. Other procedures the assurance practitioner may consider appropriate depending on the nature and circumstances of the engagement may include:</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Reviewing key contracts.</a></li> <li>• <a href="#">Reconciling key recorded accounts and balances to supporting documentation.</a></li> <li>• <a href="#">Re-performing key calculations such as accounting estimates and reconciling differences noted.</a></li> <li>• <a href="#">Performing external confirmation procedures.</a></li> </ul>
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<ul style="list-style-type: none"> <li>(iv) perform consistency checks in the application of the stated basis of preparation to the financial information;</li> <li>(v) assess, based on the assurance practitioner’s understanding, whether the stated basis of preparation is adequately described in the document; and</li> <li>(vi) assess whether the financial information is prepared in accordance with the stated basis of preparation;</li> <li>(h) enquire of the responsible party and other relevant parties whether there were:             <ul style="list-style-type: none"> <li>(i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the relevant time period;</li> <li>(ii) any adjustments made to convert the financial information from an overseas jurisdiction’s generally accepted accounting principles to the stated basis of preparation;</li> <li>(iii) any unadjusted differences from the most recently audited or reviewed financial report that may be material for purposes of the published financial information;</li> <li>(iv) any other provisions and other accounting estimates (such as asset revaluations) in the financial information;</li> <li>(v) any significant transactions with related parties (for example, assets purchased from an associated entity); and</li> </ul> </li> <li>(i) such other procedures that, in the assurance practitioner’s judgement, are appropriate. (Ref: A46)</li> </ul>	
<p><i>Pro forma historical financial information</i></p> <p>30. In addition to the procedures required by paragraph 29, the assurance practitioner’s procedures on the <i>pro-forma historical financial information</i> shall include:</p>	<p><i>Pro forma historical financial information</i></p> <p>A47. The assurance procedures on the pro forma historical financial information may include: (Ref: Para. 100(a))</p>

<p>(a) Such procedures as are necessary, in relation to the <a href="#">unadjusted-base</a> historical financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: A47-A48)</p> <p>(b) Understanding the stated basis of preparation for the pro forma historical financial information;</p> <p>(c) Understanding the basis for, and calculations underlying the pro forma adjustments; (Ref: A49-A50)</p> <p>(d) Determining whether the pro forma adjustments:</p> <ul style="list-style-type: none"> <li>(i) Have been selected and applied to the <a href="#">unadjusted-base</a> historical financial information in accordance with the stated basis of preparation;</li> <li>(ii) Are supported by sufficient appropriate evidence;</li> <li>(iii) Are arithmetically correct; and</li> </ul> <p>(e) Determining whether the resultant pro forma historical financial information reflects the results of the applying the pro forma adjustments to the <a href="#">unadjusted-base</a> financial information. .</p>	<ul style="list-style-type: none"> <li>• enquiring of the responsible party about: <ul style="list-style-type: none"> <li>○ the process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled;</li> <li>○ whether all transactions for the time period have been recorded;</li> <li>○ whether the source has been prepared in accordance with the entity's accounting policies;</li> <li>○ whether there have been any changes in accounting policies from the most recent audited or reviewed period, and, if so, how such changes have been dealt with;</li> <li>○ its assessment of the risk that the source may be materially misstated as a result of error or fraud; and</li> <li>○ the effect of changes in the entity's business activities and operations;</li> </ul> </li> <li>• if the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the <a href="#">unadjusted-base</a> financial information has been extracted;</li> <li>• corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances; and</li> <li>• comparing the source with the corresponding prior period financial information and, as applicable, the immediately</li> </ul>
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	<p>preceding annual or interim financial information, and discussing significant changes with the responsible party.</p>
	<p>A48. When there is no audit or review report on the source from which the <a href="#">unadjusted base</a> financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:</p> <ul style="list-style-type: none"> <li>• Whether the assurance practitioner has previously audited or reviewed the entity’s historical financial information, and the assurance practitioner’s knowledge of the entity from such engagement.</li> <li>• How recently the entity’s historical financial information was audited or reviewed.</li> <li>• Whether the entity’s financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.</li> <li>• Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the <a href="#">unadjusted base</a> historical financial information.</li> <li>• The type of assurance to be provided, i.e., limited assurance.</li> </ul>
	<p>A49. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of</p>

	<p>preparation. For example, In the context of a business combination this may involve consideration of such matters as:</p> <ul style="list-style-type: none"> <li>• whether differences exist between the acquiree’s accounting policies and those of the entity; and</li> <li>• whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity’s particular circumstances.</li> </ul>
	<p>A50. Consideration of the appropriateness of the entity’s accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:</p> <ul style="list-style-type: none"> <li>• whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and</li> <li>• whether it has appropriately applied such policies in preparing the pro forma historical financial information.</li> </ul>
<p><i>Prospective financial information</i></p> <p>31. In addition to the procedures required by paragraph 29, for assurance over <i>prospective financial information</i>, to determine whether the responsible party has</p>	<p><i>Prospective financial information</i></p> <p>A51. This [proposed] SAE does not require the assurance practitioner to perform an audit or review of the source from which the <del>unadjusted base</del></p>

<p>extracted the source of the prospective financial information from an appropriate source, the assurance practitioner shall:</p> <p>(a) make enquiries of the responsible party, experts and relevant parties on the nature of the source of the prospective financial information;</p> <p>(b) if the source of the prospective financial information includes material historical financial information which has been previously audited or reviewed:</p> <p style="padding-left: 20px;">(i) read the historical financial information to which the audit or review report relates to establish if its stated basis of preparation and time frame covered are appropriate; and</p> <p style="padding-left: 20px;">(ii) read the audit or review report to assess whether the report was modified and, if so, why, and the impact if any on the engagement, and whether there are any matters that may affect the prospective financial information; or</p> <p>(c) If the source of the prospective financial information includes material historical financial information which has not been previously audited or reviewed: (ref A51)</p> <p style="padding-left: 20px;">(i) Ascertain whether the assurance practitioner is able to access all required documentation describing and supporting the source;</p> <p style="padding-left: 20px;">(ii) Enquire of the responsible party about:</p> <ul style="list-style-type: none"> <li>• the process by which the source has been prepared and the reliability of its underlying accounting records;</li> <li>• Whether all transactions for the time period have been recorded;</li> <li>• Whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation.</li> <li>• Whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed</li> </ul>	<p>financial information has been extracted as part of the engagement, if such an audit or review has not already been performed.</p>
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<p>financial statements and, if so, how such changes have been dealt with;</p> <ul style="list-style-type: none"> <li>• The responsible party's assessment of the risk that the source may be materially misstated as a result of error or fraud;</li> <li>• How recently the entity's historical financial information was audited or reviewed;</li> <li>• Whether there have been any changes in the entity's business activities and operations, and if so, their effect on the source; and</li> <li>• The extent to which statistical and mathematical modelling, computer assisted audit techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques;</li> </ul> <p>or</p> <p>(iii) If the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, consider the findings and whether these might indicate any issues with the preparation of the source from which the historical financial information has been extracted;</p> <p>(d) Evaluate the adequacy and reliability of the financial information as a source of the prospective financial information;</p> <p>(e) Evaluate the accuracy of any prospective financial information prepared in prior time periods compared to actual financial results, and the reasons provided for significant variances; and (Ref: A43)</p> <p>(f) Determine whether the source of the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so:</p>	
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<ul style="list-style-type: none"> <li>(i) Determine the nature of, and reasons for, the changes and their effect on the prospective financial information;</li> <li>(ii) Evaluate whether there have been any reclassifications or adjustments made by the responsible party to reflect unusual or non-recurring items, or to correct known errors and uncertainties; and</li> <li>(iii) Evaluate any difference between the basis of preparation of the prospective financial information and that of other types of financial information included in the published financial information.</li> </ul>	
<p>32. If the assurance practitioner is unable to assess whether the source of the prospective financial information is appropriate, the assurance practitioner shall consider the implications for the engagement and the assurance report.</p>	
<p>33. The assurance practitioner shall perform the following procedures on the assumptions:</p> <ul style="list-style-type: none"> <li>(a) read the most recent audited or reviewed financial report, and, if appropriate, the most recently prepared annual or interim financial information, to enable an assessment of the assumptions used in the preparation of the prospective financial information;</li> <li>(b) enquire of the responsible party of: <ul style="list-style-type: none"> <li>(i) the source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable;</li> <li>(ii) the time period the assumptions cover;</li> <li>(iii) the methodology used in development and quantification of the assumptions, including the extent to which they are affected by the responsible party's judgement;</li> </ul> </li> </ul>	<p>A52. A high risk that there may be a significant difference between the prospective financial information and actual results may call into question the suitability and reasonableness of the assumptions used as the basis for the preparation of the prospective financial information and their characterisation as reasonable.</p>

<ul style="list-style-type: none"> <li>(iv) the likelihood of the assumptions actually occurring (Ref: A52); <u>and/or</u></li> <li>(v) whether the assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the prospective financial information of such sensitivities; <u>and/or</u></li> <li>(vi) <u>whether any hypothetical assumptions are included, and if so, their materiality to the prospective financial information;</u></li> </ul>	
<ul style="list-style-type: none"> <li>(c) evaluate whether all material assumptions required for the preparation of the prospective financial information have been identified;</li> <li>(d) determine whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;</li> <li>(e) determine whether the assumptions are arithmetically correct;</li> <li>(f) obtain appropriate evidence to support all material assumptions;</li> <li>(g) evaluate whether the assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the prospective financial information;</li> <li>(h) review the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the prospective financial information to material changes in key assumptions underlying that prospective financial information; and</li> </ul>	

**Commented [A12]:** The assumptions are required to be reasonable and supportable. There should be no hypothetical assumptions. Is this sub para needed?

<p>(i) consider the responsible party's reliance on the work of experts in relation to the assumptions.</p>	
<p>34. If the responsible party's assumptions on which the prospective financial information has been prepared lack supporting evidence, and are determined by the assurance practitioner not to be reasonable and supportable, the assurance practitioner shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.</p>	
<p>35. To ascertain whether the prospective financial information has been prepared in accordance with the stated basis of preparation and the assumptions, the assurance practitioner shall:</p> <p>(a) evaluate the stated basis of preparation used by the responsible party in the preparation of the prospective financial information; (Ref: A53)</p> <p>(b) assess whether the stated basis of preparation described in the published financial information is consistent with the assurance practitioner's understanding;</p> <p>(c) agree or reconcile the assumptions to the stated basis of preparation;</p> <p>(d) agree that the prospective financial information reflects any changes made to the stated basis of preparation from the previously audited or reviewed financial report included in the published financial information;</p>	<p>A53. The assurance practitioner's evaluation of the stated basis of preparation used by the responsible party may include:</p> <ul style="list-style-type: none"> <li>• the process for its selection and approval;</li> <li>• the differences, if any to the basis of preparation, adopted in the most recent financial report; and</li> <li>• its suitability for the preparation of the prospective financial information, based on the stated purpose of the prospective financial information.</li> </ul>

<ul style="list-style-type: none"> <li>(e) review the internal consistency of assumptions including those with common variables (that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates);</li> <li>(f) Perform clerical checks such as re-computations on the prospective financial information;</li> <li>(g) consider the interrelationships of elements within the prospective financial information; and</li> <li>(h) obtain an understanding of all material assumptions through enquiry of the responsible party, and</li> <li>(i) consider whether any other procedures are necessary in the circumstances.</li> </ul>	
<p>36. The assurance practitioner shall perform the following procedures on the prospective financial information itself:</p> <ul style="list-style-type: none"> <li>(a) evaluate the length of time covered by the prospective financial information by: (Ref: A54) <ul style="list-style-type: none"> <li>(i) enquiring of the responsible party the reasons for the choice of time period;</li> <li>(ii) considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and</li> </ul> </li> </ul>	<p>A54. Prospective financial information ordinarily becomes more speculative and less verifiable as the length of the period covered increases.</p>

<ul style="list-style-type: none"> <li>(iii) considering whether any elapsed portion of the current time period is included in the prospective financial information;</li> <li>(b) evaluate the type of business conducted by the entity, the assumptions included in the prospective financial information, and consequently the assessed volatility overall of the prospective financial information;</li> <li>(c) assess the accuracy of prospective financial information prepared in prior time periods as compared to actual financial results and obtain and assess the responsible party's reasons for any significant variances; and</li> <li>(d) assess whether the prospective financial information is reasonable and supportable, based on evidence obtained throughout the engagement.</li> </ul>	
<p><i>Pro Forma Prospective Financial Information</i></p> <p>37. In addition to the procedures required by paragraph 29 and 31-36, for assurance over <i>pro forma prospective financial information</i>, the assurance practitioner shall:</p> <ul style="list-style-type: none"> <li>(a) Perform such procedures as are necessary, in relation to the <del>unadjusted</del><u>base</u>-financial information, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para A55)</li> <li>(b) Determine whether the pro forma adjustments: (Ref: Para A56)             <ul style="list-style-type: none"> <li>i) Are directly attributable to the events or transactions requiring the preparation of the pro forma prospective financial information;</li> <li>ii) Have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;</li> <li>iii) Are supported by sufficient appropriate evidence;</li> <li>iv) Are arithmetically correct; and</li> </ul> </li> </ul>	<p><i>Pro Forma Prospective Financial Information</i></p> <p>A55. The assurance procedures may include:</p> <ul style="list-style-type: none"> <li>(a) Enquiring of the responsible party about:             <ul style="list-style-type: none"> <li>(i) The process by which the <del>base financial information</del><u>source</u> has been prepared and the reliability of the underlying accounting records to which the <del>base financial information</del> <u>source</u> is agreed or reconciled;</li> <li>(ii) Whether all transactions for the time period have been recorded;</li> <li>(iii) Whether the <del>source</del><u>base financial information</u> has been prepared in accordance with the entity's accounting policies;</li> <li>(iv) Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with;</li> </ul> </li> </ul>

<p>v) Reflect the planned events or transactions in the time period in which they are expected to occur.</p> <p>(c) Determine whether the resultant pro forma prospective financial information reflects the results of applying the pro forma adjustments to the <u>unadjusted base</u> financial information. (Ref: Para A57-A58)</p>	<p>(v) Its assessment of the risk that the <u>source—base financial information</u> may be materially misstated as a result of error or fraud; and</p> <p>(vi) The effect of changes in the entity’s business activities and operations;</p> <p>(b) If the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the <u>unadjusted base</u> financial information has been extracted;</p> <p>(c) Corroborating the information provided by the responsible party in response to the assurance practitioner’s enquiries when the responses appear inconsistent with the assurance practitioner’s understanding of the entity or the engagement circumstances; and</p> <p>(d) Comparing the <u>source—base financial information</u> with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.</p> <p>A56 When there is no audit or review report on the source from which the <u>unadjusted—base</u> financial information has been extracted, the assurance practitioner’s procedures may include those necessary to obtain sufficient appropriate evidence about that source. Factors that may affect the nature and extent of these procedures include, for example:</p> <ul style="list-style-type: none"> <li>• Whether the assurance practitioner has previously audited or reviewed the entity’s historical financial information and the assurance practitioner’s knowledge of the entity from such engagement.</li> <li>• How recently the entity’s historical financial information was</li> </ul>
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	<p>audited or reviewed.</p> <ul style="list-style-type: none"> <li>• Whether the entity’s financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filings.</li> <li>• Whether the assurance practitioner is able to access documentation describing and supporting the source of the <u>unadjusted base</u> historical financial information.</li> <li>• The type of assurance to be provided.</li> </ul> <p>A57. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:</p> <ul style="list-style-type: none"> <li>• Whether differences exist between the acquiree’s accounting policies and those of the entity.</li> <li>• Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into consideration the entity’s particular circumstances.</li> </ul> <p>A58. Consideration of the appropriateness of the entity’s accounting policies may also be necessary in some circumstances. For example, as part of the events or transactions the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:</p> <ul style="list-style-type: none"> <li>(a) Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework;</li> </ul>
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	(b) Whether it has appropriately applied such policies in preparing the pro forma prospective financial information.
<i>Specialised Skills or Knowledge</i>	
38. The assurance practitioner shall determine whether specialised skills or knowledge are required regarding the financial information and whether to use the work of an assurance practitioner's expert. (Ref: A59 – A60)	<p><u>A59. The assurance practitioner may decide to engage an expert to, for example:</u></p> <ul style="list-style-type: none"> <li>• <u>Evaluate the suitability of the stated basis of preparation.</u></li> <li>• <u>Assess the impact of contractual requirements on the pro forma prospective financial information.</u></li> <li>• <u>Evaluate pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation.</u></li> <li>• <u>Value new complex financial instruments.</u></li> </ul> <p>A60. The expert may be an assurance practitioner's internal expert (i.e., from the assurance practitioner's firm) or an external expert.</p>
<i>Written Representations</i>	
39. The assurance practitioner shall request written representations from the appropriate party(ies): (para A61)	A61. An illustrative representation letter is presented in Appendix 2.
<p>(a) That they understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type of assurance, i.e., limited assurance, to be expressed</p> <p>(b) That they acknowledge and understand their responsibility for:</p> <p>(i) the preparation of the of the financial information in accordance with the stated basis of preparation; (Ref: A62 - A63)</p> <p>(ii) The selection of the financial information, including whether it contains comparatives;</p>	<p><i>Pro forma historical financial information</i></p> <p>A62. When the financial information includes proforma historical financial information, the responsible party's acknowledgement of their responsibility for the preparation of the financial information includes acknowledgment by the responsible party of its responsibility for:</p> <p>(a) Selecting the basis of preparation of the pro forma historical financial information;</p>

**Commented [A13]:** New material indicated by grey shading

**Commented [A14]:** Requirement based on representations included in the illustrative representation letter included in ASAE 3450. Are there other written representations that should be required?

<ul style="list-style-type: none"> <li>(iii) Determining the relevant time period to be covered by the financial information;</li> <li>(iv) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document;</li> <li>(v) The contents, preparation and issuance of the published financial information.</li> <li>(vi) Complying with the requirements of the applicable laws and regulations in the preparation of the published financial information; and</li> <li>(vii) Such internal control as is determined to be necessary to enable the preparation of financial information and the published financial information.</li> </ul> <ul style="list-style-type: none"> <li>(c) That the going concern basis of preparation of the financial information is appropriate in the document;</li> <li>(d) That the assurance practitioner has been provided with all relevant information and access as agreed in the terms of engagement prior to the finalisation of the assurance report;</li> <li>(e) <a href="#">That All</a> material events and transactions have been properly recorded in the accounting records underlying the financial information.</li> <li>(f) That there are no currently anticipated material changes to be made to the financial information between the date of the report and the date of the published financial information (or that any material changes that may have occurred have been advised to the assurance practitioner/firm);</li> <li>(g) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial information. A summary of such items shall be included in or attached to the written representations.</li> </ul>	<ul style="list-style-type: none"> <li>(b) Selecting the base historical financial information used as the source of the pro forma historical financial information;</li> <li>(c) Selecting and determining the pro forma adjustments;</li> </ul> <p><i>Pro forma prospective financial information</i></p> <p>A63. When the financial information includes pro forma prospective financial information, the responsible party's acknowledgement of their responsibility for the preparation of the financial information includes acknowledgment by the responsible party of its responsibility for:</p> <ul style="list-style-type: none"> <li>(a) Selecting the basis of preparation of the pro forma prospective financial information;</li> <li>(b) Selecting the base prospective financial information used as the source of the pro forma prospective financial information; and</li> <li>(c) Selecting and determining the pro forma adjustments.</li> </ul>
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<p>(h) Whether there have been events, transactions, corrections, errors or other matters that have arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the financial information.</p> <p>(i) Whether all material risks that may impact on the business have been adequately disclosed in the document and considered in relation to their impact on the financial information.</p> <p>(j) <del>That</del> they have disclosed to the assurance practitioner their knowledge of fraud or suspected fraud affecting the entity involving:</p> <ul style="list-style-type: none"> <li>(i) Management; Employees who have significant roles in internal control; or</li> <li>(ii) Others where the fraud could have a material effect on the financial information.</li> </ul> <p>(k) <del>That</del> <del>All</del> known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial information have been disclosed to the assurance practitioner.</p> <p>(l) Whether there have been any communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the entity's adherence to relevant legislation</p> <p>(m) Such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.</p>	
<p><i>Prospective Financial Information</i></p> <p>40. In addition to the representations required by paragraph 39, when the financial information includes prospective financial information, the assurance practitioner shall request the following representations from the appropriate party(ies)</p>	

<p>(a) Confirmation of the completeness of all material assumptions used in the preparation of the prospective financial information</p> <p>(b) That the material assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.</p>	
<p><i>Subsequent Events</i></p>	
<p>41. If the assurance practitioner becomes aware of events, transactions or errors after the issuance of the assurance report and before the allotment date that require adjustment of, or disclosure in, the financial information, the assurance practitioner shall request the responsible party to correct those misstatements. (Ref: A64)</p>	<p>A64. If the assurance practitioner becomes aware of events, transactions or errors after the document has been lodged with the appropriate regulatory body, the assurance practitioner considers the implications for the assurance report, as well as any obligation the assurance practitioner may have to inform the entity issuing the document.</p>
<p>42. The assurance practitioner shall revoke any consent to include the assurance report in the published financial information if in the assurance practitioner’s professional judgement, the matter referred to in paragraph 41 is not appropriately addressed by the responsible party.</p>	
<p><i>Going Concern Considerations</i></p>	
<p>43. A limited assurance engagement includes consideration of the entity’s ability to continue as a going concern. The assurance practitioner shall consider the responsible party’s assessment of the entity’s ability to continue as a going concern in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party’s use of the going concern assumption in the preparation of the financial information. (Ref: A65)</p>	<p>A65. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that such an assessment could have implications for the assurance report. Ordinarily the assessment of going concern is appropriate for assurance engagements relating to historical financial information. Ordinarily in an engagement to report on prospective financial information, the going concern assumption is not relevant to the assurance practitioner’s conclusion as the nature of the information is based on anticipated event(s) or transaction(s) that have not occurred and its preparation requires the exercise of considerable judgement by the responsible party</p>
<p>44. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to events or conditions that individually, or collectively,</p>	<p>A66. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance</p>

**Commented [A15]:** Changed relevant date to allotment date (not a defined term)

**Commented [A16]:** Going concern considerations not addressed in 3000. Based on ISRE (NZ) 2400.53/ASAE 3450.68

<p>may cast significant doubt about the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: A66)</p>	<p>report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern basis:</p> <p>(a) if the basis has not been modified, then the conclusion in the assurance report may need to be modified on the basis of the going concern assumption being inappropriate to the historical financial information; or</p> <p>(b) if the basis has been modified, and the assurance practitioner considers the basis to be appropriate, then the assurance practitioner may still include an Emphasis of Matter paragraph in the assurance report to draw attention to the disclosure of this alternate basis.</p>
<p><b>Forming the Assurance Conclusion</b></p>	
<p>45. The assurance practitioner shall form a conclusion about whether the financial information is free from material misstatement. In forming that conclusion, the assurance practitioner shall consider the assurance practitioner's conclusion regarding the sufficiency and appropriateness of evidence obtained in the context of the engagement and the evaluation of whether uncorrected misstatements are material, individually or in the aggregate in accordance with ISAE (NZ) 3000 (Revised)<sup>10</sup> and Review Engagement Standards, as applicable.</p>	
<p><b>Preparing the Assurance Report</b></p>	
<p>46. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's conclusion on each type of financial information that is the subject of the engagement.</p>	

<sup>10</sup> ISAE (NZ) 3000 (Revised), paragraphs 64-65

<p>47. The assurance practitioner’s conclusion shall clearly distinguish each type of financial information from any other types of financial information within the assurance report. (Ref: A67 – A68)</p>	<p>A67. The assurance report may be prepared solely in respect of one type of financial information or may be a composite report where two or more types of financial information are the subject of the assurance report (for example historical and prospective financial information)</p>
	<p>A68. In a composite report:</p> <ul style="list-style-type: none"> <li>(a) the different types of financial information should be clearly identified in the financial information, and separately referred to in the assurance report; and</li> <li>(b) the assurance report should clearly identify and segregate the work carried out, and type of assurance expressed, on the different types of financial information.</li> </ul>
<p><i>Assurance Report Content</i></p>	
<p>48. The assurance report shall include, at a minimum, the following basic elements: (Ref: A69)</p>	<p>A69. Appendix 3 contains an illustrative assurance report</p>
<p>(a) A title that clearly indicates the report is an independent assurance report.</p>	
<p>(b) An addressee</p>	
<p>(c) Identification of the financial information, including the period(s) it covers, and, if any information in the financial information is not covered by the assurance practitioner’s conclusion, clear identification of the financial information subject to assurance as well as the excluded information, together with a statement that the</p>	

Agenda item 3.2

assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.	
(d) A description of the responsible party's responsibilities.	
(e) Identification of the stated basis of preparation including: (i) How the stated basis of preparation can be accessed; and (ii) If the stated basis of preparation needs to be supplemented by disclosures in the explanatory notes to the financial information for that stated basis of preparation to be suitable, identification of the relevant note(s).	
(f) If the stated basis of preparation is available only to specific intended users, or is relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the financial information may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose.	
(g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the assurance practitioner's responsibilities.	
(h) A statement that the engagement was performed in accordance with [proposed] SAE 3450, <i>Assurance Engagements over Financial Information Prepared in Connection with a Capital Raising</i> . (Ref: A70)	<a href="#">A70</a> . The assurance practitioner may wish to refer to both this [proposed] standard and ISAE (NZ) 3000 (Revised) or Review Engagement Standards, as applicable, in the assurance report. The assurance practitioner is not precluded from doing so. For example, we have conducted our review of the

**Commented [A17]:** Guidance when referring to both the proposed standard and the base standard (ISAE (NZ) 3000 (Revised) or applicable review engagement standard)

	<p>historical financial information in accordance with [proposed] SAE 3450, <i>Assurance Engagements over Financial Information Prepared in Connection with a Capital Raising</i> and NZ SRE 2410 (Revised), <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>.</p>
<p>(i) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3.</p>	
<p>(j) A statement that the assurance practitioner complies with the independence and other ethical requirements of Professional and Ethical Standard 1, or other professional requirements that are at least as demanding as Professional and Ethical Standard 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Professional and Ethical Standard 1.</p>	
<p>(k) An informative summary of the work performed as the basis for the assurance practitioner’s conclusion. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the assurance practitioner’s conclusion. In a limited assurance engagement, the summary of work performed shall state that:</p>	<p>A719. An appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. A description of the assurance practitioner’s procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance</p>



<p>(i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and (Ref: A719 – A732)</p> <p>(ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.</p>	<p>engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner’s understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.</p> <p>A742. Factors to consider in making that determination and the level of detail to be provided include:</p> <p>(c) circumstances specific to the entity (for example, the differing nature of the entity’s activities compared to those typical in the sector);</p> <p>(d) specific engagement circumstances affecting the nature and extent of the procedures performed; and</p> <p>(e) the intended users’ expectations of the level of detail to be provided in the assurance report based on market practice, or applicable laws or regulations.</p> <p>A723. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken.</p>
<p>(l) The assurance practitioner’s conclusion expressed in a form that conveys whether, based on the procedures performed and the evidence obtained, a matter(s) has come to the assurance practitioner’s attention to cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.</p>	

Agenda item 3.2

<p>(m) When the assurance practitioner expresses a modified conclusion, the assurance report shall contain:</p> <ul style="list-style-type: none"> <li>a. A section that provides a description of the matter(s) giving rise to the modification; and</li> <li>b. A section that contains the assurance practitioner’s modified conclusion.</li> </ul>	
<p>(n) A statement as to the existence of any relationship (other than as investigating accountant) the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity.</p>	
<p>(o) A consent statement</p>	
<p>(p) A liability statement</p>	
<p>(q) The name of the lead assurance practitioner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.</p>	
<p>(r) The assurance practitioner’s signature.</p>	
<p>(s) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the assurance practitioner has obtained the evidence on which the assurance practitioner’s conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the financial information.</p>	
<p>(t) The location in the jurisdiction where the assurance practitioner practices.</p>	

**Commented [A18]:** Wording aligns with NZ requirement in ISA (NZ) 700.

**Commented [A19]:** Requirement to name lead assurance practitioner. Wording based on ISA (NZ) 700

<p>(u) A statement that the financial information has been prepared for the document, and that as a result, the financial information may not be suitable for another purpose.</p>	
<p><i>Pro forma historical financial information</i></p> <p>49. When reporting on pro forma historical financial information, in addition to the elements required by paragraph 48, the assurance report shall include:</p> <p>(a) Statements that:</p> <ul style="list-style-type: none"> <li>(i) Identify the pro forma historical financial information being reported on, including the time period it covers;</li> <li>(ii) Identify whether there has been an audit or review conducted on the source from which the base historical financial information was prepared; and</li> <li>(iii) Cross reference to, or describe, the stated basis of preparation selected by the responsible party for the pro forma historical financial information.</li> </ul> <p>(b) If applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the base historical financial information used in the preparation of the pro forma historical financial information.</p> <p>(c) The assurance practitioner’s conclusion on the pro forma historical financial information.</p>	
<p><i>Prospective financial information</i></p> <p>50. When reporting on prospective financial information, in addition to the elements required by paragraph 48, the assurance report shall include:</p>	

<p>(a) A background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the published financial information;</p> <p>(b) Statements that:</p> <ul style="list-style-type: none"> <li>(i) Identify the entities whose prospective financial information is the subject of the assurance report and, if applicable, the responsible party;</li> <li>(ii) Identify the source of the prospective financial information, its purpose, the time period covered and, if applicable, a statement that the prospective financial information has been prepared for inclusion in the published financial information and, that as a result, may not be suitable for another purpose.</li> <li>(iii) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information.</li> </ul> <p>(c) Statements that:</p> <ul style="list-style-type: none"> <li>(i) Actual results are likely to be different from the prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation could be material; and</li> <li>(ii) Disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information.</li> </ul>	
<p><i>Pro Forma Prospective financial information</i></p> <p>51. When reporting on prospective financial information, in addition to the elements required by paragraphs 48 and 50, the assurance report shall include:</p> <p>(a) Statements that:</p> <ul style="list-style-type: none"> <li>(i) Identify the pro forma prospective financial information, its purpose, the time period covered and, if applicable, a</li> </ul>	

<p>statement that the pro forma prospective financial information has been prepared for inclusion in the published financial information and, that as a result, may not be suitable for another purpose.</p> <p>(ii) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the pro forma prospective financial information.</p>	
<p><b>Consent</b></p>	
<p>52. The assurance practitioner shall consider applicable law or regulation when the assurance practitioner has been requested to provide consent in writing to the responsible party for the inclusion of the assurance report in the published financial information. (Ref: A74 – A76)</p>	<p>A74. Consent is ordinarily provided by way of a separate consent letter issued to the entity prior to the audit report. The assurance practitioner ordinarily reads all other information included in the public document for consistency with the financial information. The assurance practitioner’s reading of the other information does not infer any assurance on that information, as the assurance practitioner reads it only to establish if there are any material inconsistencies or misstatements which may impact the financial information.</p>
	<p>A75. The assurance practitioner ordinarily pays particular attention to the following disclosure areas within the published financial information:</p> <p>(a) Other financial information not subject to the assurance engagement including:</p> <ul style="list-style-type: none"> <li>• Summarized financial information, for example, in tabular or graphical forms.</li> <li>• Disclosures related to other financial information that has been previously audited or reviewed.</li> </ul>

	<ul style="list-style-type: none"> <li>• Management discussion and analysis discussing other financial information.</li> </ul> <p>(b) Disclosures about the nature of the events or transactions giving rise to the preparation of the published financial information.</p> <p>(c) Qualitative and quantitative disclosures about the entity's plans and future outlooks.</p> <p>(d) Key trends and factors related to the entity's industry or nature of operations that are likely to affect the entity's strategy or the timeframe over which achievement of the strategy is planned.</p> <p>(e) Other relevant disclosures, for example:</p> <ul style="list-style-type: none"> <li>• Explanations of how revenue would be generated</li> <li>• Nature and extent of related party disclosures</li> <li>• Valuation of material assets</li> </ul>
	<p>A76. If there are material inconsistencies, or material misstatements, related to the financial information which are not corrected by the responsible party, or the assurance practitioner does not consider the assurance report will be used for the intended purpose, the assurance practitioner ordinarily does not provide consent.</p>
<p>52. If the assurance practitioner does not consider it appropriate for the assurance report to be included in the published financial information, the assurance practitioner shall either not provide consent, or revoke consent prior to the allotment date.</p>	

**Appendix 1**

(Ref: Para. A16)

**ILLUSTRATIVE ENGAGEMENT LETTER**

*The following is an example of an engagement letter based on the circumstances described below. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this [proposed] SAE. It will need to be varied according to individual engagement circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.*

**Engagement Circumstances are:**

**ABC Company proposes to undertake an equity raising exercise via public offering of ordinary shares of ABC Company.**

**Limited assurance engagement on historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information.**

\*\*\*

**To the [engaging party]<sup>1</sup>**

*[Objective and Scope of the engagement]*

This purpose of this letter is to confirm our<sup>2</sup> understanding of our mutual responsibilities arising as a result of our engagement to perform *[limited assurance services]* as outlined in this engagement letter relating to the *[describe the proposed published financial information, for example, the Product Disclosure Statement and online register entry]* proposed to be issued in accordance with *[for example, the Financial Markets Conduct Act 2013 and the Financial Markets Conduct Regulations 2014]* by ABC Company Limited (“ABC Company”) in relation to the *[proposed public offering of shares in ABC Company and listing of the Company on the NZX<sup>3</sup>]* (the “Offering”). This engagement letter, including its appendices, sets out the services we will provide and the terms of our engagement.

**Scope of our work**

Our firm will perform procedures, described below, to enable us to report on ABC Company’s:

- (a) Historical Financial Information being the
- Revenue, earnings before interest tax, depreciation, and amortisation (EBITDA) and net profit after tax / (loss after tax) for the years ended 31 December 2019, 31 December 2020 and 31 December 2021
  - Net cash flows from operating activities for the years ended 31 December 2019, 31 December 2020 and 31 December 2021; and

<sup>1</sup> The addressee and references in the letter would be those that are appropriate in the circumstances of the engagement.

<sup>2</sup> Throughout this letter, references to “you,” “we,” “us,” “our” and “management,” would be used or amended as appropriate in the circumstances.

<sup>3</sup> If the offering involves a dual listing, reference to that dual listing would also be made, for example, *and foreign exempt listing on the ASX*

- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 2019, 31 December 2020 and 31 December 2021

which are presented in the Product Disclosure Statement, and which have been prepared in accordance with the basis of preparation set out in the financial statements for those years, being the recognition and measurement principles of *International Financial Reporting Standards (IFRS)* and *New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)* and the Company's adopted accounting policies, and calculated in accordance with the notes in the Product Disclosure Statement.

(b) Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 in the Product Disclosure Statement;
- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- Notes and assumptions to this pro forma historical financial information.

which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the Product Disclosure Statement

(c) Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 2022 and 31 December 2023;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 2022 and 31 December 2023;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 2022 and 31 December 2023;
- Prospective Consolidated Statements of Financial Position as at 31 December 2022 and 31 December 2023; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows,

which are presented in the *Prospective Financial Information* section in the Register Entry; and

- The EBITDA reconciliations for the years ending 31 December 2022 and 31 December 2023 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- *Selected financial information* from the prospective financial information above included in the PDS, being revenue, EBITDA, net profit after tax / (loss after tax), dividends paid on all equity securities, dividends paid post IPO, total assets, cash and cash equivalents, total liabilities, total debt, total debt including leases and net cash flows from operating activities.

(d) Pro Forma Prospective Financial Information being the:

- Pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities for the years ending 31 December 2022 and 31 December 2023 in the PDS; and
- The pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma next cash flows from operating activities reconciliations for the years ending 31 December 2022 and 31 December 2023 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry,



which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the Product Disclosure Statement

collectively referred to as the “financial information”.

## **Review of ABC Company’s historical financial information**

### *Objective of the Review Engagement*

For the purpose of the Offering, you have requested that we review the Historical Financial Information. The Historical Financial Information does not comprise a full set of financial statements and will be prepared in accordance with the recognition and measurement principles of IFRS and NZ IFRS and the Company’s adopted accounting policies. As such, it will not include all of the disclosures normally included in a complete set of financial statements. This basis of preparation will clearly be disclosed in the Product Disclosure Statement and/or Register Entry.

Our conclusion on the Historical Financial Information will be included in a single report (together with the conclusions on the Pro Forma Historical Financial Information, the Prospective Financial Information and the Pro Forma Prospective Financial Information). *[An example report, which may vary from the final report based on our findings and conclusions, is attached as Appendix x].*

### *Scope of the Review Engagement*

The scope of our review is limited to expressing our review conclusion on the Historical Financial Information presented to us by management and the Directors. Our review will be conducted in accordance with SAE 3450 *Assurance over Financial Information Prepared in Connection with a Capital Raising* [and New Zealand Standard on Review Engagements (NZ SRE) 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*, adjusted as necessary for the circumstances of this engagement], to perform procedures with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the Historical Financial Information, taken as a whole, is not prepared in all material respects, in accordance with the stated basis of preparation (as described in the Product Disclosure Statement), being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company’s adopted accounting policies.

Our review procedures will consist of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained.

The scope of a review of the Historical Financial Information is substantially less than the scope of an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, our review is not intended to, and will not result in the expression of an audit opinion on the Historical Financial Information nor the fulfilling of any audit or other requirements.

NZ SRE 2410 (Revised) requires us also to comply with the ethical requirements relevant to the audit of the annual consolidated financial statements of the Company

Our firm will not express any opinion as to whether ABC Company’s prospective financial information or pro forma prospective financial information will be achieved, or warrant or guarantee any statements as to the future prospects of ABC Company.

## **Limited assurance procedures on ABC Company’s Pro Forma Historical Financial Information, Prospective Financial Information (PFI) and Pro Forma Prospective Financial Information (Pro Forma PFI)**

### *Objective of the limited assurance engagement*

For the purpose of the Offering, you have requested that we perform a limited assurance engagement on the Pro Forma Historical Financial Information, the PFI and the Pro Forma PFI.

The Pro Forma Historical Financial Information will be derived from the Historical Financial Information, after adjusting for the effects of the pro forma adjustments as determined by management and the Directors, which will be disclosed in the Product Disclosure Statement and Register Entry.

The PFI will be prepared in accordance with Financial Reporting Standard 42 *Prospective Financial Statements* (FRS-42) based on the Directors' best-estimate assumptions (as defined in FRS-42) which will be disclosed in the Product Disclosure Statement and Register Entry.

The Pro Forma PFI will be derived from the PFI, after adjusting for the effects of the pro forma adjustments as determined by management and the Directors, which will be disclosed in the Product Disclosure Statement and Register Entry.

Our conclusion on the Pro Forma Historical Financial Information, PFI and Pro Forma PFI will be included in a single report (together with the Historical Financial Information) and will comply with SAE 3450 *Assurance over Financial Information Prepared in Connection with a Capital Raising* [and International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*] [An example report, which may vary from the final report based on our findings and conclusions, is attached as Appendix x.]

*Scope of the limited assurance engagement*

- a. The scope of our limited assurance engagement is to perform our engagement in accordance with SAE 3450 [and ISAE (NZ) 3000 (Revised)] to enable us to express our limited assurance conclusion regarding the following:
  - i. Pro Forma Historical Financial Information:  
Whether, based on our limited assurance engagement, anything has come to our attention that cause us to believe that the Pro Forma Historical Financial Information, as described in the Product Disclosure Statement, has not been prepared, in all material respects, in accordance with the basis of preparation as described in the Product Disclosure Statement and Register Entry, being the recognition and measurement principles of IFRS and NZ IFRS and the Company's adopted accounting policies applied to the Historical Financial Information and the pro forma adjustments, as described in *Description of Pro Forma adjustments* in the Register Entry, as if those events had occurred as at the date of the Historical Financial Information.
  - ii. PFI:  
Whether, based on our limited assurance engagement, anything has come to our attention that causes us to believe, in all material respects, that:
    - the Directors' best-estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the PFI; and
    - the PFI:
      - is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
      - is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies; and
    - the PFI itself is unreasonable.
  - iii. Pro Forma PFI:  
Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- the Directors' best-estimate assumptions used in the preparation of the Pro Forma PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the Pro Forma PFI; and
- the Pro Forma PFI:
  - is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
  - is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS, the Company's adopted accounting policies, applied to the PFI and the pro forma adjustments, as described in *Description of Pro Forma Adjustments* in the Register Entry, as if those events or transactions had occurred as at the date of the PFI; and
- the Pro Forma PFI itself is unreasonable.

A limited assurance engagement consists primarily of making enquiries, primarily of persons responsible for the preparation of the Pro Forma Historical Financial Information, PFI, and Pro Forma PFI, and applying analytical and such other procedures as we considered necessary to enable us to reach our limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Additionally, a limited assurance engagement does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion.

These procedures are illustrative only and not intended to be a comprehensive list of procedures we will perform. Our actual procedures will be based on our risk assessment and our professional judgement.

Our procedures will include, but are not limited to<sup>4</sup>:

*[Describe the procedures to be performed on the Pro Forma Historical Financial Information, the PFI, and the Pro Forma PFI, for example:*

- *consideration of work papers, accounting records and other documents of ABC Company, including those dealing with the extraction of historical financial information of ABC Company from its audited financial statements;*
- *enquiry of directors, management, personnel and advisors;*
- *performance of analytical procedures*
- *consistency of application of accounting policies.*
- *examination, on a test basis, of evidence supporting the assumptions and amounts used in the PFI*
- *consideration of the pro forma adjustments]*

**[The responsibilities of *[the responsible party]***

The [responsible party] of ABC Company are responsible for:

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<sup>4</sup> The procedures to be performed may be included in the body of the letter or in an attachment.

- (a) the selection of the financial information (including as to whether comparatives are included), preparation in accordance with the stated basis of preparation and presentation of the Financial Information in the Product Disclosure Statement and Register Entry.
- (b) the contents, preparation and issue of the Product Disclosure Statement and Register Entry, including the completeness, accuracy and adequate disclosure of the Financial Information in the those documents;
- (c) determining the applicable time period to be covered by the Financial Information;
- (d) maintaining adequate accounting records and such internal control as is necessary to enable the preparation of the Financial Information that is free from material misstatement;
- (e) the determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation of the Financial Information in the Product Disclosure Statement and Register Entry;
- (f) Complying with FRS-42 in all aspects, including the Directors' best-estimate assumptions on which the PFI and Pro Forma PFI are based;
- (g) the inclusion in the Product Disclosure Statement and Register Entry of information regarding the sensitivity of the PFI to changes in key assumptions as the Directors consider necessary and appropriate;
- (h) complying with the requirements of all applicable laws and regulations in the preparation of the Financial Information, the Product Disclosure Statement and the Register Entry; and
- (i) providing us with
  - (i) access to all information of which director, appropriate representatives of management and management are aware that is relevant to the engagement;
  - (ii) additional information that we may request from directors and management for the purposes of this engagement;
  - (iii) unrestricted access to persons within ABC Company from whom we determine it necessary to obtain evidence; and
  - (iv) a listing of all known uncorrected misstatements in the Financial Information, together with an acknowledgement that you are responsible for confirming that such misstatements are immaterial.

We are not responsible and do not assume any liability for information or statements included in the Product Disclosure Statement or Register Entry other than our assurance reports as outlined in this letter.

### **Written Representations**

In performing our scope of work, including our review and limited assurance engagements over the Financial Information, we will rely on information provided and representations made to us in the course of our work and representations provided by management to the Due Diligence Committee (DDC), unless we have reason to believe that those representations are false.

We will require written representations from the Directors that all material information relevant to the financial information within the Company's possession has been provided prior to the finalisation of our reports, and that no material changes have occurred between the date of our report and the date of lodgement of the proposed Offering Document which could affect our findings. You agree to provide us with written confirmation of representations made to us or the DDC in the course of our work or other matters as we request. Those written representations must be provided to us as near as practicable to, but not after, the date of our Independent Investigating Accountant's Report and limited assurance report on the Financial Information.

We look forward to full cooperation from your staff during the engagement.

**Consent**

Prior to the issue of the proposed *[published financial information]*, we will read the document in its entirety, to consider whether we consent to the form and context in which we are named as Investigating Accountant, and to consider whether we consent to the inclusion of our Independent Limited Assurance Report in the form and context in which it is included. Our consent will be issued on the letterhead of [firm name] and should then be quoted in the proposed *[published financial information]*.

The consent relates to the use of our name and report in the context of the whole proposed *[published financial information]*. Our name or report, or any extract, may not be included in any analysts' briefings, in any display on an internet site or in any other media without our prior consent. [Firm name] will be giving the consent pursuant to section 60 of the *Financial Markets Conduct Act 2013* but will not otherwise be authorising or causing the issue of the *[published financial information]*.

In the event of any misuse of our name or our reports, [firm name] reserves the right to withdraw its consent by written notification to ABC Company at its registered office and to Financial Markets Authority.

***[Other relevant information]***

**Participation as an Observer of the Due Diligence Committee**

*Tailor to the circumstances of the engagement*

**Materiality**

*Tailor to the circumstances of the engagement*

*Insert other information such as fee arrangements, billings, timeline for completion and other specific terms and conditions, as appropriate.]*

**Acceptance of Engagement Terms**

We look forward to working closely with the directors of ABC Company in relation to this engagement.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the terms and conditions detailed in this engagement letter, including our respective responsibilities. If you wish to discuss any aspect of this letter, please do not hesitate to contact me.

Yours Faithfully

[Firm name]

[Name of partner]

Partner

**Client Acceptance**

I have read and understood the terms and conditions of this letter and I agree to and accept them for and on behalf of ABC Company, by whom I am duly authorised:

Signature .....

Name .....

Position .....

**Appendix 2**

(Ref: Para. A61)

**ILLUSTRATIVE REPRESENTATION LETTER**

*The following is an example of a representation letter based on the circumstances described below. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this [proposed] SAE (NZ). It will need to be varied according to individual engagement requirements and circumstances.*

**Engagement Circumstances include:**

- **ABC Company proposes to undertake an equity raising exercise via public offering of ordinary shares of ABC Company**
- **Limited assurance engagement on historical financial information, pro forma historical financial information and prospective financial information**

**Entity Letterhead**

Firm Name

Address

[Date]

Dear Sirs,

This letter is provided in connection with your engagement to provide an independent assurance report on the financial information (comprising *[describe the financial information, for example, historical financial information, pro forma historical financial information and prospective financial information]* included in the *[describe the published financial information, for example, the product disclosure statement and online register entry]* of ABC Company Limited (“ABC Company”) to be dated on or around [31 October 20XX], in accordance with the terms and conditions contained in your engagement letter dated [insert date].

Expressions and terms defined in the *[published financial information]* have the same meaning in this letter.

**General Representations**

We acknowledge that your engagement has been conducted in accordance with [proposed] Standard on Assurance Engagements 3450 *Assurance over Financial Information Prepared in Connection with a Capital Raising [and, ISAE (NZ) 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information and NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity, as applicable]*.

We understand that your engagement involved a review of the financial information in order to provide limited assurance, and consequently the procedures performed were limited primarily to enquiries of ABC Company personnel and analytical review procedures applied to the financial information, and thus provide less assurance than in an audit. You have not performed an audit and accordingly you do not express an audit opinion.

We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- We have fulfilled our responsibilities for the preparation of the *[published financial information]* as set out in the terms of engagement dated [insert date], including the preparation and presentation of all financial information contained therein.
- We are responsible for, and have established and maintained, an adequate internal control structure to facilitate the preparation of reliable financial information. We acknowledge our responsibility for the implementation and operation of accounting and internal controls systems that are designed to prevent and detect fraud and error.
- All material events and transactions have been properly recorded in the accounting records underlying the financial information.
- Any material changes that may have occurred between the date of the assurance report and *[the date of issuance of the published financial information]* have been advised to [Firm Name].
- The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to any of the financial information under review. A list of uncorrected misstatements is attached to the representation letter.
- ABC Company's financial information has been prepared on a going concern basis. Having considered the circumstances likely to affect ABC Company during the next 12 months, and the circumstances that we know will arise thereafter, we are satisfied that the going concern basis of preparing the financial information is appropriate.
- All material financial information, financial records, related data and other information relevant to the historical financial information and pro forma historical financial information within the possession of ABC Company have been provided to [Firm Name] prior to the finalisation of the assurance report. [Firm Name] is entitled to rely on the information provided by ABC Company and to assume that the information provided is, to the best knowledge and belief of management and the directors, accurate and, except where otherwise indicated, complete.
- In the performance of the assurance engagement, [Firm Name] has been entitled to rely on the information provided by ABC Company and to assume that the information provided is, to the best knowledge and belief of management and the directors of ABC Company, accurate and, except where otherwise indicated, complete.
- There has been no fraud or suspected fraud involving:
  - Management
  - employees who have a significant role in monitoring or implementing ABC Company's system of internal controls, or
  - others where the fraud could have a material effect on the financial information.
- [Other than detailed in the *[published financial information]*], there have been no violations, or possible violations, of laws, regulations or contractual agreements, the effects of which should be considered when preparing the *[published financial information]*.
- [Other than detailed in the *[published financial information]*], there have been no communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the ABC Company's adherence to relevant legislation.
- All material risks that may impact on the business have been adequately disclosed in the *[published financial information]* and considered in relation to their impact on the financial information.
- *[Other than those already adjusted for, and/or disclosed,]* there have been no matters or events that have arisen, or been discovered, subsequent to the preparation of the financial information that would require adjustment to that financial information or disclosure in the *[published financial information]*.

- There will not be any deficiencies or encumbrances attaching to the title of ABC Company's assets during the period covered by the financial information, other than those already reflected in the public document.
- ABC Company has no plans or intentions that could materially affect the book value or classification of assets or liabilities during the period of the financial information that are not already reflected therein.
- The ABC Company's board of directors is not aware of any breach or non-compliance with the terms of any contractual arrangements, however caused, that could initiate claims against ABC Company, and which would have a material effect on the financial information.

(i) *[Include any other matters that the assurance practitioner considers appropriate.]*

### **Historical financial information and pro forma historical financial information**

With respect to the historical financial information and pro forma historical financial information of ABC Company *[describe the financial information or reference to its description in the engagement letter]*, we acknowledge our responsibility for the preparation and presentation of that financial information to which the independent assurance report relates. We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- (ii) ABC Company's historical financial information included in the *[published financial information]* has been prepared in accordance with the stated basis of preparation, *[describe the stated basis of preparation]* as described in section [X] of the *[published financial information]*.
- (iii) ABC Company's pro forma historical financial information included in the *[published financial information]* has been prepared in accordance with the stated basis of preparation, *[describe the stated basis of preparation]* and the adopted accounting policies applied to:
  - (iv) ABC Company's historical financial information, as described in section [X] of the *[published financial information]*; and
  - (v) pro forma adjustments as described in section [X] of the *[published financial information]* as if those adjustments had occurred as at the date of ABC Company's historical financial information.
- (vi) Disclosures not included in the *[published financial information]* with respect to the financial information have been determined by us to be not material to users of the *[published financial information]*.

### **Prospective financial information**

With respect to the *[describe the financial information or reference to its description in the engagement letter]*, we acknowledge our responsibility for the preparation and presentation of that information, in accordance with the stated basis of preparation.

We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- (vii) The *[prospective financial information]* is based on assumptions that:
  - (viii) are based on the best information that could be reasonably expected to be available at the time the *[prospective financial information]* is prepared;
  - (ix) Are consistent among themselves;
  - (x) Are consistent with the current plans of ABC Company to the extent that is relevant;
  - (xi) Are applied consistently; and
  - (xii) Have a reasonable and supportable basis.



- (xiii) All liabilities which will arise out of the activities of ABC Company have been included in the [prospective financial information].
- (xiv) During your review we have made available to you all records and information available to us at the time and on which we have based our financial model.
- (xv) The accounting policies adopted in preparing the [prospective financial information] for the years ending 31 December 2022 and 31 December 2023 are those that are expected to be used for reporting historical financial information for the corresponding period.
- (xvi) No transactions or events have occurred to the time of signing this letter that would necessitate adjustment to the [prospective financial information], or disclosure in the *[published financial information]*, which we have not brought to your attention.
- (xvii) *[Include any other matters that the assurance practitioner considers appropriate].*

**Conclusion**

This representation is provided to [Firm Name], in connection with the *[published financial information]* dated [date] to be issued by ABC Company.

Yours faithfully

ABC Company Limited

Name

Director

## Appendix 3

(Ref: Para. A69)

### ILLUSTRATIVE ASSURANCE REPORT

*The illustrative assurance report can be tailored for specific engagement circumstances.*

**Engagement Circumstances include the following:**

- **The financial information includes historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information**
- **The financial information is published in the product disclosure statement and Online Register Entry**
- **An unmodified opinion was issued on the historical financial information**
- **An unmodified limited assurance conclusion is issued on each type of financial information.**

[The Addressee]

[Date]

Dear [Directors]

#### **Independent Investigating Accountant’s Limited Assurance Report**

In accordance with the terms of our engagement letter dated [date], we have undertaken a limited assurance engagement for ABC Company (the “Company”) to report on the following information of the Company for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 and years ending 31 December 2022 and 31 December 2023 included in the Product Disclosure Statement (PDS) and the Register Entry dated on or about [date] relating to the issue of shares in the Company.

(a) Historical Financial Information being the

- Revenue, earnings before interest tax, depreciation, and amortisation (EBITDA) and net profit after tax / (loss after tax) for the years ended 31 December 2019, 31 December 2020 and 31 December 2021
- Net cash flows from operating activities for the years ended 31 December 2019, 31 December 2020 and 31 December 2021; and
- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 2019, 31 December 2020 and 31 December 2021

which are presented in the Product Disclosure Statement, and which have been prepared in accordance with the basis of preparation set out in the financial statements for those years, being the recognition and measurement principles of *International Financial Reporting Standards (IFRS)* and *New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)* and the Company’s adopted accounting policies, and calculated in accordance with the notes in the Product Disclosure Statement.

(b) Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 in the Product Disclosure Statement;

- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- Notes and assumptions to this pro forma historical financial information.

which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the Product Disclosure Statement

(c) Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 2022 and 31 December 2023;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 2022 and 31 December 2023;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 2022 and 31 December 2023;
- Prospective Consolidated Statements of Financial Position as at 31 December 2022 and 31 December 2023; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows,

which are presented in the *Prospective Financial Information* section in the Register Entry; and

- The EBITDA reconciliations for the years ending 31 December 2022 and 31 December 2023 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- *Selected financial information* from the prospective financial information above included in the PDS, being revenue, EBITDA, net profit after tax / (loss after tax), dividends paid on all equity securities, dividends paid post IPO, total assets, cash and cash equivalents, total liabilities, total debt, total debt including leases and net cash flows from operating activities.

(d) Pro Forma Prospective Financial Information being the:

- Pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities for the years ending 31 December 2022 and 31 December 2023 in the PDS; and
- The pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities reconciliations for the years ending 31 December 2022 and 31 December 2023 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry,

which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the Product Disclosure Statement

collectively referred to as the “financial information”.

Expressions and terms defined in the PDS and Register Entry have the same meaning in this report.

### **Directors’ responsibility**

The directors of the Company are responsible for the preparation and presentation of the financial information, including its basis of preparation. This includes responsibility for compliance with applicable laws and regulations and such internal controls as the Directors determine are necessary to

enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

The Directors of the Company are responsible for the preparation and presentation of the PFI and for the determination of assumptions that have a reasonable and supportable basis (as required by Financial Reporting Standard No. 42 *Prospective Financial Statements* (FRS-42)).

The Directors of the Company are also responsible for the selection and determination of the pro forma adjustments made to the Historical Financial Information and the PFI and the preparation and presentation of the Pro Forma Historical Financial Information and the Pro Forma PFI on that basis.

### **Our Independence and Quality Control**

We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

[Firm name] applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, which requires us to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

[Firm name] does not have any interest in the outcome of the Offer other than the preparation of this limited assurance report and related due diligence procedures, for which normal professional fees will be received. We are independent of the Company. *[In addition to our capacity as auditors, our firm carries out other services for the Company in the areas of Tax and Advisory. The provision of these other services has not impaired our independence.]*

### **Our responsibility**

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained.

We have conducted our review, which is a limited assurance engagement, of the historical financial information in accordance with [proposed] Standard on Assurance Engagement (SAE) 3450, *Assurance Engagements over Financial Information Prepared in Connection with a Capital Raising [and New Zealand Standard on Review Engagements (NZ SRE) 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity]*. SAE 3450 and NZ SRE 2410 (Revised) require us to conclude whether anything has come to our attention that causes us to believe that the Historical Financial Information, taken as a whole, is not prepared, in all material respects, in accordance with the stated basis of preparation.

We have conducted our limited assurance engagement on the Pro Forma Historical Financial Information, Prospective Financial Information and Pro Forma Prospective Financial Information in accordance with Standard on Assurance Engagement (SAE) 3450 *[and International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE (NZ) 3000 (Revised))]*.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for the preparation of the financial information and applying analytical and other procedures that we considered necessary to enable us to reach our limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Additionally, a limited assurance engagement does not enable us to obtain reasonable assurance that we would become aware

of all significant matters that might be identified in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## Conclusions

### *Historical financial information*

Based on our review, nothing has come to our attention that causes us to believe that the Historical Financial Information of the ABC Company, is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in section [x] of the PDS, being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies, and calculated in accordance with the notes in section [x] of the PDS.

### *Pro Forma historical financial information*

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in the PDS, has not been prepared, in all material respects, in accordance with the basis of preparation as described in the PDS and Register Entry, being the recognition and measurement principles of IFRS and NZ IFRS and the Company's adopted accounting policies applied to the Historical Financial Information and the pro forma adjustments, as described in the *Description of Pro Forma adjustments* document in the Register Entry, as if those events had occurred as at the date of the Historical Financial Information.

### *Prospective financial information*

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- the Directors' best-estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the PFI; and
- the PFI:
  - is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
  - is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies; and
- the PFI itself is unreasonable

### *Pro Forma Prospective financial information*

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- the Directors' best-estimate assumptions used in the preparation of the Pro Forma PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the Pro Forma PFI; and
- the Pro Forma PFI:
  - is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and

- is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS, the Company’s adopted accounting policies, applied to the PFI and the pro forma adjustments, as described in *Description of Pro Forma Adjustments* in the Register Entry, as if those events or transactions had occurred as at the date of the PFI; and
- the Pro Forma PFI itself is unreasonable.

The prospective financial information and pro forma prospective financial information have been prepared by management and adopted by the directors for the purpose of inclusion in the PDS and Register Entry. There is a considerable degree of subjective judgement involved in preparing prospective financial information since it relates to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the prospective financial information and pro forma prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation may be material.

We express no opinion as to whether the prospective financial information or pro forma prospective financial information will be achieved

### **Disclaimer**

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in ABC Company, which are detailed in the *[Offer Document]*. We disclaim any assumption of responsibility for any reliance on this report, or on the prospective financial information or pro forma prospective financial information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied, on representations from certain members of management of ABC Company, that all material information concerning the prospects and proposed operations of ABC Company has been disclosed to use and that the information provided to use for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

### **Restriction on Use**

Without modifying our conclusions, we draw attention to the *[Offer Document]*, which describes the purpose of the financial information, being for inclusion in the *[Published Financial Information]*. As a result, the financial information may not be suitable for use for another purpose.

### **Consent**

*[Firm name]* has consented to the inclusion of this assurance report in the *[published financial information]* in the form and context in which it is included.

### **Liability**

*[Liability wording to be inserted for individual Firm practice, if applicable.]*

### **[Financial Services Guide]**

*If applicable, insert wording.]*

*[Name of lead assurance practitioner]*

*[Signature in the name of the audit firm, the personal name of the lead assurance practitioner, or both, as appropriate]*

*[Address]*

*[Date]*

## Mapping of ASAE 3450 to the proposed standard

ASAE 3450	Proposed	Comment
1	1	
2	8	
3	2	Redrafted
4	4	Statement to that NAS are outside the scope of the SAE included
5	3	
6	4	
7	Not used	Different structure used for draft proposed standard
8	Not used	Draft proposed standard permits only limited assurance.
9	Not used	Draft proposed standard permits only limited assurance.
10	Not used	Not considered to be essential material. Draft proposed standard permits only limited assurance.
11	Not used	Draft proposed standard permits only limited assurance.
12	5-7	Draft wording is consistent with other SAEs and ISAEs (NZ)
13	Not used	Addressed by draft proposed paras 5-6
14	9	Objective reflects limited assurance only
15	10	Selected definitions only, limiting repetitions of definitions included in ISAE (NZ) 3000 (Revised)
16	11	Refer also ISAE (NZ) 3000 (Revised) paras 14-15
17	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 16
18	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 20
19	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 31
20	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 37
21	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 38
22	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 18
23	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 19, failure to achieve an objective
24	12	
25	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 24
26	Not used	Addressed in ISAE (NZ) 3000 (Revised) paras 21-23, engagement acceptance and continuance
27	14, A17-A18	Detail of ASAE requirements included in application material
28	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 29
29	15	
30	Not used	Proposed draft standard requires change in terms to be agreed in writing. Refer para 14
31	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 40
32	16	
33	17	See also ISAE (NZ) 3000 (Revised) para 44
34	17	See also ISAE (NZ) 3000 (Revised) para 44
35	18	
36	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 45
37	22	
38	20, 22	
39	19	
40	21	
41	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 45(a)



42	26, 27	
43	Not used	Use of work performed by others, including experts or other assurance practitioners is addressed in ISAE (NZ) 3000 (Revised) paras 52-54 and related application material
44		
45		
46		
47		
48	A40	Factors included as application material to the requirement in proposed para 28
49	28	
50	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 38
51	A41	
52	29	
53	Not used	ISAE (NZ) 3000 (Revised) para 49L addresses situations when additional procedures may be necessary in a limited assurance engagement.
54	Not used	Oral representations – requirements in ASAE are no different for other types of evidence. No need to address oral representations separately. To the extent that an oral representation is significant, the AP would likely request a written representation.
55	Not used	Addressed by ISAE (NZ) 3000 (Revised) para A88
56	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 49L
57	Not used	ISAE (NZ) 3000 (Revised) para 44(b) requires evaluation of whether the subject matter information is free from material misstatement; para 65 requires the assurance practitioner to form a conclusion about whether the subject matter information is free from material misstatement. That conclusion requires an evaluation of whether uncorrected misstatements are material, individually or in the aggregate.
58		
59		
60		
61		
62	Not used	ISAE (NZ) 3000 (Revised) para 51
63	Not used	Addressed by ISAE (NZ) 3000 (Revised) para A88
64	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 64
65	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 62
66	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 62
67	43	
68	43	
69	44	
70	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 61
71	41	
72	42	
73	41	
74	42	
75	39	
76	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 59
77	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 60
78	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 60
79	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 60
80	45	
81	Not used	Addressed by ISAE (NZ) 3000 (Revised) paras 64 and 65
82	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 72
83	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 73
84	Not used	Addressed by ISAE (NZ) 3000 (Revised) paras 74-77

85	Not used	Requirement to discuss with responsible party when intending to modify the conclusion.
86	46	
87	47	
88	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 71
89	52	
90	53	
91	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 79
92	Not used	Quality related matters are addressed by ISAE (NZ) 3000 (Revised) – paras 31-36
93	Not used	Roadmap paragraph
94	Not used	Not necessary. Requirement that the AP not report compliance with ASAE in the assurance report unless it includes all required elements. Addressed by use of words “at a minimum” in reporting requirement.
95	48	Limited assurance elements only
96	Not used	Roadmap paragraph
97	A14	
98	Not used	Proposed draft standard permits only limited assurance
99	23	
100	30	
101	Not used	Detailed requirement if AP not satisfied – addressed by requirement to obtain sufficient appropriate evidence and related response if not obtained.
102	A61	
103	Not used	Not necessary. Requirement that the AP not report compliance with ASAE in the assurance report unless it includes all required elements. Addressed by use of words “at a minimum” in reporting requirement.
104	49	
105	Not used	Roadmap paragraph
106	13	
107	Not used	Addressed by ISAE (NZ) 3000 (Revised) paras 24-25 preconditions for the engagement
108	24, A39	
109	31	
110	32	
111	33	
112	34	
113	35	
114	36	
115	40	
116	Not used	Proposed draft standard permits limited assurance only
117	Not used	Not necessary. Requirement that the AP not report compliance with ASAE in the assurance report unless it includes all required elements. Addressed by use of words “at a minimum” in reporting requirement.
118	50	
119	Not used	FRS 42 does not distinguish between forecast and projections.
120		Prospective financial information is required to be reasonable and supportable. Requirements and guidance from ASAE 3450 that relate to projections have been excluded from the draft proposed standard as such financial information is based on hypothetical assumptions.
121		
122		
123		

124		
125		
126		
127		
128	Not used	Roadmap paragraph
129	A14	
130	Not used	Proposed draft standard permits limited assurance only
131	25	
132	37	
133	Not used	Detailed requirement if AP not satisfied – addressed by requirement to obtain sufficient appropriate evidence and related response if not obtained.
134	40	
135	Not used	Not necessary. Requirement that the AP not report compliance with ASAE in the assurance report unless it includes all required elements. Addressed by use of words “at a minimum” in reporting requirement.
136	51	
A1	Not used	About non-assurance services
A2	Not used	Examples of non-assurance services
A3	Not used	The proposed draft standard permits limited assurance only
A4	Not used	Addressed by para 6
A5	Not used	ISAE (NZ) 3000 (Revised) deals with the conduct of an assurance engagement in accordance with the ISAEs (NZ) and SAEs
A6	A10	ISA
A7	A11	
A8	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 27, the agreed terms of the engagement shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation.
A9	A18	
A10	A16	
A11	Not used	Addressed in ISAE (NZ) 3000 (Revised) paras 29, A59
A12	A19	
A13	Not used	The assurance practitioner always uses professional judgement.
A14	A20	Partial inclusion
A15	A21	
A16	Not used	Reflects on the components of risk relative to the engagement (reasonable/limited)
A17	A23	
A18	A24, A26	
A19	A27	
A20	Not used	General educative material about analytical procedures and observation and inspection. Not specific to a capital raising engagement.
A21		
A22		
A23		
A24		
A25		
A26	Not used	ISAE (NZ) 3000 (Revised) addresses the use of professional judgement.
A27	A33	
A28	A34	

A29	A35	
A30	Not used	AP does have a responsibility to consider the criteria (i.e., the stated basis of preparation) based on ISAE (NZ) 3000 (Revised)
A31	Not used	Generic guidance about assertions
A32		
A33	Not used	Guidance does not hook to redrafted requirement
A34	Not used	Use of work performed by others, including experts or other assurance practitioners is addressed in ISAE (NZ) 3000 (Revised) paras 52-54 and related application material
A35	Not used	Captured by guidance in proposed A34, how the responsible party makes significant accounting estimates.
A36	Not used	ISAE (NZ) 3000 (Revised) paras A109-A113 address nature, timing and extent of procedures.
A37	Not used	Proposed draft standard permits limited assurance only
A38	Not used	Related requirement addressed by ISAE (NZ) 3000 (Revised)
A39	A41	
A40	Not used	Proposed draft standard permits limited assurance only
A41	Not used	Proposed draft standard permits limited assurance only. Use of external confirmation procedures is less common in a limited assurance engagement.
A42	Not used	Application material is directed more towards a reasonable assurance engagement (i.e., response to assessed risks of material misstatement)
A43	Not used	Application material is directed more towards a reasonable assurance engagement (i.e., response to assessed risks of material misstatement)
A44	Not used	Application material is directed more towards a reasonable assurance engagement (sampling)
A45	A46	
A46	Not used	Generic guidance. ISAE (NZ) 3000 (Revised) addresses when the assurance practitioner needs to perform additional procedures.
A47	Not used	Addressed by ISAE (NZ) 3000 (Revised) para A120
A48	Not used	Generic guidance. ISAE (NZ) 3000 (Revised) addresses the assurance practitioner's response when misstatements are identified.
A49	Not used	Addressed by ISAE (NZ) 3000 (Revised) para A148
A50	A73	Also addressed by ISAE (NZ) 3000 (Revised) para 62 and A143
A51	A74	
A52	A65	
A53	Not used	Proposed para 43 requires AP to consider the responsible party's assessment of going concern
A54	A66	
A55	Not used	Addressed in ISAE (NZ) 3000 (Revised) paras 66, A141-A142
A56	A64	
A57	41	
A58	Not used	Generic information, not specific to capital raisings.
A59	A61	
A60	Not used	Addressed by ISAE (NZ) 3000 (Revised) para A139
A61	Not used	Generic guidance, not specific to capital raisings
A62	Not used	Use of EOM paragraphs and the appropriate form of opinion is addressed by ISAE (NZ) 3000 (Revised)
A63	Not used	Addressed by ISAE (NZ) 3000 (Revised) para 74

A64	Not used	Not relevant in NZ – relates to law or regulation precluding the AP from expressing a modified conclusion.
A65	A67	
A66	A68	
A67	Not used	Specific to the Corporations Act 2001.
A68	A76	
A69	A73	
A70	Not used	Engagement documentation is addressed in ISAE (NZ) 3000 (Revised) para A200
A71	Not used	Engagement documentation is addressed in ISAE (NZ) 3000 (Revised) para A202
A72	Not used	Relates to reasonable assurance
A73	A70, A71	
A74	A72	
A75	A15	
A76	A16	
A77	Not used	Proposed draft standard permits only limited assurance
A78	A36	
A79	A37	
A80	A47	
A81	A48	
A82	A49	
A83	A50	
A84	Not used	Generic guidance
A85	Not used	The draft proposed standard permits limited assurance only
A86	Not used	The draft proposed standard permits limited assurance only
A87	Not used	Relates to reasonable assurance
A88	Not used	Seems inconsistent with ASAE 3450 para A90
A89	Not used	Addressed in ISAE (NZ) 3000 (Revised) para 24
A90	A51	
A91	A52	
A92	A53	
A93	Not used	The draft proposed standard permits limited assurance only
A94	A70, A71	
A95	A72	
A96	Not used	See paras 119-127
A97	Not used	See paras 119-127
A98	Not used	See paras 119-127
A99	Not used	The draft proposed standard permits limited assurance only
A100	A36	
A101	A37	
A102	A55	
A103	A56	
A104	A57	
A105	A58	
A106	Not used	Generic information, not specific to capital raisings

**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	4.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	IESBA Exposure Draft: <i>Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits</i>
<b>Date:</b>	18 March 2022
<b>Prepared By:</b>	Lisa Thomas

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 **Action Required** **For Information Purposes Only**

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**Agenda Item Objectives**

1. For the Board to:
  - a. CONSIDER the IESBA proposed revisions to the Code relating to the definition of Engagement Team and Group Audits
  - b. PROVIDE initial views and feedback on the specific matters requested within the exposure draft.
  - c. PROVIDE feedback on outreach planned with stakeholders to inform the submission on the exposure draft.

**Background**

2. ISA 220 (Revised)<sup>1</sup> changed the definition of an engagement team (ET) to recognise different and evolving ET structures. The definitional change recognised that ETs may be organised in various ways, including being located together or across different geographical locations or organised by the activity they perform. The IAASB also recognised that individuals involved in the audit engagement may not necessarily be engaged or employed directly by the firm. Therefore, individuals who perform audit procedures on the engagement are part of the ET, regardless of their location or employment status.
3. While the IAASB intended to change the definition of engagement team in ISA 220 for quality management purposes, the inclusion of Component Auditors in the revised definition raised several questions concerning compliance with the International Independence Standards (IIS) in the context of group audits. The IESBA therefore commenced a project to address implications of the change in definition of an ET from the Code's perspective, to make clear the independence requirements that apply to the various individuals who are part of the ET under the revised definition.

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<sup>1</sup> ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*

4. Also, as component auditor firms outside a firm’s network who perform audit procedures for purposes of a group audit are part of the revised definition of an ET, it is necessary for the IIS to provide clear and consistent guidance concerning the independence of component auditors outside the network.
5. A key aspect of extant ISA 600<sup>2</sup> that intersects with IIS is the requirement for the group engagement team to obtain an understanding of whether a component auditor understands and will comply with the ethical requirements relevant to the group audit and, in particular is independent. Some stakeholders requested clarification on “ethical requirements that are relevant to the group audit” – a concept not currently addressed in the Code.
6. Also to consider is the independence framework applicable to component auditor firms given that ISA 600 (Revised) establishes a requirement for the group engagement partner (GEP) to take responsibility for confirming whether the component auditors understand and comply with relevant ethical requirements, including those related to independence, that apply to the group audit engagement.
7. As part of its monitoring of the external environment, the IESBA also identified the following matters relating to the application of the IIS with respect to component auditors:
  - a. The implications when a parent entity is a public interest entity (PIE), but a component is not, and that component is audited by a non-network firm, particularly whether the component auditor would need to follow the independence requirements that apply to audits of PIEs or non-PIEs. The Code does not currently address this.
  - b. The practical implications of a breach of independence at a component auditor and any safeguards if the group auditor still intends to use the component auditor’s work.

### **Matters to Consider**

#### **The key objectives of the revisions to the Code**

8. The objectives of the project are two-fold:
  - a. To align the definition of the term “engagement team” in the Code with the revised definition of the same term in ISA 220 (Revised) while ensuring that the independence requirements in the IIS are clear and appropriate and apply only to those individuals within the scope of the revised definition who must be independent in the context of the audit engagement; and
  - b. To revised IIS so that they are robust, comprehensive, and clear when applied in a group audit context, including with respect to independence for non-network component auditors.

#### **The key issues that the IESBA is seeking feedback on**

9. There are 7 key areas that the IESBA is seeking feedback on:
  - a. Proposed revised definition of engagement team
  - b. Independence Considerations for Engagement Quality Reviewers
  - c. Independence in a Group Context
    - i. Principles for individuals
    - ii. Principles for firms
    - iii. Non-network component auditor firms
    - iv. Financial interest in the Group Audit client

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<sup>2</sup> ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

- v. Loans and Guarantees
  - vi. Other interests and relationships
  - vii. Key Audit Partner
  - viii. Non-Assurance Services
  - d. Changes in Component Auditor Firms
  - e. Audit of Component Audit Clients for Statutory, Regulatory or Other Reasons
  - f. Breach of Independence by a Component Auditor Firm
  - g. Other proposed Consequential and Conforming Amendments to the Code
10. Agenda item 4.2 outlines some of the key points to address several areas where the IESBA has requested comments on the proposals. From an initial review of the exposure draft, staff are generally supportive of the proposals made.

### **Project Timetable**

11. Submissions close with IESBA on 31 May 2022. To enable the NZAuASB to consider outreach feedback on the exposure draft at its June meeting, we have requested and had approved an extension to submit on this ED on Friday 3 June.
12. Engagement with stakeholders to inform them on the contents of the ED will take place as part of a two-hour Ethics Webinar hosted by the Assurance team on Tuesday 12 April 2022. As part of the presentation, we will use polling to obtain views on some of the key aspects of the ED.
13. We have issued an alert requesting written responses to the exposure draft by 16 May 2022.
14. A draft submission will be presented to the Board for approval at the June meeting.

### **Recommendations**

15. We recommend that the Board PROVIDE:
  - a. indicative thoughts on the IESBA ED *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*
  - b. Feedback on the outreach planned with stakeholders.

### **16. Material Presented**

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Power Point of key issues



## IESBA Exposure Draft:

*Proposed Revisions to the Code  
 Relating to the Definition of  
 Engagement Team and Group  
 Audits*

1

## Issue: Revised Definition of Engagement team and EQR

- The **proposed changes to the definition of engagement team** in the Code are to align with ISA 220 (Revised). ISA 220 (Revised) expands the definition of engagement team to recognize all individuals that perform audit procedures on the engagement regardless of location or employment status.  
 Component auditors outside of a firm or its network are therefore considered part of the engagement team.
- IESBA believes that as EQRs play a vital role in promoting audit quality, and regardless of whether they are sourced from within or outside the network they should be subject to the same independence requirements. Therefore, it is **proposed to update the EQR definition** to include those sourced within or outside the firm or its network. This is consistent with PES 4 *Engagement Quality Reviews*.

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## Proposal: Revised Definition of Engagement Team & EQR

- Engagement team definition aligned to PES 3
  - Revised definition includes component audit firms outside the firm and its network, and other service provider
  - Explanatory guidance to clarify the nature of the various teams explicitly stating who is a member of an ET, including an individual from a component auditor in a group context, other service providers, experts and EQRs. **400.A-400.D**
  
- EQR definition updated to include those outside of the firm or its network
  - Consistent with PES 4 Engagement Quality Reviews

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## Definitions – Chapter 6 Glossary

### Engagement team

All partners and staff performing the engagement, and any other individuals engaged by the firm or a network firm who perform assurance procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement. This excludes external experts engaged by the firm or by a network firm.

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*:

*In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.A.*

*ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.*

*ISA 620 deals with the auditor’s responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.*

*ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.*

*In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.*

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## Definitions – Chapter 6 Glossary

### Audit Team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within, or engaged by, a the firm who can directly influence the outcome of the audit engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
  - (iii) Those who ~~provide~~ perform an engagement quality control for the engagement, ~~including those who perform the review, or a review consistent with the objective of an~~ engagement quality control review, for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "audit team" applies equally to "review team."*

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## Definitions – Chapter 6 Glossary

### Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within, or engaged by, a the firm who can directly influence the outcome of the review engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) Those who ~~provide~~ perform an engagement quality review, or a review consistent with the objective of an engagement quality review, ~~quality control~~ for the engagement, ~~including those who perform the engagement quality control review for the engagement~~; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

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## Explanatory Guidance 400.A-400.D

### Engagement Team and Audit Team

**400.A** An engagement team includes all partners and staff in the firm who perform audit procedures on the engagement, and any other individuals who perform such procedures who are from:

- \_\_\_\_\_ (a) A network firm; or
- \_\_\_\_\_ (b) A firm that is not a network firm, or another service provider.

\_\_\_\_\_ For example, an individual from a component auditor firm who performs audit work on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

**400.B** In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

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## Explanatory Guidance 400.A-400.D

### Engagement Team and Audit Team

**400.C** An audit engagement might involve experts from the firm or a network firm, external experts or, in the case of a group audit, experts from a component auditor firm outside the group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- \_\_\_\_\_ • Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in auditing client information using automated tools and techniques.
- \_\_\_\_\_ • Individuals within or engaged by the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.
- \_\_\_\_\_ • Individuals who are external experts in fields other than accounting or auditing are neither engagement team nor audit team members.

**400.D** 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 audit team members but not engagement team members.

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## Revised Definition of Engagement team and EQR

**1 Do you agree with the proposed changes to the Code related to the revised definition of ET, including:**

- a) The revised definition of the terms “engagement team”, “audit team”, “review team” and “assurance team” (see next slides); and
- b) The explanatory guidance in paragraphs 400.A – 400.D. (see next slides)

**2 Do you agree with changes to the definitions of “audit team”, “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network?**

**Staff comments:**

*The definition for “engagement team” under the explanatory guidance 400.A is different to that in the definitions in the Glossary in that 400.A it explicitly refers to audit which is confusing.*

*Also, staff believe there should be a brief explanation within the explanatory guidance at 400.A-400.D as to why the distinction between engagement and audit team is important e.g do different sections of the Code apply?*

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## Issue: Independence in a Group Context

- To address the implications of the change in definition of Engagement Team, the IESBA proposals are to make it clear the independence requirements that apply to the various individuals who are part of the Engagement Team under the revised definition.  
 Also, as Component Auditor’s outside the firm’s network who perform audit procedures are part of the revised definition of the Engagement Team, clear and consistent guidance concerning independence for non-network component auditor is required.
- To clarify the requirements of ISA 600 of the meaning of “ethical requirements that are relevant to the group”
- An explicit link to ISA 600 with a NEW section 405 proposed in the Code which addresses:
  - a) the relevant independence considerations that apply in a group audit and
  - b) the independence requirements referred to in ISA 600 (revised) are specified in that section.

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## Proposal: Independence in a Group Context

- Individual's independence:
  - Individuals from a non-network CA firm will be subject to same requirements as those from within a firm's network **R405.3**
- Firm's independence:
  - Within GA firm's network – no change **R405.4 & R405.5**
  - Outside of GA firm's network:
    - CA firm needs to be independent of component audit client **R405.6(a)**
    - CA follows PIE independence provisions of group audit client in relation to independence of the component audit client **R405.09 & R405.10**

*In relation to the proposals in Section 405, do you agree with the principles the IESBA is proposing for:*

- a) independence in relation to individuals involved in a group audit; and*
- b) independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm's network.*

**Staff comment: agree with proposals for independence in relation to individuals and firms**

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## Proposal: Independence in a Group Context

- Financial interest in group audit client
  - Proposing explicit prohibition on non-network CA firms from holding a direct or material indirect financial interest in the entity whose group financial statements the GA firm is expressing an opinion **R405.6 (b)**
  - No consideration of materiality of the component audit client to the group audit client
- Loans and Guarantees
  - Proposing the prohibitions in s511 on non-network CA firms to apply to the group audit client who the GA firm is expressing an opinion **R405.6 (c)**

**Concerning non-network CA firms, do you agree with the specific proposals in section 405 regarding:**

- a) Financial interest in the group audit client; and**
- b) Loans and guarantees?**

**Staff comment: agree with proposals in section 405 regarding financial interests in the group client and loans and guarantees**

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## Proposal: Independence in a Group Context

- Non-Assurance Services
  - If group audit client is a PIE, then independence requirements for NAS by non-network firm to the component audit client are those applicable to PIEs **R405.10**
  - When non-network CA firm performs limited scope for purpose of group audit e.g. specific line item such as inventory, then self review threat is limited to that line item
  - New application material proposed related to a non-network CA firm's provision of NAS to a component audit client **405.12A1-405.12A2**

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## Non-Assurance Services

**405.12 A1** Section 600 requires a firm to evaluate whether non-assurance services provided to an audit client create threats to independence. The application of paragraph R405.10 requires a component auditor firm to apply the independence requirements for non-assurance services for public interest entities to the component audit client where the group audit client is a public interest entity. For example, where the group audit client is a public interest entity, the component auditor firm is prohibited from acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial information of the component audit client. Similarly, the component auditor firm's design and implementation of the component audit client's information technology system that generates the financial information on which the component auditor firm will perform audit work creates a self-review threat and is therefore prohibited if the group audit client is a public interest entity.

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## Non-Assurance Services

**405.12 A2** The financial information on which a component auditor firm performs audit work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service. For example, if the component auditor firm's audit work is limited to a specific item such as inventory, the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory.

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## Independence in a Group Context

***Is the proposed application material related to a non-network CA firm's provision of NAS to a component audit client in proposed paragraphs 405.12 A1 – 405.12 A2 sufficiently clear and appropriate?***

***Staff comment: is sufficiently clear and appropriate.***

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## Issue: Changes in Component Audit Firm

- The IESBA noted that in practice there may be circumstances in which a Group Audit firm requests another firm to perform audit work as a Component Audit firm during or after the period covered by the group financial statement e.g. as a result of an acquisition by the group audit client. To address these types of circumstances the IESBA has **proposed guidance**.

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## Proposal: Changes in Component Audit Firm

- Threat to independence guidance proposed based on extant provisions of the Code
- Guidance to also cover when a NAS provided by CA firm to component auditor

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## Changes in Component Audit Firm

**405.13 A1** There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements. A threat to the component auditor firm's independence might be created by:

- (a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work; or
- (b) Previous services provided to the component audit client by the component auditor firm.

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## Changes in Component Audit Firm

**405.13 A2** Paragraphs 400.31 A1-A3 set out application material that is also applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements, but before the component auditor firm begins to perform the audit work for the purposes of the group audit, and the service would not be permitted during the engagement period.

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## Changes in Component Audit Firm

*Is the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 sufficiently clear and appropriate?*

*Staff comment: the application material proposed seems sufficiently clear and appropriate*

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## Issue: Breach of Independence

- An area that the IESBA believes needs to be clarified in the Code is the process to address a breach of an independence requirement at a CA firm level. The extant Code sets out a process a firm should follow when it concludes that a breach of a requirement of the International Independence Standards has occurred.
- The IESBA is **proposing requirements and guidance in Section 405** to deal with circumstances where a **breach is identified at a Component Auditor firm level**.

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## Proposal: Breach of Independence

- If breach identified at GA firm level, then follow extant Code
- New guidance proposed in section 405 for breach identified at CA firm level
- If CA firm within the network then effectively the same process as GA firm
  - If breach of section 405 occurs, communicate breach immediately to GEP R405.14
  - GEP to assess the breach and determine appropriate actions
- If non-network CA firm:
  - Code relies on ISA 600 (Revised) requirements on whether CA firm has complied with relevant ethical requirements
  - A breach doesn't automatically mean GA firm unable to express opinion on group financial statements
  - Broadly similar principles for process in extant Code Appendix 2 and R405.15
  - Communication of breach to GEP R405.15
  - GEP assesses actions, objectivity of CA firm, and whether the CA firm work can still be used R405.16-18
  - Communicate with TCWG significance of breach and actions. Obtain concurrence or do not use CA firm work. R405.19-20

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## Breach of Independence

**Do you agree with the proposals in section 405 to address a breach of independence by a CA firm?**

***Staff comments: Agree with proposal***

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**Exposure Draft**  
**February 2022**  
*Comments due: May 31, 2022*

*International Ethics Standards Board  
for Accountants®*

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**Proposed Revisions to the  
Code Relating to  
the Definition of Engagement  
Team and Group Audits**



International  
Ethics Standards  
Board for Accountants®

## About the IESBA

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

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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## REQUEST FOR COMMENTS

This Exposure Draft, [Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#), was developed and approved by the IESBA.\*

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **May 31, 2022**.

Respondents are asked to submit their comments electronically through the IESBA website, using the “[Submit a Comment](#)” link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

# PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS

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## I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) relating to the definition of engagement team and the independence requirements in the context of group audits.
2. The IESBA approved these proposed changes for exposure at its [November–December 2021](#) meeting. They are grouped in six chapters in this Exposure Draft.

## II. Background and Overview

### A. Developments Pertaining to the IAASB’s Agenda

#### *Revision of ISA 220*<sup>1</sup>

3. Respondents to the International Auditing and Assurance Standards Board’s (IAASB) December 2015 [Invitation to Comment](#) (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* were supportive of a project to modernize ISA 220. As a result, the IAASB issued the exposure draft [Proposed ISA 220 \(Revised\)](#)<sup>2</sup> (ED-220) in February 2019.
4. Proposed ISA 220 (Revised) was designed to operate (a) as part of the broader quality management system established by the IAASB’s proposed Quality Management standards<sup>3</sup> at both the firm and engagement levels,<sup>4</sup> and (b) in conjunction with ISA 600. Among other matters, ED-220 proposed changing the definition of an engagement team (ET) to recognize different and evolving ET structures, thereby addressing the concerns identified in the ITC.
5. In proposing this definitional change, the IAASB considered that engagement teams may be organized in various ways, including being located together or across different geographic locations or organized by the activity they perform. The IAASB also recognized that individuals involved in the audit engagement may not necessarily be engaged or employed directly by the firm. Thus, the IAASB proposed that they are part of the ET regardless of their location or employment status if the individuals perform audit procedures on the engagement. In this way, their work can be appropriately directed, supervised, and reviewed in accordance with the requirements of ISA 220 (Revised).

#### *Revision of ISA 600*<sup>5</sup>

6. Based on responses to the ITC, other input gathered during related outreach activities, and discussions with the IAASB Consultative Advisory Group (CAG), the IAASB approved a [project proposal](#) to revise ISA 600 in December 2016. The project proposal recognized the strong linkage between the IAASB’s work to clarify and strengthen ISA 600 and the projects to revise other standards,

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<sup>1</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>2</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>3</sup> The Quality Management standards are International Standard on Quality Management (ISQM) 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised).

<sup>4</sup> See <https://www.iaasb.org/news-events/2019-02/global-consultation-quality-management-firms-and-engagements-now-open>

<sup>5</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

in particular ISQC 1<sup>6</sup> and ISA 220. As some foundational issues had to be first considered and addressed in these other projects, the IAASB prioritized the progression of these other projects to appropriately build on the revised requirements and application material in making necessary revisions to ISA 600. With progress made on these other projects, the IAASB issued an [Exposure Draft of ISA 600 \(Revised\) \(ED-600\)](#) in April 2020.<sup>7</sup>

7. Respondents to ED-600 raised concerns regarding the interactions of the proposed revised definition of ET with relevant ethical requirements. As a practical matter, given that ED-600 would apply to audits of group financial statements (group audits), the definitional change clarified that component auditors (CAs)<sup>8</sup> (whether in or outside the group auditor firm (GA firm) or its network) are part of the ET for a group audit because they are performing audit work for purposes of the group audit. This raises implications concerning the application of the IIS in Part 4A<sup>9</sup> of the Code.

## **B. IESBA Strategy Consultation**

8. During the IESBA's consultation on its [Strategy and Work Plan 2019–2023](#) (SWP), many stakeholders supported an enhanced level of strategic and technical coordination with other international standard-setting Boards (SSBs), particularly the IAASB, with transparency provided about the work and status of such efforts.
9. Among the SWP consultation paper responses, there was also an encouragement for the IESBA to consider a project to address practical issues encountered by GAs as well as component auditors (CAs) in applying the International Independence Standards (IIS) in the audit of group financial statements. The IESBA determined that it would be appropriate to explore the need for clarifications in this area, but to do so in coordination with the IAASB's project to revise ISA 600.

## **C. Implications of Proposed Revised Definition of Engagement Team for the Code and Related IAASB-IESBA Coordination**

10. The definition of ET in the Code was developed based on the ET definition in extant ISA 220. While the IAASB intended to change the definition in ISA 220 for quality management purposes, the inclusion of CAs in the revised definition raises several questions concerning compliance with the IIS in the context of group audits, given that the definitions of the term in the Code and the ISAs are intended to be aligned. Many respondents to ED-220 requested clarification as to which engagement participants fall within or outside the definitions of "group engagement team" and "component auditor" given different evolving team structures.
11. In the light of the above and following coordination with the IAASB on the ISA 220 project, the IESBA agreed to address the implications of the change in the definition of an ET from the Code's perspective to make clear the independence requirements that apply to the various individuals who are part of the ET under the revised definition. The IAASB, in turn, agreed to make clear in ISA 220

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<sup>6</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>7</sup> The IAASB approved ISA 600 (Revised) at its December 2021 meeting. Subject to PIOB approval, the revised standard is expected to be issued in April 2022.

<sup>8</sup> Extant ISA 600 defines a component auditor as "an auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit."

<sup>9</sup> Part 4A – Independence for Audit and Review Engagements

(Revised) that the independence requirements applicable to members of the ET are specified in relevant ethical requirements, which, as defined in ISA 220 (Revised),<sup>10</sup> include the Code.

#### **D. Independence of Component Auditors in a Group Audit**

12. A key aspect of extant ISA 600 that intersects with the IIS is the requirement for the group engagement team to obtain an understanding of whether a CA understands and will comply with the ethical requirements relevant to the group audit and, in particular, is independent.<sup>11</sup> Some stakeholders, including firms, have highlighted the need to clarify the meaning of the phrase “ethical requirements that are relevant to the group audit.” This concept is not currently addressed in the Code.
13. Given that CAs outside a firm’s network who perform audit procedures for purposes of a group audit are part of the ET based on the revised definition in ISA 220 (Revised), it is necessary for the IIS to provide clear and consistent guidance concerning the independence of CAs outside the network. Additionally, there is a need to go beyond individuals included in the ET definition and consider the independence framework applicable to the CA firms given that [ISA 600 \(Revised\)](#) establishes a requirement for the group engagement partner (GEP) to take responsibility for confirming whether the CAs understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.<sup>12</sup>

#### **E. Matters Identified by the IESBA’s Emerging Issues and Outreach Committee (EIOC)**

14. As part of its monitoring of the external environment for emerging issues or developments, the EIOC identified a few matters relating to the application of the IIS with respect to CAs. These include the following:
  - The implications when a parent entity is a public interest entity<sup>13</sup> (PIE), but a component is not, and that component is audited by a non-network firm, particularly whether the CA would need to follow the independence requirements that apply to audits of PIEs or non-PIEs. The Code does not currently address this.
  - The practical implications of a breach of independence at a CA and any safeguards if the GA still intends to use the CA’s work (separately from the GA’s consideration under ISA 600).<sup>14</sup>

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<sup>10</sup> ISA 220 (Revised) was issued in December 2020.

<sup>11</sup> ISA 600, paragraph 19(a)

<sup>12</sup> ISA 600 (Revised), paragraph 25(b)

<sup>13</sup> The extant Code defines a public interest entity as:

(a) A listed entity; or

(b) An entity:

(i) Defined by regulation or legislation as a public interest entity; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

*Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.*

<sup>14</sup> Extant ISA 600, paragraph 20, states the following: “If a component auditor does not meet the independence requirements that are relevant to the group audit, or the group engagement team has serious concerns about the other matters listed in paragraph 19(a)–(c), the group engagement team shall obtain sufficient appropriate audit evidence relating to the financial information of the component without requesting that component auditor to perform work on the financial information of that component.”

**F. Approved Project**

15. Given the above backdrop, in March 2020 the IESBA approved a [project proposal](#) to review the definition of ET and group audits independence considerations in the Code.
16. The objectives of the project are two-fold:
  - (a) To align the definition of the term “engagement team” in the Code with the revised definition of the same term in ISA 220 (Revised) while ensuring that the independence requirements in the IIS are clear and appropriate and apply only to those individuals within the scope of the revised definition who must be independent in the context of the audit engagement; and
  - (b) To revise the IIS so that they are robust, comprehensive, and clear when applied in a group audit context, including with respect to independence for non-network CAs.

**G. Coordination with IAASB**

17. In developing this Exposure Draft, the IESBA has engaged closely with the IAASB to ensure that the proposed changes are consistent and interoperable with the ISAs, especially ISA 220 (Revised) and ISA 600 (Revised). Such close coordination will continue until the completion of this project.

**III. Significant Matters****A. Proposed Revised Definition of Engagement Team**

18. The revised definition of ET in ISA 220 (Revised) includes, among others, CAs and service providers.<sup>15</sup> This raises several questions concerning compliance by these individuals with the IIS in a group audit. Therefore, there is a need to confirm or develop independence requirements applicable to those individuals covered by the extended definition, considering their roles in the audit engagement and the specific facts and circumstances. These matters are further discussed below.
19. In considering aligning the definition of ET in the Code with the definition in ISA 220 (Revised),<sup>16</sup> the IESBA recognized that the extant definition of ET in the Code applies to both audit and other assurance engagements. In contrast, the definition of ET in ISA 220 (Revised) applies only to audit engagements. The IESBA also recognized that the term ET is used in the definitions of the terms “audit team” and “assurance team” in the Code. Therefore, simply substituting the definition of ET in the Code with the revised definition in ISA 220 (Revised) would not be appropriate.
20. While the IESBA accepts that the term ET is used for different purposes in the Code and the ISAs, it is of the view that using the same term in both sets of standards but with different definitions potentially might create confusion among users of the standards, especially given that the Code and the ISAs have historically used the same definition.

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<sup>15</sup> [ISA 220 \(Revised\)](#), paragraphs 12(d) and A17

<sup>16</sup> The revised definition of ET in ISA 220 (Revised) is as follows:

All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert<sup>1</sup> and internal auditors who provide direct assistance on an engagement.<sup>2</sup>

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

(2) ISA 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.

21. To further inform its deliberations and as part of ongoing coordination with the IAASB, the IESBA considered how ISQM 1 addresses engagement teams for engagements other than audits. Specifically, the term ET as defined in ISQM 1 applies to any team performing procedures on an engagement within the scope of ISQM 1 (i.e., an audit, review, other assurance, or related services engagement). In ISQM 1, the IAASB has established a broader definition of ET, which refers to the performance of procedures on an engagement:
- All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert<sup>17</sup> and internal auditors who provide direct assistance on an engagement.
22. In the light of the above, the IESBA is proposing the following to address the alignment of definitions of terms:
- Revise the definition of ET in the Code to align with the definition of ET in ISQM 1, with explanatory guidance to clarify the nature of the various teams in reference to Parts 4A and 4B of the Code (see the proposed revised Glossary in Chapter 6).
  - Making it explicit who is a member of an ET, including an individual from a component auditor firm (CA firm) in a group audit context, and other service providers (see paragraph 400.A in Chapter 1).
  - Use of the term “team” to denote a team of individuals who perform an engagement.
23. The IESBA’s proposals for how the references to the terms “team” and ET would be used in the Code based on the proposed revised definition of ET are set out in Chapter 4.

*External Experts*

24. The IESBA acknowledges that the Code currently does not specify independence requirements for external experts. This position mirrored the approach in the extant ISA 220, which, by virtue of the exclusion of external experts from the ET through the definition, did not subject these individuals to the same requirements that apply to ET members. This approach, which the IAASB has retained in ISA 220 (Revised), recognizes that, given the specialized nature of external experts’ work, it would not be appropriate to apply the same level of direction, supervision and review over them as applies to ET members.
25. During the IESBA’s deliberations in developing the revised ET definition, questions were raised (including by the PIOB) as to whether external experts should be subject to independence requirements in audits and other assurance engagements. The IESBA recognized that ISA 620<sup>18</sup> already addresses the auditor’s responsibilities relating to the work of an external expert in obtaining sufficient appropriate audit evidence, including the objectivity,<sup>19</sup> competence, and capabilities of that individual. The IESBA also noted that addressing the matter of independence for external experts is outside the remit of this project. The IESBA nevertheless agreed to consider the matter as part of a future initiative.

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<sup>17</sup> ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

<sup>18</sup> ISA 620, *Using the Work of an Auditor’s Expert*

<sup>19</sup> ISA 620, paragraph 9, requires that in evaluating the objectivity of an external expert, the auditor makes inquiries about interests and relationships that may create a threat to that expert’s objectivity.

26. Questions were also raised during the IESBA's deliberations regarding whether different types of experts who might be used on an audit engagement are members of the engagement team or the audit team as these terms are defined in the Code. These types of experts include (a) individuals with expertise in a specialized area of accounting or auditing who perform audit procedures, (b) individuals within or engaged by the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement, and (c) individuals who are external experts in fields other than accounting or auditing. The IESBA believes it is in the public interest for there to be clarity in that regard. Accordingly, the IESBA is proposing application material in paragraph 400.C to make clear where these different types of experts stand (see paragraph 400.C in Chapter 1).
27. By the same token, the IESBA is proposing application material to clarify whether an individual performing the engagement quality review is part of the engagement team or audit team (see paragraph 400.D in Chapter 1).

#### *Internal Auditors*

28. Regarding the exclusion of internal auditors who provide direct assistance on an audit engagement when the external auditor complies with ISA 610 (Revised 2013),<sup>20</sup> the IESBA considered whether there would be any change regarding how internal auditors are dealt with in the Code given that the extant Code currently excludes from the ET internal auditors undertaking audit procedures when providing direct assistance on the audit engagement.
29. The IESBA believes that the position in the extant Code continues to be appropriate provided that external auditors appropriately consider the objectivity of internal auditors concerning the work performed. Independence requirements do not apply to internal auditors as the audit client employs or otherwise engages these individuals. Therefore, in revising the definition of ET, the IESBA has retained the position that internal auditors who provide direct assistance on an audit engagement are not part of the ET.

#### *Service Providers*

30. As a result of aligning the proposed definition of ET with the definition of ET in ISQM 1, the IESBA is proposing to make it explicit that the IIS apply to individuals from service providers who perform audit procedures on an audit engagement. The concept of a service provider is defined in ISQM 1.<sup>21</sup> The IESBA proposes to address explicitly service providers' independence, especially those outside a firm's network in the context of group audits, in proposed [Section 405 \(see Chapter 1, including paragraphs 400.A and 400.B\)](#). In substance, however, this would not represent a change in practice because the extant Code already defines individuals *engaged* by the firm or a network firm to perform audit work on the engagement to be part of the ET.
31. Although an individual from a service provider would be covered by the IIS, the IESBA does not believe that the scope of the IIS should be extended to cover the individual's organization (other than in the case of a CA firm outside the GA firm's network, as discussed in Section C below). This is

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<sup>20</sup> ISA 610 (Revised), *Using the Work of Internal Auditors*

<sup>21</sup> ISQM 1 defines a service provider as follows:

An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm's network, other network firms or other structures or organizations in the network.

because the individual's organization does not participate in the group audit and is further removed from it. Accordingly, the IESBA considers that it would be disproportionate to bring such an individual's organization into the scope of the IIS.

## **B. Independence Considerations for Engagement Quality Reviewers**

32. During its deliberations, the IESBA noted a matter which required further consideration relating to independence with respect to engagement quality reviewers (EQRs) sourced from outside the firm or the network.<sup>22</sup> The IESBA noted that the extant definitions of the terms "audit team," "review team," and "assurance team" scope in only EQRs within the firm or the network.
33. In reviewing the extant definitions of those terms, the IESBA agreed that EQRs are individuals identified by the firm to perform engagement quality reviews, and such individuals can be sourced from within or outside the firm or its network. This is consistent with ISQM 2.<sup>23</sup> The IESBA believes that EQRs, whose independence plays a vital role in promoting audit quality, should be subject to the same independence requirements regardless of whether they come from within or outside the firm or its network. Similarly, the IESBA believes that individuals who (a) recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, or (b) provide consultation regarding technical or industry-specific issues, transactions or events for the engagement, should be members of the audit team, regardless of whether they come from within the firm. Similar considerations apply with respect to reviews and other assurance engagements.
34. As such, the IESBA proposes to amend the definitions of "audit team," "review team," and "assurance team" by adding the phrase "or engaged by" to subparagraph (b) of those definitions to include all such individuals. (Please refer to [Chapter 6 – Glossary of Terms](#) to sight the proposals.)
35. During the development of these proposed revisions, a question was raised as to whether the phrase "engaged by the firm" would suggest that a firm enters into direct contractual engagement with individuals outside the firm rather than the standard practice, which is for firms to be engaging other firms instead of the individuals. The IESBA does not intend the Code to be prescriptive in terms of the manner or type of contract and noted that firms may in some instances contract with individuals directly. The Code must, however, be clear as to which individuals are considered members of the audit team, review team, and assurance team.

## **C. Independence in a Group Audit Context**

36. In thinking through independence considerations in a group audit context, the IESBA approached this matter from two different perspectives:
  - (a) Independence principles for individuals involved in the group audit engagement; and
  - (b) Independence principles for firms, inside and outside of the network, involved in the group audit engagement.
37. To elaborate on these principles, the IESBA is proposing a new Section 405 (Group Audits) and additions of new defined terms to the Glossary as further discussed below.

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<sup>22</sup> ISQM 2 defines an EQR as "a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review." (The definition of "engagement quality control reviewer" in extant ISQC 1 also scopes in an external individual.)

<sup>23</sup> See ISQM 2, paragraph A4



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RELEVANT ETHICAL REQUIREMENTS APPLICABLE TO THE GROUP AUDIT ENGAGEMENT

38. As a starting point, the IESBA believes that it is important to clarify within the context of the Code the meaning of the phrase “relevant ethical requirements, including those related to independence, that apply to the group audit engagement.” This is a concept that is in both the extant ISA 600<sup>24</sup> and ISA 600 (Revised)<sup>25</sup> and it is not explicitly addressed in the extant Code.
39. The IESBA is therefore proposing to make an explicit linkage from the new Section 405 to ISA 600 (Revised) by explaining that (a) Section 405 addresses the relevant independence considerations that apply in a group audit, and (b) the independence requirements referred to in ISA 600 (Revised) (or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised)) are those specified in that section (see paragraph 405.2 A1).

PROPOSED NEW DEFINED TERMS

40. For purposes of specifying independence provisions for group audits, the IESBA is proposing a set of new defined terms for inclusion in the Glossary to the Code. These terms are as follows:

Term	Definition
<i>Defined Terms Established in ISA 600 (Revised)</i>	
Component	An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit
Group audit	The audit of group financial statements
Group engagement partner	The engagement partner who is responsible for the group audit
Group financial statements (Note 1)	Financial statements that include the financial information of more than one entity or business unit through a consolidation process
<i>Terms Specific to the Code</i>	
Audit team for the group audit (Note 2)	<p>(a) The engagement team for the group audit, including individuals from component auditor firms who perform audit work related to components for purposes of the group audit;</p> <p>(b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:</p> <p>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in</p>

<sup>24</sup> Extant ISA 600, paragraph 19(a)

<sup>25</sup> ISA 600 (Revised), paragraph 25(b), requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.



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Term	Definition
	<p>connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and</p> <p>(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;</p> <p>(c) All those within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and</p> <p>(d) Any individual within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.</p>
Component audit client (Note 3)	<p>When a component is:</p> <p>(a) A legal entity, the entity and any related entities over which the entity has direct or indirect control; or</p> <p>(b) A business unit, function or business activity (or some combination thereof), the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.</p>
Component auditor firm	The firm performing audit work related to a component for purposes of the group audit
Group	A reporting entity for which group financial statements are prepared
Group audit client (Note 4)	The entity on whose group financial statements the group auditor firm conducts an audit engagement. The group audit client includes its related entities as specified in paragraph R400.20 and any other components that are subject to audit work
Group auditor firm	The firm that expresses the opinion on the group financial statements

## Notes

1. The definition of “group financial statements” in ISA 600 (Revised) elaborates on what a consolidation process includes. Given that this elaboration involves technical accounting concepts such as proportionate consolidation and equity method of accounting, the IESBA does not believe it would be appropriate or necessary to include such a technical elaboration in the definition of the term for purposes of the Code.
  2. The definition of “audit team for the group audit” is based on the definition of audit team but adapted for a group audit. In developing this definition, the IESBA noted that based on the generic definition of audit team, all those within or engaged by the GA firm and all those within the GA firm’s network would be scoped in if they can directly influence the outcome of the group audit. The IESBA considered whether the definition of audit team for the group audit should be extended to include individuals within a non-network CA firm who can directly influence the outcome of the group audit. The IESBA observed that it would be rare in practice for such individuals to be able to directly influence the outcome of the group audit if they are not otherwise performing audit work at a component. Nevertheless, the IESBA is proposing to scope in these individuals within the definition so that they would be captured even if such a situation would be rare (see subparagraph (d) of the proposed definition).
  3. As the definition of a component in ISA 600 (Revised) is not limited to a legal entity but also includes a business unit, function or business activity, or some combination thereof, the IESBA is proposing greater specificity in the definition of a component audit client depending on the nature of the component because the IIS apply only with respect to legal entities:
    - (a) When the component is a legal entity, the component audit client will be the entity itself and any related entities it controls, directly or indirectly. Having regard to the Code’s definition of a related entity, the IESBA believes it would be disproportionate to scope in any other related entities of the entity given that these other related entities are further removed from the audit of the component; or
    - (b) When the component is a business unit, function or business activity (or some combination thereof), the component audit client will be the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed. As above, the IESBA is proposing to take a proportionate approach by not scoping the related entities of such legal entity or entities into the definition. This is because, in practice, control or management of the business unit, function or business activity will rest within the legal entity or entities.
  4. The IESBA is proposing that, as defined, the group audit client includes not only its related entities in accordance with extant paragraph R400.20 of the Code but also any other components that are subject to audit work. This recognizes that the concept of a component in ISA 600 (Revised) extends beyond a legal entity and includes a business unit, function or business activity (or some combination thereof).
41. In proposing these new defined terms to address key concepts in group audits, the project Task Force liaised closely with the IAASB so that these terms and definitions are aligned as closely as possible with those in ISA 600 (Revised). The IESBA also agreed that those new terms and definitions would be best placed in the Glossary and that with the availability of the [eCode](#), they would be visible and readily accessible to users of the Code.

## INDEPENDENCE PRINCIPLES FOR INDIVIDUALS

42. The extant Code addresses the personal independence requirements with respect to an audit client. For a CA firm that belongs to the GA firm's network, individuals from that CA firm who participate in the audit of the component are effectively also required to comply with the same personal independence requirements that apply to the engagement team at the GA firm.<sup>26</sup>
43. The change in the definition of ET in ISA 220 (Revised) results in a need to clarify the independence requirements for individuals at a CA firm outside the GA firm's network and at other service providers. In particular, the IESBA considered whether individuals from non-network CA firms performing work on the component for the group audit should be subject to the same personal independence requirements as individuals from the GA firm and network firms. The IESBA believes that work performed by individuals at CA firms is an important contributor to the group audit, whether the individuals are from CA firms that are network or non-network firms.
44. Accordingly, the IESBA is proposing that the same independence provisions that apply to individuals from the GA firm and CA firms within the network should apply to individuals carrying out audit work at the component level from non-network firms. The IESBA is of the view that the work of the individuals from the non-network CA firms contributes to the audit opinion on the group financial statements just as much as the work performed by individuals from the GA firm and CA firms within the network. This view is aligned with the thrust of the revised ET definition in ISA 220 (Revised), which treats all individuals performing audit procedures on the engagement, whether from within or outside the network, as ET members. This position also applies to individuals from other service provider firms who perform work for the group audit.
45. Therefore, given that the expanded definition of ET captures individuals from non-network CA firms and other service providers, the IESBA is proposing a single requirement that all members of the audit team (which includes the ET) for the group audit be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the audit team (see paragraph R405.3 in Chapter 1).
46. By taking a consistent approach to personal independence, whether an individual is from a network firm or a non-network firm, the IESBA intends to eliminate any perception that the independence of individuals on the ET outside the GA firm and its network is less important than that of individuals on the ET within GA firm and its network.

## INDEPENDENCE PRINCIPLES FOR FIRMS

47. As a starting point, the IESBA notes that no new principles are required for GA firms or CA firms within the GA firm's network as the extant Code already requires a firm and its network firms to be independent of the audit client. To make this explicit in a group audit context, the IESBA is proposing two requirements in proposed Section 405:
  - With respect to the GA firm, a requirement to be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the firm (see paragraph R405.4).

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<sup>26</sup> Paragraph R400.51 of the extant Code states the following:

"A network firm shall be independent of the audit clients of the other firms within the network as required."

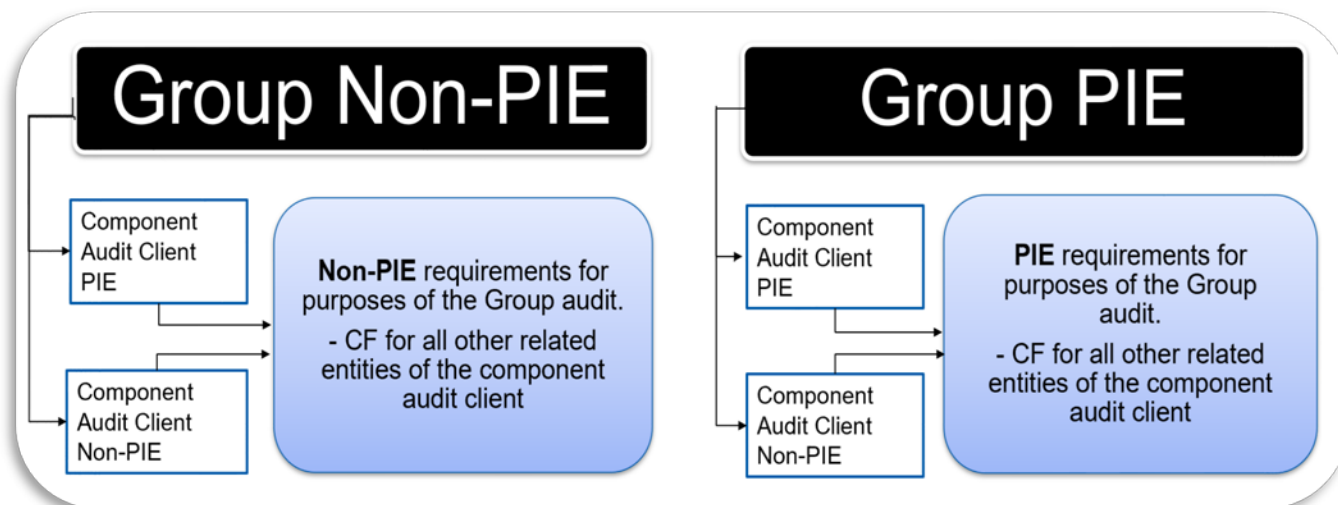
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- With respect to network CA firms, a requirement to be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the network firm (see paragraph R405.5).
48. The key matter the IESBA has then sought to address is to establish principles applicable to firm independence concerning CA firms outside the GA firm's network.

### *Non-network Component Auditor Firms*

49. In deliberating the applicable principles for CA firms outside the GA firm's network, the IESBA considered the approach in the Code that differentiates the independence provisions applicable to PIEs from those applicable to non-PIEs.
50. Taking this into consideration, the IESBA is proposing the following independence principles for non-network CA firms:
- First, the CA firm needs to be independent of the component audit client, consistent with the independence provisions in Part 4A that apply to a firm with respect to all its audit clients (see paragraph R405.6(a)).
  - When the group audit client is a PIE and the component audit client is not itself a PIE, the independence provisions that apply to the CA firm in relation to the component audit client are the PIE provisions (see paragraph R405.10). The IESBA considers that the purpose of the group audit is to report on the group and accordingly, the independence provisions that apply at the group level should apply consistently and uniformly across the group.
  - When the group audit client is a non-PIE, the independence provisions that apply to the CA firm in relation to the component audit client for the purpose of the group audit are the non-PIE provisions regardless of whether the component audit client is a PIE (see paragraph R405.9). As above, the IESBA considers that the focus of the group audit is reporting on the group and therefore the independence provisions that apply at the group level should apply throughout the group.
  - In either situation where the group audit client is a PIE or where it is a non-PIE, the conceptual framework (CF) will apply with respect to all other related entities of the component audit client, based on the "reason to believe" test in the related entity principle in extant paragraph R400.20 of the Code (see paragraph R405.7).

The diagram below illustrates the latter three principles.



51. Additionally, for all group audit clients, the IESBA is proposing that the same CF approach apply with respect to relationships or circumstances involving *firms within the CA firm's network* with the component audit client or the group audit client, applying the "reason to believe" test (see paragraph R405.8). This recognizes that threats to the CA firm's independence might be created by such relationships or circumstances, and that applying the CF to address such situations represents a more principles-based approach than prescribing specific rules.

#### Financial Interest in the Group Audit Client

52. The IESBA considered whether the Code should more explicitly address certain interests in or relationships with upstream entities as these entities are not captured within the definition of a component audit client. The IESBA noted that the extant Code specifically prohibits a firm and its network firms from holding a direct or material indirect financial interest in an entity that controls the audit client, regardless of whether the audit client is a PIE (paragraph R510.6). Given that financial interests by their nature have the greatest potential to create significant threats and the fact that the work performed by non-network CA firms forms an integral part of the group audit, the IESBA believes that there should be a similar prohibition for non-network CA firms.
53. Accordingly, the IESBA is proposing to introduce an explicit prohibition on non-network CA firms from holding a direct or material indirect financial interest in the entity on whose group financial statements the GA firm expresses an opinion (see paragraph R405.6(b)). Similar to the prohibition in paragraph R510.6 of the extant Code, this proposed prohibition applies to non-network CA firms in respect of both PIE and non-PIE group audit clients. However, unlike extant paragraph R510.6, the IESBA believes there should be no consideration of the materiality of the component audit client to the group audit client. This would achieve a consistent approach relative to the strict prohibition on the GA firm and its network firms from holding a direct or material indirect financial interest in the group audit client pursuant to paragraph R510.4 of the Code.
54. The IESBA considered whether the financial interest prohibition should extend to other entities within the group such as an intermediate holding entity. The IESBA believes the greatest threat lies with respect to the entity on whose group financial statements the GA firm expresses an opinion, hence the proposed prohibition on holding a direct or material indirect financial interest in that entity. The

IESBA believes it may be disproportionate and potentially unduly limit the supply of firms able to act as CA firms if a similar prohibition were to be applied indiscriminately with respect to all other entities within the group. In those other cases, the IESBA believes the application of the CF as specified in paragraph R405.7 provides the appropriate approach to dealing with the threats given the particular facts and circumstances.

#### Loans and Guarantees

55. The IESBA also examined whether other specific interests or relationships should be prohibited explicitly for non-network CA firms with respect to upstream entities.
56. As a result of its deliberations, the IESBA came to the view that loans and guarantees are a further area that should be specifically addressed in the proposed Section 405 (beyond the general application of the CF) because of the financial nature of those relationships. Section 511<sup>27</sup> of the Code addresses loans and guarantees with an audit client. The IESBA considered the scope of application of the prohibitions in Section 511 to a non-network CA firm, specifically whether those prohibitions should apply only with respect to the group audit client or whether they should apply also with respect to related entities of the group audit client.
57. The IESBA first agreed that the prohibitions in Section 511 should apply with respect to the group audit client given that this is the entity on whose group financial statements the GA firm expresses an opinion. The IESBA then considered whether the Section 511 prohibitions should be extended to an intermediate holding entity that controls the component audit client or any other entities within the group that are controlled by the group audit client. There was a view that the level of the threats is no different than in the case of the group audit client given the element of control and accordingly, the prohibitions should apply also with respect to any entity controlled by the group audit client. A related view was that a relationship involving a loan or guarantee that is subject to the specific prohibitions in Section 511 between a firm and an entity within a group for which it acts as a CA firm would be so rare that such a relationship could be questionable and therefore should be prohibited.
58. On the other hand, there were concerns about the potential for unintended consequences in going down a prescriptive path of prohibitions. In particular, there was a practical concern about potentially restricting the pool of non-network firms that could act as CA firms, leading to increased audit market concentration and potential adverse consequences for audit quality. Going down the prescriptive path could result in higher cost for business if they have to engage two firms, one for statutory audit services and another for purposes of the group audit, the result of which is a likelihood that CA firms would be engaged for both services, thereby affecting small and medium practices (SMPs) that often provide statutory audit services. In addition, there was a concern about disproportionate outcomes in some cases if a non-network CA firm performing limited scope audit work for purposes of the group audit were to be subject to a more stringent requirement than when the same firm is performing a full scope statutory audit of the component audit client under the extant IIS.
59. On balance, given those practical concerns, the IESBA considers that the public interest would be better served and the objective of setting proportionate standards better met if the prohibitions in Section 511 on loans and guarantees were to apply only with respect to the group audit client (see paragraph R405.6(c)). For loans and guarantees between the non-network CA firm and an intermediate holding entity or any other related entities of the group audit client, the IESBA believes that the CF provides a robust, principles-based approach to identify, evaluate and address any threats

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<sup>27</sup> Section 511, *Loans and Guarantees*

that might be created in such situations. Indeed, the IESBA noted that depending on the particular facts and circumstances, proper application of the CF may lead to the same outcome as a strict prohibition. The IESBA welcomes stakeholders' views on its proposals on this matter.

#### Other Interests and Relationships

60. With respect to all other interests or relationships a non-network CA firm might have with the group audit client, the IESBA believes the CF should apply using the reason to believe test, consistent with the approach in extant paragraph R400.20 of the Code (see paragraph R405.7).

#### Key Audit Partner (KAP)

61. During its deliberations, the IESBA considered clarifying how the concept of a KAP in the Code applies in the context of a group audit. The KAP concept is used in a few areas of the Code, especially in relation to partner rotation to address long association with an audit client. The extant Code defines a KAP as follows:

The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.

62. To highlight the relevance and linkage of the KAP concept to a group audit, the IESBA is proposing guidance in Section 405 to explain that a GEP might determine that an engagement partner who performs audit work related to a component for purposes of a group audit is a key audit partner for the group audit because of that individual's role in making key decisions and judgments on significant matters with respect to the audit of the group financial statements. It follows then that once the GEP has communicated that determination to the individual, the individual will be subject to the provisions of the Code that apply to KAPs.
63. Given that the KAP provisions of the Code apply mostly in the context of audits of PIEs, the IESBA is proposing that this guidance be placed within the subsection of Section 405 dealing with group audit clients that are PIEs (see paragraph 405.11 A1).
64. To further strengthen the linkage with ISA 600 (Revised), the IESBA is also proposing an amendment to the definition of a KAP to more explicitly state that other audit partners who make key decisions or judgments on significant matters with respect to the audit engagement might include engagement partners for certain components in a group audit such as significant subsidiaries or divisions (see Chapter 6).

#### Non-Assurance Services (NAS)

65. During its deliberations, the IESBA considered that it would be helpful to clarify the application of the [revised NAS provisions](#) for non-network CA firms in a group audit context, especially given that the NAS revisions have been substantive. Accordingly, the IESBA is proposing guidance in Section 405 to highlight some important considerations when applying the NAS provisions. In the first instance, the IESBA is proposing to make clear that where the group audit client is a PIE, the independence requirements for NAS provided by a non-network CA firm to the component audit client are those applicable for PIEs even if the component audit client is a non-PIE. This is consistent with the overarching principle discussed above that where the group audit client is a PIE, the independence

provisions applicable to the audit of the component audit client are the PIE provisions. The IESBA is proposing that the guidance include some illustrations of this principle in a NAS context (see paragraph 405.12 A1).

66. In addition, the IESBA felt it important to explain how the self-review threat prohibition<sup>28</sup> in the revised NAS provisions should be applied in circumstances where a non-network CA firm performs limited scope work for purposes of the group audit, for example, audit work limited to a specific line item such as inventory. In such circumstances, the reference point for the CA firm in evaluating the self-review threat that might be created by the CA firm's provision of a NAS to the component audit client is the financial information on which the CA firm is performing audit work for purposes of the group audit. Any other financial information of the component audit client is not relevant to the evaluation of that self-review threat because that other financial information is not subject to audit work. (See paragraph 405.12 A2.)

#### **D. Changes in Component Auditor Firms**

67. The IESBA also noted that in practice, there might be circumstances in which the GA firm requests another firm to perform audit work as a CA firm during or after the period covered by the group financial statements. Such circumstances might arise, for example, as a result of an acquisition by the group audit client. To address these types of circumstances, the IESBA is proposing guidance based on the extant provisions of the Code dealing with an entity becoming an audit client during or after the period covered by the financial statements on which a firm will express an opinion.<sup>29</sup> In particular, the proposed guidance explains that a threat to the CA firm's independence might be created by financial or business relationships of the CA firm with the component audit client during or after the period covered by the group financial statements but before the CA firm agrees to perform the audit work, or by previous services provided to the component audit client by the CA firm.
68. Leveraging guidance in the extant Code, the proposed guidance also addresses the situation where a NAS was provided by the CA firm to the component audit client during or after the period covered by the group financial statements, but before the CA firm begins to perform the audit work for the purposes of the group audit, and the NAS would not be permitted during the engagement period.
69. These proposals are reflected in paragraphs 405.13 A1 and A2.
70. In developing the provisions addressing changes in CA firms, the IESBA identified the need for a conforming amendment to paragraph R400.31 of the revised NAS provisions to align subparagraph (b) of that provision to the proposed paragraph 405.13 A1(b). The effect of this proposed conforming amendment to the revised paragraph R400.31 is to not exclude from a firm's consideration any threats to independence created by previous services provided by the firm or a network firm to an audit client during or after the current financial statement period under audit. (See Chapter 3.)

#### **E. Audit of Component Audit Clients for Statutory, Regulatory or Other Reasons**

71. For the avoidance of doubt, the IESBA believes it is important to clarify upfront in the proposed Section 405 that if a CA firm is engaged separately to issue an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons, the CA firm might need to comply with independence requirements different from those that would apply for purposes

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<sup>28</sup> Paragraph R600.16 of the revised NAS provisions

<sup>29</sup> Extant paragraph R400.31 and related application material



of the group audit. For example, if the component audit client is a PIE and is subject to a statutory audit, the PIE independence requirements would apply for the statutory audit of the component audit client, even if the group audit client is a non-PIE. (See paragraph 405.2 A2.)

#### **F. Breach of Independence by a Component Auditor Firm**

72. One area that the IESBA believes needs to be clarified in the Code is the process to address a breach of an independence requirement at the CA firm level. The extant Code sets out a process a firm should follow when it concludes that a breach of a requirement of the IIS has occurred. This process is outlined in Appendix 1. If a breach is identified at the GA firm level, the GA firm should follow this process.
73. The IESBA is proposing requirements and guidance in Section 405 to deal with circumstances where a breach is identified at the CA firm level.

##### *CA Firm Within GA Firm's Network*

74. Under the extant Code, a breach of an independence requirement by a network firm effectively is the same as a breach of an independence requirement by the firm and therefore needs to be addressed in the same way, given the requirement for a network firm to be independent of the audit clients of the other firms within the network.
75. To make the linkage to the process to follow under the extant Code in the context of a group audit, the IESBA is proposing that if a CA firm within the GA firm's network concludes that a breach of Section 405 has occurred, the CA firm first communicate the breach immediately to the GEP. The GEP is then required to assess the breach and determine the appropriate actions to take in accordance with the extant provisions of the Code dealing with breaches. (See paragraph R405.14.)

##### *CA Firm Outside GA Firms' Network*

76. One of the practical issues when dealing with CA firms outside the GA firm's network in a group audit context is that it would not be practicable for the GA firm to implement the monitoring and disciplinary procedures necessary to ensure the CA firm's compliance with all applicable independence requirements for the group audit, given that the CA firms are outside the GA firm's control. For this reason, the Code relies on ISA 600 (Revised) to specify the requirements to enable the GA firm to confirm whether the CA firm understand and will comply with the relevant ethical requirements applicable to the group audit, and to receive confirmation from the CA firm that it has complied with those relevant ethical requirements.<sup>30</sup>
77. The independence requirements in a group audit context apply to every member of the ET and include those relating to, for example, financial interests, business relationships, and employment relationships. Many independence requirements also apply to the relevant individuals' immediate and close family members. Thus, while a breach of an independence requirement at the CA firm level could be triggered by any of these individuals, the IESBA is cautious not to imply that the GA firm would automatically not be able to express an opinion on the group financial statements because there has been a breach of an independence provision at a CA firm. For example, the IESBA does not believe that it would be in the public interest to cast doubt on the reliability of all the audit work performed in the group audit if the breach in relation to a component audit client was inadvertent and insignificant. Therefore, a careful consideration of the facts and circumstances of the breach at the

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<sup>30</sup> See, for example, ISA 600 (Revised), paragraphs 25 and 45.

CA firm level is necessary. Further, in the context of the GA firm's ability to use the CA firm's work for purposes of the group audit, the IESBA believes that objectivity is the critical fundamental principle.<sup>31</sup> This is consistent with the focus on the firm's objectivity in the extant provisions of the Code addressing breaches.

78. Given these considerations, the IESBA is proposing that the process to deal with a breach at a non-network CA firm follows broadly similar principles as in the process to deal with a breach in the extant Code (refer to Appendix 2 for a diagrammatic outline). Thus, in the event of a breach at the CA firm level, Section 405 proposes that the CA firm take a number of actions, including communicating the breach promptly to the GEP together with an assessment of the significance of the breach and any actions to address those consequences (see paragraph R405.15). The GEP will then need to assess the breach, focusing on the impact of the breach on the CA firm's objectivity and the GA firm's ability to use the work of the CA firm for purposes of the group audit, before deciding on the need for any further action (see paragraphs R405.16-17).
79. The IESBA is proposing guidance to make clear that in some circumstances, the GEP might determine that additional actions are needed beyond the CA firm's actions to satisfactorily remedy the breach to enable the GA firm to use the CA firm's work (see paragraph 405.18 A1). On the other hand, if the GEP determines that the breach cannot be satisfactorily addressed, the IESBA is proposing guidance consistent with ISA 600 (Revised)<sup>32</sup> to recognize that the GA firm cannot use the CA firm's work. In those circumstances, Section 405 guides the GEP to find other means to obtain the necessary audit evidence on the component audit client's financial information (see paragraph 405.18 A2) to enable the GA firm to express an opinion on the group financial statements.

#### *Communication with Those Charged with Governance (TCWG)*

80. Consistent with the provisions dealing with breaches in the extant Code, the IESBA believes it is necessary to involve TCWG of the group audit client in the process to address a breach at a non-network CA firm. The IESBA is therefore proposing a requirement for the GA firm to communicate with TCWG of the group audit client concerning the breach at a CA firm, including the significance of the breach and whether actions proposed or taken would satisfactorily address the consequences of the breach (see paragraph R405.19).
81. If TCWG do not concur with the GA firm's assessment that the actions proposed or taken satisfactorily address the consequences of the breach, the IESBA is proposing that the Code prohibit the GA firm from using the work of the CA firm for purposes of the group audit (see paragraph R405.20).

#### *Coordination with IAASB*

82. In developing the proposed provisions in Section 405 addressing a breach of independence at a non-network CA firm, the IESBA has engaged in close coordination with the IAASB so as to enable Section 405 and ISA 600 (Revised) to be consistent and interoperable.<sup>33</sup>

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<sup>31</sup> The IESBA would like to emphasize that compliance with the five fundamental principles is the baseline for compliance with the Code. The emphasis on objectivity is to address the ability of the GA firm to use the CA firm's work and, therefore, objectivity is the critical fundamental principle.

<sup>32</sup> See ISA 600 (Revised), paragraph A67.

<sup>33</sup> See, in particular, ISA 600 (Revised), paragraphs A66-A67.

## **G. Other Proposed Consequential and Conforming Amendments to the Code**

83. In addition to the proposed conforming amendments in Chapters 3 and 4 already mentioned above, the IESBA is proposing the following other consequential and conforming amendments:
- (a) Proposed conforming amendments to Section 360 of the Code to align with ISA 600 (Revised) terminology (see Chapter 2); and
  - (b) Proposed consequential amendments to the Code as a result of the finalization of the IAASB's suite of quality management standards<sup>34</sup> (see Chapters 5 and 6).
84. The proposed conforming amendments to Section 360 address the provisions that deal with communication of non-compliance or suspected non-compliance with laws and regulations in the context of groups. The amendments are intended to recognize that ISA 600 (Revised) does not limit the definition of a component to a legal entity only but also includes, among others, a business unit. Thus, a professional accountant in public practice may be engaged to perform an audit of financial statements of a business unit that is part of a group. Some of the proposed amendments are also to align with terminology used in ISA 600 (Revised).
85. The proposed quality-management related consequential amendments to the Code address a specific matter that arose during the separate project to develop conforming amendments to the Code to align the Code with terms and concepts used in the IAASB's quality management standards.<sup>35</sup>
86. The proposed consequential amendments specify that, in the context of the definitions of "audit team," "review team" and "assurance team," individuals who provide quality control for the engagement under the extant definitions of these terms are those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement. The IESBA does not believe it would be appropriate to simply replace the term "quality control" in these definitions with "quality management." This is because under the IAASB's suite of quality management standards, many individuals may be involved in, or perform roles related to, quality management within a firm and it would not be appropriate to indiscriminately scope all of them within the audit team, review team or assurance team. See the proposed amendments to the definitions of "audit team," "review team" and "assurance team" in Chapter 6. Similar amendments are also being proposed to provisions in various sections of the Code that currently refer to individuals providing quality control for an engagement (see Chapter 5).
87. A few other matters were raised during the project to develop quality management-related conforming amendments to the Code. However, these matters are outside the scope of the Engagement Team – Group Audits Independence project and will be considered by the IESBA as part of the development of its future strategy and work plan.

## **IV. Analysis of Overall Impact of the Proposed Changes**

88. The IESBA believes that the proposals are critical to maintaining public trust and confidence in group audits because they aim to respond to questions and concerns that have arisen over a number of years about the application of the IIS in the context of group audits. The enhancements to the Code resulting from this project will serve to further clarify and strengthen the IIS, thereby contributing to public trust and confidence in the quality of the auditor's work.

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<sup>34</sup> ISQM 1, ISQM 2 and ISA 220 (Revised) issued in December 2020

<sup>35</sup> The IESBA approved the quality management-related conforming amendments to the Code at its November-December 2021 meeting.

89. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals may entail significant changes to the policies and methodologies of firms and networks that perform or are otherwise involved in group audits. Such changes may result in increased costs, including with respect to the deployment of updated policies and procedures, and awareness raising and training initiatives.
90. The IESBA also expects costs related to adoption and implementation for national standard setters, professional accountancy organizations and other stakeholders, including translation where needed and education and training efforts. There will also be implications for TCWG potentially in terms of greater interactions with GA firms pursuant to the provisions of the Code addressing a breach of independence at a CA firm.

## V. Project Timetable and Effective Date

91. The IESBA is mindful of the need to coordinate the effective date for the final provisions from this project with the effective date of ISA 600 (Revised).<sup>36</sup>
92. The indicative timeline for the completion of this project is set out below.

Indicative Timing	Milestone
September 2022	<ul style="list-style-type: none"> <li>• Discussion of significant matters arising on exposure with IESBA Consultative Advisory Group (CAG)</li> <li>• IESBA's full review of respondents' comments and first read of revised proposals</li> </ul>
December 2022	<ul style="list-style-type: none"> <li>• IESBA approval of final pronouncement</li> </ul>

## VI. Guide for Respondents

93. The IESBA welcomes comments on all matters addressed in this ED, but especially the matters identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### Request for Specific Comments

94. The IESBA welcomes comments on the following specific matters. Where a respondent disagrees with a proposal, it will be helpful for the respondent to explain why and to provide suggestions for other ways to address the particular matter.

*Proposed Revised Definition of Engagement Team*

1. Do you agree with the proposed changes to the Code related to the revised definition of ET, including: (see Chapters 1, 4 and 6)
  - (a) The revised definitions of the terms “engagement team,” “audit team,” “review team” and “assurance team;” and

<sup>36</sup> ISA 600 (Revised) will be effective for audits of financial statements for periods beginning on or after December 15, 2023.

- (b) The explanatory guidance in paragraphs 400.A – 400.D?

*Independence Considerations for Engagement Quality Reviewers*

2. Do you agree with the changes to the definitions of “audit team,” “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network (see Chapter 6)?

*Independence in a Group Audit Context*

3. Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit (see Chapters 1 and 6)?
4. In relation to the proposals in Section 405 (Chapter 1), do you agree with the principles the IESBA is proposing for:
- (a) Independence in relation to individuals involved in a group audit; and
  - (b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm’s network?
5. Concerning non-network CA firms, do you agree with the specific proposals in Section 405 regarding:
- (a) Financial interest in the group audit client; and
  - (b) Loans and guarantees?

*Non-Assurance Services*

6. Is the proposed application material relating to a non-network CA firm’s provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 sufficiently clear and appropriate?

*Changes in Component Auditor Firms*

7. Is the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 sufficiently clear and appropriate?

*Breach of Independence by a Component Auditor Firm*

8. Do you agree with the proposals in Section 405 to address a breach of independence by a CA firm?

*Proposed Consequential and Conforming Amendments*

9. Do you agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6?

*Effective Date*

10. Do you support the IESBA’s proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) on the assumption that the IESBA will approve the final pronouncement in December 2023?

**Request for General Comments**

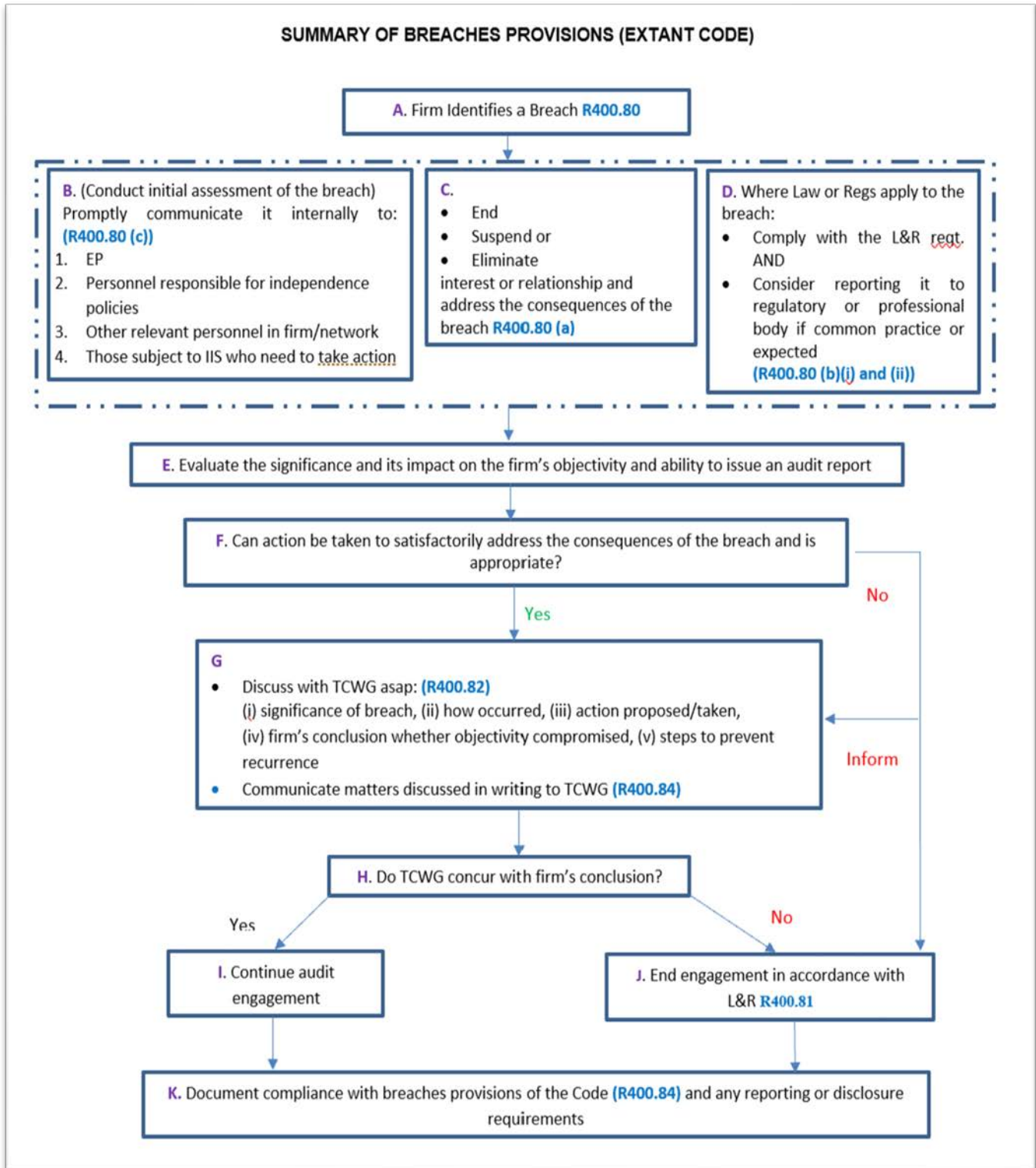
95. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-sized Entities (SMEs) and SMPs* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

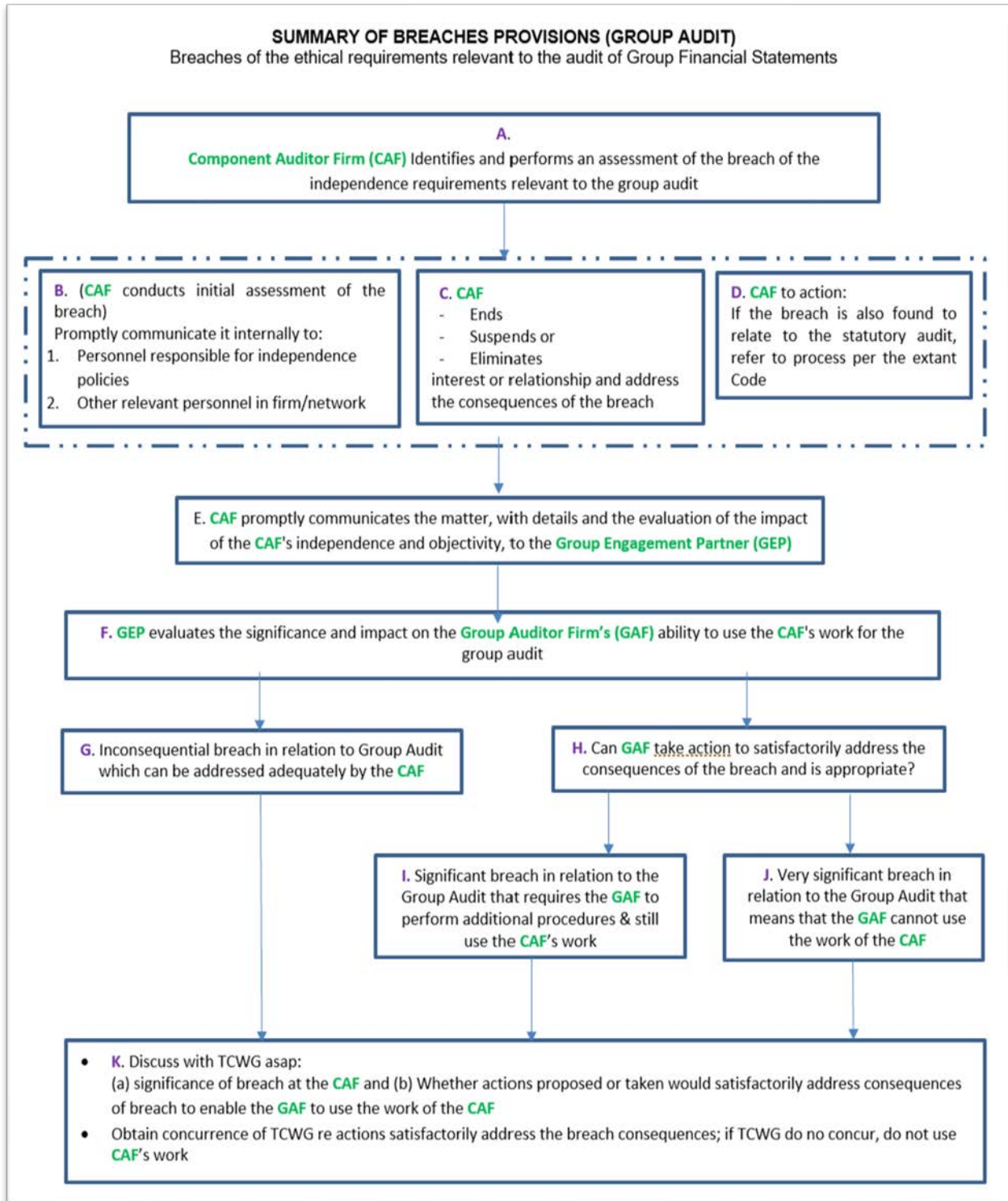
## EXPLANATORY MEMORANDUM

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an audit inspection or enforcement perspective from members of the regulatory and audit oversight communities.
- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

**Extant Code Process to Address a Breach of Independence**



**Proposed Process to Address a Breach of Independence at a CA Firm (Section 405)**





This Exposure Draft includes proposed revisions as well as consequential and conforming amendments to the Code. These proposals are set out in:

- Chapter 1 – Proposed Changes to the International Independence Standards Relating to the Revision to the Definition of Engagement Team and Group Audits
- Chapter 2 – Proposed Conforming Amendments to Section 360 of the Code to Align with ISA 600 (Revised) Terminology
- Chapter 3 – Proposed Conforming Amendment to Revised Non-assurance Services (NAS) Provisions issued in April 2021
- Chapter 4 – Proposed Conforming Amendments to the Code Resulting from the Revision to the Definition of Engagement Team
- Chapter 5 – Proposed Quality Management-related Consequential Amendments to the Code
- Chapter 6 – Proposed Changes to the Glossary

## **Chapter 1 – Proposed Changes to the International Independence Standards Relating to the Revision to the Definition of Engagement Team and Group Audits**

### **(Mark-up from Extant Code)**

## **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

### **SECTION 400**

### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

#### **Introduction**

...

400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

400.3 This Part applies to all audit team members, including individuals from a component auditor firm who perform audit work related to a component for purposes of a group audit. Section 405 sets out specific independence provisions applicable in a group audit.

...

*Note: Paragraph numbers 400.A – 400.D below are placeholders and will be renumbered once the provisions have been finalized and included in Section 400. All paragraphs in Section 400 that follow these new provisions will be renumbered accordingly.*

**Engagement Team and Audit Team**

400.A An engagement team includes all partners and staff in the firm who perform audit procedures on the engagement, and any other individuals who perform such procedures who are from:

(a) A network firm; or

(b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit work on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

400.B In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

400.C An audit engagement might involve experts from the firm or a network firm, external experts or, in the case of a group audit, experts from a component auditor firm outside the group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in auditing client information using automated tools and techniques.
- Individuals within or engaged by the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.
- Individuals who are external experts in fields other than accounting or auditing are neither engagement team nor audit team members.

400.D 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 audit team members but not engagement team members.

## **SECTION 405**

### **GROUP AUDITS**

#### **Introduction**

405.1 Section 400 requires a firm to be independent when performing an audit engagement, including a group audit engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing group audit engagements.

#### **Requirements and Application Material**

##### **General**

405.2 A1 The ISAs apply to an audit of group financial statements. This section addresses the relevant independence considerations that apply in a group audit. ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section.

405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons.

##### **Independence Considerations Applicable to Individuals**

R405.3 All members of the audit team for the group audit shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

##### **Independence Considerations Applicable to a Group Auditor Firm**

R405.4 A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the firm.

##### **Independence Considerations Applicable to Network Firms of a Group Auditor Firm**

R405.5 A network firm of the group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the network firm.

**Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network**

*All Group Audit Clients*

**R405.6** A component auditor firm outside the group auditor firm's network:

- (a)** Shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;
- (b)** Shall not hold a direct or material indirect financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c)** Shall, in relation to Section 511 regarding loans and guarantees, apply the relevant specific requirements and application material with respect to the entity on whose group financial statements the group auditor firm expresses an opinion.

**R405.7** When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance involving the group audit client is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

**R405.8** When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor firm's network with the component audit client or the group audit client creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

*Group Audit Clients that are Not Public Interest Entities*

**R405.9** When the group audit client is not a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are not public interest entities.

*Group Audit Clients that are Public Interest Entities*

**R405.10** When the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are public interest entities.

**Key Audit Partner**

**405.11 A1** The group engagement partner might determine that an engagement partner who performs audit work related to a component for purposes of the group audit is a key audit partner for the group audit because that individual makes key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion. In these circumstances, once the group engagement partner has communicated that determination to the engagement partner on the audit of the component, that individual will be subject to the provisions in paragraphs R411.4 and R524.6 and Section

540 that apply to key audit partners.

### Non-Assurance Services

405.12 A1 Section 600 requires a firm to evaluate whether non-assurance services provided to an audit client create threats to independence. The application of paragraph R405.10 requires a component auditor firm to apply the independence requirements for non-assurance services for public interest entities to the component audit client where the group audit client is a public interest entity. For example, where the group audit client is a public interest entity, the component auditor firm is prohibited from acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial information of the component audit client. Similarly, the component auditor firm's design and implementation of the component audit client's information technology system that generates the financial information on which the component auditor firm will perform audit work creates a self-review threat and is therefore prohibited if the group audit client is a public interest entity.

405.12 A2 The financial information on which a component auditor firm performs audit work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service. For example, if the component auditor firm's audit work is limited to a specific item such as inventory, the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory.

### **Changes in Component Auditor Firms**

#### All Group Audit Clients

405.13 A1 There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements. A threat to the component auditor firm's independence might be created by:

- (a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work; or
- (b) Previous services provided to the component audit client by the component auditor firm.

405.13 A2 Paragraphs 400.31 A1-A3<sup>37</sup> set out application material that is also applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements, but before the component auditor firm begins to perform the audit work for the purposes of the group audit, and the service would not be permitted during the engagement period.

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<sup>37</sup> The numbering for paragraphs 400.31 A1-A3 will be updated when the revised NAS provisions become effective.

**Breach of an Independence Provision by a Component Auditor Firm**

*When a Component Auditor Firm Within the Group Auditor Firm's Network Identifies a Breach*

**R405.14** If a component auditor firm within the group auditor firm's network concludes that a breach of this section has occurred, the component auditor firm shall communicate the breach immediately to the group engagement partner. Based on the assessment of the component auditor firm's breach, the group engagement partner shall determine what action to take in accordance with the provisions of paragraphs R400.80 to R400.89.

*When a Component Auditor Firm Outside the Group Auditor Firm's Network Identifies a Breach*

**R405.15** If a component auditor firm outside the group auditor firm's network concludes that a breach of this section has occurred, the component auditor firm shall:

- (a)** End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b)** Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit; (Ref: Para 400.80 A2)
- (c)** Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and (Ref: Para 400.80 A3)
- (d)** Promptly communicate the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

**R405.16** Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

- (a)** Review the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach;
- (b)** Evaluate the impact of the breach on the component auditor firm's objectivity and the group auditor firm's ability to use the work of the component auditor firm for purposes of the group audit; and
- (c)** Determine the need for any further action.

**R405.17** In making this determination, the group engagement partner shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor firm's objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit.

**405.18 A1** If the group engagement partner determines that the breach has been satisfactorily addressed by the component auditor firm and does not compromise the component auditor firm's objectivity, the group auditor firm may continue to use the work of the component auditor firm for the group audit. In certain circumstances, the group engagement partner might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor firm's work. Examples of such action include the group

auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas.

405.18 A2 If the breach cannot be satisfactorily addressed, the group auditor firm cannot use the component auditor firm's work. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client's financial information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client's financial information or requesting another component auditor firm to perform such audit work.

*Communication with Those Charged with Governance of the Group Audit Client*

**R405.19** With respect to breaches by a component auditor firm outside the group auditor firm's network, the group auditor firm shall discuss with those charged with governance:

- (a)** The significance of the breach at the component auditor firm, including its nature and duration; and
- (b)** Whether actions proposed or taken would satisfactorily address the consequences of the breach to enable the group auditor firm to use the work of the component auditor firm.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

**R405.20** If those charged with governance do not concur that the actions proposed or taken satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit.

## Chapter 2 – Proposed Conforming Amendments to Section 360 of the Code to Align with ISA 600 (Revised) Terminology

### (Mark-up from Extant Code)

## PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

### SECTION 360

### RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

#### Communication with Respect to Groups

**R360.16** Where a professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component or a legal entity or business unit that is part of a group in either of the following two situations, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The accountant ~~is, for purposes of an audit of the group financial statements, requested by the group engagement team to~~ performs audit work ~~on financial information~~ related to ~~the a~~ component for purposes of the group audit; or
- (b) The accountant is engaged to perform an audit of the financial statements of a legal entity or business unit that is part of a group for purposes other than the group audit, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the professional accountant's firm or network.

**R360.17** Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of ~~a~~ group audit ~~of group financial statements~~, the group engagement partner shall consider whether the matter might be relevant to ~~one or more components~~:

- (a) One or more components ~~Whose financial information is~~ subject to audit work for purposes of the ~~audit of the group~~ audit financial statements; or
- (b) One or more legal entities or business units that are part of the group and ~~Whose~~ financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

**R360.18** If the non-compliance or suspected non-compliance might be relevant to one or more of the components, legal entities or business units specified in paragraph R360.17(a) and (b), the



group engagement partner shall take steps to have the matter communicated to those performing audit work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant ~~component(s)~~ legal entities or business units specified in paragraph R360.17 (b) are subject to audit and, if so, to ascertain to the extent practicable the identity of the auditors.

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.

**Chapter 3 – Proposed Conforming Amendment to Revised Non-assurance Services (NAS) Provisions issued in April 2021**

**(Mark-up from Revised NAS Provisions)**

**PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

**SECTION 400**

**APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

**Requirements and Application Material**

...

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

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous Sservices provided to the audit client by the firm or a network firm ~~in prior financial statement periods.~~

**Chapter 4 – Proposed Conforming Amendments to the Code Resulting from the Revision to the Definition of Engagement Team**

**(Mark-up from Extant Code)**

**PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

**SECTION 300**

**APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

**Requirements and Application Material**

**General**

...

**Addressing Threats**

...

*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:

- ...
- 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.
- ...

## SECTION 310 CONFLICTS OF INTEREST

### Conflict Identification

...

### Threats Created by Conflicts of Interest

...

310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate ~~engagement~~ teams who are provided with clear policies and procedures on maintaining confidentiality.
- ...

### Confidentiality

...

#### *When Disclosure to Obtain Consent would Breach Confidentiality*

**R310.12** When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the ~~engagement~~ teams serving the two clients; and

...

### Documentation

**R310.13** In the circumstances set out in paragraph R310.12, the professional accountant shall document:

- (a) The nature of the circumstances, including the role that the accountant is to undertake;
- (b) The specific measures in place to prevent disclosure of information between the ~~engagement~~ teams serving the two clients; and

...

**SECTION 320**  
**PROFESSIONAL APPOINTMENTS**

...

**Requirements and Application Material**

**Client and Engagement Acceptance**

*General*

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the ~~engagement~~-team does not possess, or cannot acquire, the competencies to perform the professional services.

...

## INTERNATIONAL INDEPENDENCE STANDARDS

### PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### SECTION 400

#### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

#### Requirements and Application Material

...

#### Period During which Independence is Required

...

400.30 A1 The engagement period starts when the audit engagement team begins to perform the audit. The engagement period ends when the audit 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 report.

...

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

#### SECTION 510

#### FINANCIAL INTERESTS

#### Requirements and Application Material

...

#### Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

...

510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other audit engagement team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

...

## SUBSECTION 605 – INTERNAL AUDIT SERVICES (FROM REVISED NAS PRONOUNCEMENT)

### Introduction

...

### Requirements and Application Material

...

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

- (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 client, and evaluating the level of such threat include:

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the ~~audit engagement~~ team will place on the work of the internal audit service.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R605.6 applies.

**PART 4B (REVISED) – 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**

...

**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.

900.30 A1 The engagement period starts when the ~~assurance engagement~~ 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.

...

**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 engagement~~ 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.



## Chapter 5 – Proposed Quality Management-related Consequential Amendments to the Code

### INTERNATIONAL INDEPENDENCE STANDARDS

#### (MARK-UP FROM EXTANT CODE)

#### PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

##### SECTION 540

##### LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

##### Requirements and Application Material

###### All Audit Clients

...

**R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) ~~Provide quality control for the audit engagement~~Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

...

###### Restrictions on Activities During the Cooling-off Period

**R540.20** For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or ~~provide quality control~~perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:

- (i) Having significant or frequent interaction with senior management or those charged with governance; or
- (ii) Exerting direct influence on the outcome of the audit engagement.

...

## SECTION 800

### REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

#### Requirements and Application Material

##### General

##### Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

**R800.10** When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) ~~Those who provide quality control for the engagement, including those who perform the engagement quality control review~~ Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

## PART 4B (REVISED) – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

### SECTION 940

#### LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

##### Requirements and Application Material

###### General

...

**R940.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) ~~Provide quality control for the assurance engagement~~Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

### SECTION 990

#### REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

##### Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

**R990.7** When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) ~~Those who provide quality control for the engagement, including those who perform the engagement quality control review~~Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

## Chapter 6: Proposed Changes to the Glossary

### (Mark-up from Extant Code)

- Assurance Team
- (a) All members of the engagement team for the assurance engagement;
  - (b) All others within, or engaged by, a-the firm who can directly influence the outcome of the assurance engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
    - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
    - (iii) Those who ~~provide~~ perform an engagement quality control review, or a review consistent with the objective of an engagement quality review, for the ~~assurance engagement, including those who perform the engagement quality control review for the assurance engagement.~~

- Audit Team
- (a) All members of the engagement team for the audit engagement;
  - (b) All others within, or engaged by, a-the firm who can directly influence the outcome of the audit engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
    - (iii) Those who ~~provide~~ perform an engagement quality control for the engagement, including those who perform the review, or a review consistent with the objective of an engagement quality ~~control~~ review, for the engagement; and
  - (c) All those within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "audit team" applies equally to "review team."*

- Audit team for the group audit
- (a) The engagement team for the group audit, including individuals from component auditor firms who perform audit work related to components for purposes of the group audit;
  - (b) All others within, or engaged by, the group auditor firm who can directly

influence the outcome of the group audit, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
- (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and
- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;
- (c) All those within a network firm of the group auditor firm’s network who can directly influence the outcome of the group audit; and
- (d) Any individual within a component auditor firm outside the group auditor firm’s network who can directly influence the outcome of the group audit.

Component An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit

Component audit client When a component is:

- (a) A legal entity, the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component auditor firm The firm performing audit work related to a component for purposes of the group audit

Engagement team All partners and staff performing the engagement, and any *other* individuals engaged by the firm or a network firm who perform assurance procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement. This excludes external experts engaged by the firm or by a network firm.

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.

In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is

further described in paragraph 400.A.

ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA 620 deals with the auditor’s responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.

<u>Group</u>	<u>A reporting entity for which group financial statements are prepared</u>
<u>Group audit</u>	<u>The audit of group financial statements</u>
<u>Group audit client</u>	<u>The entity on whose group financial statements the group auditor firm conducts an audit engagement. The group audit client includes its related entities as specified in paragraph R400.20 and any other components that are subject to audit work.</u>
<u>Group auditor firm</u>	<u>The firm that expresses the opinion on the group financial statements</u>
<u>Group engagement partner</u>	<u>The engagement partner who is responsible for the group audit</u>
<u>Group financial statements</u>	<u>Financial statements that include the financial information of more than one entity or business unit through a consolidation process</u>
Key audit partner	The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, <u>audit engagement partners responsible for certain components in a group audit such as</u> significant subsidiaries or divisions.
Review team	(a) All members of the engagement team for the review engagement; and (b) All others within, <u>or engaged by, a—the</u> firm who can directly influence the outcome of the review engagement, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) Those who ~~provide~~ perform an engagement quality review, or a review consistent with the objective of an engagement quality review, quality control for the engagement, ~~including those who perform the engagement quality control review for the engagement~~; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

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## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	5.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	Public interest entity
<b>Date:</b>	25 March 2022
<b>Prepared By:</b>	Tracey Crookston

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Action Required

For Information Purposes Only

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### Agenda Item Objective

1. The objective of this agenda item is to discuss whether, when considering the revised IESBA definition for a public interest entity (PIE) in the IESBA Code, the NZAuASB AGREES with the:
  - a. staff recommendation to retain the existing New Zealand (NZ) definition of PIE (refer agenda item 5.2); and
  - b. content of the draft Invitation to Comment (ITC) and the exposure draft (ED) wording (refer agenda item 5.3).

### Background

2. The International Ethics Board for Accountants (IESBA) has broadened the definition of PIE in the IESBA Code. The revisions to the Code include an overarching objective<sup>1</sup>, a broadly defined list of global PIEs and a list of factors for determining the level of public interest in an entity.
3. The Public Interest Oversight Board (PIOB) is expected to approve the issue of the *Revision to the Definitions of Listed Entity and Public Interest Entity in the Code* at its April meeting.
4. At its February meeting, the NZAuASB was asked to agree if, and how, the NZ approach to defining a PIE<sup>2</sup> (historically broader than the international one) should be amended. When discussing the staff paper, the NZAuASB held mixed views. The Board also held mixed views on the staff recommendation to break the connection between the PIE definition and tier 1 in XRB A1 *Application of the Accounting Standards Framework* (XRB A1).
5. As the existing PIE definition is linked to tier 1 in XRB A1, the NZAuASB agreed to seek strategic input from the XRB Board. The XRB Board was updated on the NZAuASB's PIE discussion at its February meeting.

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<sup>1</sup> The overarching objective: the public interest in the financial condition of the entity.

<sup>2</sup> "An entity that meets the Tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier."

6. The XRB Board noted that it has been challenging for staff to obtain sufficient evidence to validate the extent of the issue raised by some stakeholders that the existing NZ PIE definition captures too many entities.
7. When discussing potential amendments to the existing NZ PIE definition, the XRB Board was mindful of not introducing unnecessary complexity for those applying the standards. In line with this, the XRB Board was cognisant of the need to obtain sufficient evidence before supporting a proposal to:
  - a. remove the existing link to the PIE definition with tier 1 in XRB A1; and/or
  - b. extend the breadth of the existing PIE definition.
8. Further detail is provided in the issues paper at agenda item 5.2.

**Matters for consideration**

9. Staff have heard mixed views from the NZAuASB on the preferred breadth of the NZ PIE definition and on the removal of the definition's link to tier 1 in XRB A1.
10. We have also noted the XRB's Board's preference for not introducing unnecessary complexity without obtaining sufficient evidence to support a change.

11. Staff therefore recommend that a NZ exposure draft be issued proposing to carry forward the existing NZ PIE definition and inviting comments from constituents. The feedback received will then provide evidence to help inform whether any changes need to be made to the existing definition.
---

12. The Australian Accounting Professional and Ethical Standards Board (APESB) have not yet decided how they will bring in the IESBA PIE revisions. We will continue to work with APESB staff as they progress their project on PIEs.
13. Staff have asked the XRB's accounting team if, when updating XRB A1, they can include some text to indicate that the PIE definition for assurance purposes is linked to the tier 1 criteria in XRB A1.
14. Board members are being asked:
  - a. whether they AGREE with the staff recommendation; and
  - b. for FEEDBACK on the draft ITC and ED wording.

**Action**

15. Board members are asked to review the:
  - a. issues paper at agenda item 5.2; and
  - b. draft ITC and ED wording at agenda item 5.3.

**Material Presented**

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues Paper
Agenda item 5.3	Draft ITC and ED wording

## Public Interest Entity (PIE) definition

### Objective of this memo

1. The objective of this agenda item is to discuss whether, when considering the revised IESBA definition for a public interest entity (PIE) in the IESBA Code (the Code), the NZAuASB AGREES with the:
  - a. staff recommendation to retain the existing New Zealand (NZ) definition of PIE; and
  - b. content of the draft Invitation to Comment (ITC) and the exposure draft (ED) wording (refer agenda item 5.3).

### Staff recommendation

2. Staff recommend that a NZ exposure draft be issued proposing to carry forward the existing NZ PIE definition and inviting comments from constituents. The feedback received will then provide evidence to help inform whether any changes need to be made to the existing definition.

### Background

3. The current NZ PIE definition<sup>1</sup> in Professional Engagement Standard (PES) 1<sup>2</sup> is aligned with the tier 1 criteria in XRB A1 *Application of the Accounting Standards Framework* (XRB A1). It is comparable to the Australian definition but is more prescriptive for the public and not-for-profit sectors, with size thresholds established in XRB A1.
4. The IESBA's revisions to the Code broaden the global definition of PIE with a more broadly defined list of global categories of PIEs. The approach has three key aspects:
  - a. a 'top down' approach including a broader list of five specific categories of entities as PIEs in the IESBA Code (the Code);
  - b. a 'bottom up' approach recognising the important role of relevant local bodies to add categories, or refine categories by setting size criterion and adding new types of entities or exempting certain entities; and
  - c. determination by firms if any additional entities should be treated as PIEs.
5. When considering how to refine the IESBA's definition of PIE for local adoption, national standard setters (NSS) have been asked to consider from a 'top down' perspective:
  - a. the Codes' PIE categories – how might each of the five specific categories be further refined so that the right entities are scoped in or out?
6. While, from a 'bottom up' perspective:
  - b. are there entities in the local jurisdiction defined by law or regulation as PIEs?
  - c. are there any additional categories of entities that should be included as PIEs?

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<sup>1</sup> "Any entity that meets the Tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier."

<sup>2</sup> *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

7. When considering this, the IESBA expects NSS to:
  - a. be guided by the overarching objective for defining entities as PIEs in the Code – *the public interest in the financial condition* of an entity (i.e., how the entity’s financial success or failure may impact the public);
  - b. consider the five categories and how they might be further refined (e.g., how might the categories be refined so that the right entities are scoped in or out?); and
  - c. consider the list of factors (e.g., nature of business activities, size of the entity, importance to the sector, number and nature of stakeholders etc.) set out in the Code for determining the level of public interest.

## Board Consideration

### NZAuASB

8. At the February NZAuASB meeting, the Board was asked to agree if, and how, the NZ approach to defining a PIE (historically broader than the international one) should be amended.
9. The staff paper recommended that, consistent with the factors in the IESBA code, the following entities should be added to the IESBA’s ‘top down’ categories to be included as NZ PIEs in PES 1:
  - a. FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs);
  - b. Large for-profit public sector entities; and
  - c. Large public benefit entities (PBEs)
10. This approach would result in most, but not all reporting entities that are required to report using the tier 1 accounting requirements continuing to be classified as PIEs in PES 1.
11. The tier 1 reporting entities not included in this recommendation would be those entities that are considered to have ‘public accountability’ as defined in XRB A1 (based on the IASB definition) that are not FMC reporting entities.
12. The staff paper noted that the existing NZ PIE definition was linked to tier 1 in XRB A1 because the XRB considered it appropriate that entities that can only report using tier 1 financial reporting requirements should be audited under the most rigorous and stringent rules. When settling on the existing PIE definition, the rationale was that:
  - a. extending the definition of a PIE more widely exceeded the costs of doing so to promote audit quality in NZ; and
  - b. there was a need for consistency and simplicity. There was a preference not to add a third definition, or to create sub-levels within the framework.
13. The staff paper also highlighted that:
  - a. the existing NZ PIE definition already captures entities which will now be captured by the IESBA Code revisions. However, it also captures entities not captured by the revised international PIE definition (e.g., financial statements of managed investment schemes).
  - b. some practitioners have expressed concerns that the XRB’s PIE definition is capturing too many entities. Practitioners have said this has been exacerbated by more stringent auditor rotation for PIEs, new requirements for objectivity of the engagement quality

reviewer and the recent prohibitions on providing non-assurance services. However, there have been no significant comments from other stakeholders on this issue.

- c. there is some uncertainty<sup>3</sup> over whether a wider group is caught by the IASB definition of public accountability (e.g., fund managers, stockbrokers, financial advisors). That is, whether they “*hold assets for a broad group of outsiders as one part of its primary business*” and are required to apply the tier 1 reporting requirements.
  - d. the previous reference to “fiduciary capacity” in the application material of the IESBA Code has been removed during the latest revisions.
14. When discussing IESBA’s revised approach to the PIE definition, the NZAuASB noted the importance of:
- a. recognising the purpose and importance of defining PIEs (i.e., additional independence requirements) while being mindful of not going broader than necessary;
  - b. carefully considering all the factors from the revised IESBA Code;
  - c. a balance between a principles-based approach while also providing clarity around which entities are PIEs in NZ;
  - d. the IESBA Code’s provision that encourages firms to determine whether to treat other entities as public interest entities for the purposes of this part of the Code;
  - e. not getting tied down in the details of entities on the fringes; and
  - f. considering the current pressures on the NZ auditing profession.
15. The Board held mixed views in terms of the breadth of the PIE definition. All members agreed that the entities in paragraph 9 above should continue to be captured. Some board members provided thoughts or examples of specific entities that might fall within the new factors in the revised Code (e.g., public utilities, businesses important to a particular region etc.)
16. Board members also held mixed views on the staff recommendation to break the connection between the PIE definition and tier 1 in XRB A1. Some supported breaking the connection, given concerns around a lack of clarity as to how the IASB definition of public accountability determines which entities are tier 1 reporting entities. However, others were in favour of retaining the connection highlighting concerns about unintended consequences of breaking the link.
17. The Board also discussed the perceived lack of clarity as to whether stockbrokers, fund managers and funds are tier 1 entities. The Board noted that it has been challenging for staff to obtain sufficient evidence to validate the extent of the issue (i.e., evidence of the number and type of all entities captured by the tier 1 criteria).
18. The Board received papers on the NZASB’s proposed project to make some changes to XRB A1 and Board members expressed an interest in working with the NZASB to further explore the issue regarding stockbrokers.
19. As the existing PIE definition is linked to tier 1 in XRB A1, the Board agreed to seek strategic input from the XRB Board.

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<sup>3</sup> This uncertainty was considered by the NZASB and XRB Board in December 2021 and it was tentatively agreed that a project to clarify XRB A1 should commence but it may not completely resolve this uncertainty.

*XRB Board*

20. At its February meeting, the XRB Board received an update on the PIE discussions at the February NZAuASB meeting. The XRB Board also received an update on the NZASB's project relating to clarifications within XRB A1 regarding stockbrokers.
21. The XRB Board noted that historically the introduction of a multi-sector, multi-tier approach introduced layers into the accounting standards framework which did not exist previously. Therefore, at inception, for simplicity it was agreed that the PIE definition for auditing purposes should be linked to tier 1 reporting. The objective being to make it simple and understandable for stakeholders when adopting the framework.
22. The XRB Board supported the NZAuASB's approach in evaluating the existing PIE definition within the revised framework approved by IESBA.
23. The Board also noted that it has been challenging for staff to obtain sufficient evidence to validate the concerns that the XRB's definition is capturing too many entities as PIEs.
24. Overall, the XRB Board was mindful of not introducing unnecessary complexity for those applying the standards. In line with this, the Board was cognisant of the need to obtain sufficient evidence before supporting a proposal to:
  - a. remove the existing link of the PIE definition with XRB A1; and/or
  - b. extend the breadth of the existing PIE definition.

Staff approach

25. As outlined above, staff have heard mixed views from the NZAuASB on the preferred breadth of the NZ PIE definition and on breaking the definition's link with tier 1 in XRB A1.
26. Staff have also noted the XRB Board's preference for not introducing unnecessary complexity without obtaining sufficient evidence to support a change.
27. Staff therefore recommend that a NZ exposure draft be issued proposing no changes to the existing NZ PIE definition and inviting comments from constituents. The feedback received will then provide evidence to help inform whether any changes need to be made to the existing definition.

28. <b>Does the Board agree with the staff recommendation?</b>
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Next steps

29. If the Board agrees with the staff recommendation, we seek the Board's views on developing the draft ITC and exposure draft (agenda item 5.3).

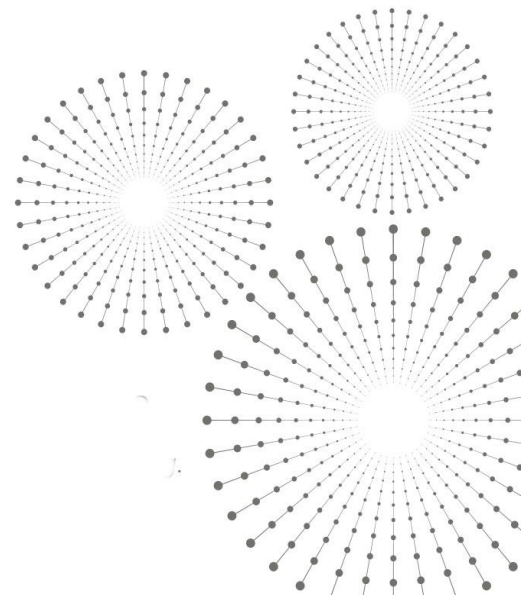


*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

**Exposure Draft NZAuASB 2022-X**  
**Proposed revisions to the definitions of**  
**listed entity and public interest entity**  
**in PES 1**

**Invitation to Comment**

**XX April 2022**





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## Information for respondents

### Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising the Public Interest Entity (PIE) provisions.

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 [\[insert link to the ED on the XRB website here\]](#)

The closing date for submissions is [XX Month 2022].

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

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://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).

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<sup>1</sup> 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.

Australian Code	Australian Code of Ethics for Professional Accountants
ED	Exposure Draft
FMC HLPAs	Financial market conduct entities with a higher level of public accountability
IESBA	International Ethics Standards Board for Accountants
IESBA Code	International Code of Ethics for Professional Accountants (including International Independence Standards)
IAASB	International Auditing and Assurance Standards Board
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
PBEs	Public Benefit Entities
PES	Professional and Ethical Standard
PES 1	International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)
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 [XX Month 2022]:

*New Zealand definition of Public Interest Entity (PIE)*

### Questions for Respondents

Question 1.	Do you agree with carrying forward the extant NZ PIE definition in PES 1? If not, please provide your reasons.
Question 2.	Are there any categories of entities not captured by the extant NZ PIE definition that you consider should be, when considering the revised global PIE approach in the IESBA Code?  Please describe the category of entity you consider should be added and provide your reasons.
Question 3.	Are there any categories of entities that are captured by the extant NZ PIE definition that you consider should not be?  Please describe how you would suggest amending the proposed NZ approach and provide your reasons as to why the category you have identified should not be captured.
Question 4.	Do you have any other comments on the PIE revisions to PES 1?

# 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 2022-X *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in PES 1*.

## 1.2 Background

### *International position*

2. The International Ethics Standards Board for Accountants (IESBA) has recently revised the public interest entity (PIE) provisions of the IESBA Code.
3. The concept of PIE was first introduced in the extant IESBA Code in early 2000. At that time, IESBA concluded that other than for listed entities, determining which entities should be treated as PIEs should be largely left to local regulators or standard setters. However, firms were also encouraged to consider whether additional entities should be treated as PIEs, taking into account the guidance provided in the IESBA Code.
4. In recent years, some regulatory stakeholders have asked IESBA to re-examine the definition of a PIE. Also, developments in capital markets globally and new forms of capital raising (e.g., crowd funding) have raised questions about the need to update the definition of a listed entity in the IESBA Code to ensure clarity and continued relevance.
5. Recent key changes to the IESBA Code relating to PIEs are:
  - The inclusion of an overarching objective for additional independence requirements for entities that are PIEs (400.8).
  - Guidance on factors for consideration when determining the level of public interest in an entity (400.9).
  - A broadening of the extant global definition of PIE to include additional categories of entities. The categories are at a high-level and IESBA's expectation is that local jurisdictions will refine these as part of the implementation and adoption process (**R400.17**).
  - Replacement of the term "listed entity" with one of the new PIE categories, "publicly traded entity".
  - The encouragement of firms to determine whether to treat additional entities as PIEs and factors for consideration by firms (400.19A1).
  - A requirement for firms to disclose if an audit client has been treated as a PIE (**R400.20**).

*Overarching Objective*

6. The overarching objective for the PIE provisions (paragraphs 400.8 and 400.9) places the emphasis on the public interest in the financial condition of entities due to the possible impact of that financial condition on stakeholders. As such, the overarching objective captures the following rationale:
  - There are types of entities for which there is a significant interest in their financial condition, and therefore their financial statements.
  - It is important that there is public confidence in the financial statements. A major contributor to that confidence, is in turn confidence in the audit of the financial statements; and
  - Confidence in such audits will be enhanced by additional independence requirements.

*Level of public interest in an entity*

7. The IESBA has provided further guidance on determining the level of public interest in the “financial condition” of entities by setting out a list of non-exhaustive factors. This list is intended to be used by local jurisdictions when refining the definition of PIE as part of their adoption process. It is also intended to be used by firms to determine if additional entities should be treated as PIEs.
8. The IESBA notes that each of the factors on its own may not amount to significant public interest in the financial condition of an entity and should not be considered in isolation. The factors in paragraph 400.9 are as follows:
  - The nature of an entities business or activities – this covers those entities that take on financial obligations to the public as a key element of their business model.
  - Whether an entity is subject to regulatory supervision designed to give confidence that the entity will meet its financial obligations. Such supervision is relevant to entities providing financial services, but it is not intended to be restricted to only these entities.
  - The size of the entity.
  - The impact of the entity on the sector in which it operates including how easily replaceable the entity is in the event of financial failure.
  - The number and nature of stakeholders including investors, customers, creditors and employees.
  - The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

*IESBA's approach to revising the PIE definition*

9. The IESBA's approach to revising the PIE definition in the IESBA Code has three key elements.
  - A 'top-down' approach including a broader list of high-level categories of entities as PIEs.
  - A 'bottom-up' approach recognising the important role of local jurisdictions to refine the IESBA categories for local circumstances – by tightening definitions, setting size criterion and adding new types of entities or exempting particular entities.
  - Determination by firms if any additional entities should be treated as PIEs.
10. Under this combination of a 'top-down' and 'bottom-up' approach, local jurisdictions are expected to revise the IESBA PIE definition as part of the local adoption process. In doing so, consideration needs to be given to the overarching objective, the list of factors and the high-level categories.
11. Paragraph **R400.17** sets out the list of PIE categories as follows:
  - (a) A publicly traded entity.
  - (b) An entity, one of whose main functions is to take deposits from the public.
  - (c) An entity, one of whose main functions is to provide insurance to the public; or
  - (d) An entity, specified as such by law or regulation to meet the objective described in paragraph 400.10<sup>2</sup>.
12. In addition to refining the list of PIE categories, a local jurisdiction may also consider including other categories of entities as additional categories of PIEs.
13. Under the IESBA's broad approach, firms are also encouraged to consider whether any additional entities or categories of entities should be treated as PIEs. It is important to note that firms can only add additional audit clients as PIEs. They cannot treat any audit clients as non-PIE entities if those entities are required to be treated as PIEs for the purposes of the IESBA Code.

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<sup>2</sup> Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition (400.10).



## 2. NZ definition of PIE

### 2.1 Extant NZ definition of PIE

14. The NZAuASB is supportive of the IESBA’s approach to revising the global definition of PIE, recognising the role of the global standard setter, and local jurisdictions in adapting which entities meet the objectives of the additional PIE requirements.
15. 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 in New Zealand and do not conflict with or result in lesser requirements than the international standards.
16. The NZAuASB has previously applied the compelling reason test and adopted a New Zealand specific PIE definition that is broader than listed entities which has been in effect for a number of years.
17. The NZAuASB proposes to adopt the revisions to the IESBA Code and to carry forward the existing NZ definition of PIE.
18. The extant definition of a PIE in PES 1 is as follows:
 

... a Public Interest Entity is defined as, any entity that meets the Tier 1 criteria in accordance with XRB A1, *Application of the Accounting Standards Framework*, and is not eligible to report in accordance with the accounting requirements of another tier<sup>3</sup>.
18. The NZ PIE definition has historically been broader than listed entities. When applying the IESBA ‘top-down’ and ‘bottom-up’ approach, the current NZ approach to defining PIEs remains broader than the IESBA “top-down” categories but continues to align with the new factors introduced in the revised IESBA Code.
19. Some entities that currently meet the tier 1 criteria and are therefore NZ PIEs (e.g., some FMC HLPAs) fall within the expanded IESBA global PIE categories **(R400.17 (a)-(d))**.
20. While other entities (e.g., the remaining FMC HLPAs, large for-profit PBEs and large PBEs) that currently meet the tier 1 criteria fall within the IESBA’s five non-exhaustive factors (400.9), to be considered when determining the level of public interest in the financial condition of an entity.

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<sup>3</sup> PES 1 - Glossary

21. For example, we consider that:

- All FMC HPLA entities<sup>4</sup> should be NZ PIEs given:
  - (a) the nature of these entities;
  - (b) these entities are subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations;
  - (c) the number and nature of stakeholders; and
  - (d) the potential systemic impact on the economy as a whole in the event of financial failure.
- Large reporting entities as captured by tier 1 of XRB A1 (i.e., large public sector and large not-for-profit entities) should be NZ PIEs given the:
  - (a) nature of these entities;
  - (b) size of these entities;
  - (c) impact of the entity on the sector; and
  - (d) number and nature of stakeholders.
- Any other entities that meet the tier 1 criteria, because they have public accountability, given the:
  - (a) nature of these entities;
  - (b) impact of the entity on the sector; and
  - (c) number and nature of stakeholders.

22. The objective of linking the PIE definition to the tier 1 criteria in XRB A1 was, and still is, for simplicity (i.e., not introducing unnecessary complexity to the multi-sector, multi-tier approach) and for understandability reasons. It is also considered appropriate that entities that can only report using tier 1 financial reporting requirements should be audited under the most rigorous and stringent independence rules.

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<sup>4</sup> [FMC HPLA entities](#)

Questions for Respondents

Question 1.	Do you agree with carrying forward the extant NZ PIE definition in PES 1? If not, please provide your reasons.
Question 2.	Are there any categories of entities not captured by the extant NZ PIE definition that you consider should be, when considering the revised global PIE approach in the IESBA Code?  Please describe the category of entity you consider should be added and provide your reasons.
Question 3.	Are there any categories of entities that are captured by the extant NZ PIE definition that you consider should not be?  Please describe how you would suggest amending the proposed NZ approach and provide your reasons as to why the category you have identified should not be captured.
Question 4.	Do you have any other comments on the PIE revisions to PES 1?

**2.2 Effective date**

- 23. In line with the IESBA revisions, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in PES 1* will be effective for audits of financial statements for periods beginning on or after 15 December 2024.
- 24. Early adoption will be permitted.

**2.3 Timeline and next steps**

- 25. Submissions on ED NZAuASB 2022-XX are due by [Day/Month/2022]. Information on how to make a submission is provided on page 4 of this ITC.
- 26. 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.

**Suggested wording changes to be included in the ED. The extract below and revised wording is indicative and shows changes to the revised IESBA text rather than changes to PES 1.**

This section is based on IESBA Meeting Papers (November – December 2021) Agenda item 2-D.1). New text is underlined>.

**PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**  
**SECTION 400**  
**APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

**Introduction**  
**General**

...

**Public Interest Entities**

- 400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.
- 400.9 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:
- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity’s primary business.
  - Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
  - Size of the entity.
  - The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
  - Number and nature of stakeholders including investors, customers, creditors and employees.
  - The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.
- 400.10 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s financial statements that can be used when assessing the entity’s financial condition.

...

## Public Interest Entities

**R400.17** For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

NZR400.17A When considering the factors in 400.9, and the categories in **R400.17**, in New Zealand, public interest entities include any entity that meets the Tier 1 criteria in accordance with XRB A1<sup>5</sup> and is not eligible to report in accordance with the accounting requirements of another tier.

400.17 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.10, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as “public interest entities” for reasons unrelated to the purpose described in paragraph 400.10, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

**R400.18** In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).

400.18 A1 The categories set out in paragraph R400.17 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

400.18 A2 Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public

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<sup>5</sup> XRB A1 *Application of the Accounting Standards Framework*

interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

400.19 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.9 as well as the following factors:

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

*Public Disclosure – Application of Independence Requirements for Public Interest Entities*

**R400.20** Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.

**R400.21** As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

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## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	6.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	IESBA ED Technology-related Revisions to the Code
<b>Date:</b>	23 March 2022
<b>Prepared By:</b>	Anna Herlender

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objective of this agenda item is to inform the Board about the IESBA's Exposure Draft *Technology-related Revisions to the Code* (Technology ED) and to seek views from the Board to inform the development of a submission to the IESBA.

### Background

2. The IESBA issued the Technology ED on 18<sup>th</sup> February 2022. The aim of the proposed revisions is to enhance the Code's robustness and expand its relevance in an environment being reshaped by rapid technological advancements.
3. The IESBA submission period ends on 20 June 2022. The XRB has invited comments from New Zealand stakeholders by 9th May 2022 to enable the preparation of a draft submission for approval by the NZAuASB at its June meeting.
4. The Board previously received an update on the project from Brian Friedrich (Chair, Technology Task Force) at its September 2020 Board meeting.

### Overview of the proposed changes

5. The proposed revisions aim to future proof the Code for a rapidly changing technology environment. The term technology is used in a broad sense to encompass all current and future, not yet known, technology solutions. The proposed revisions impact all professional accountants, with some aspects specifically targeted at assurance practitioners. The XRB's mandate and therefore interest in these proposals is limited to the implications for assurance practitioners.
6. Staff summary of the key aspects of the Exposure Draft applicable to all professional accountants (PAs) as follows:
  - a) Clarifications with a more obvious link to technology:
    - Proposed new application to assist in identifying threats to the fundamental principles when a PA or assurance practitioner uses or relies on the output of technology (refer to 300.6 A2)

- Provide guidance to assist all PAs when they rely on, or use, the output of technology (refer to R320.10 and 320.10 A2)
  - Proposals that explain how PAs maintain confidentiality of information acquired as a result of professional and business relationships and prompt PAs to secure such information in the course of the entire cycle of data governance (refer to 114.1 A1)
- b) Clarifications that are relevant in the context of technology but that also amend the requirements of the Code more broadly:
- A discussion of complex circumstances and why these circumstances are a consideration in applying the conceptual framework with guidance to assist PAs manage such circumstances or mitigate their impact (refer proposed paragraphs 120.13 A1 to A3)
  - Professional competency expanded to include “soft skills” (refer to paragraph 113.1 A1)
7. Of most significance to assurance practitioners will be proposals to strengthen the International Independence Standards by:
- Acknowledgement that accounting and bookkeeping services can either be manual or automated with new application material to prompt firms’ consideration of how technology functions and whether the technology is based on expertise or judgements of the firm or a network firm when determining whether an automated bookkeeping service is “routine or mechanical” (refer to paragraph 601.5 A2 and A3).
  - Clarified that non-assurance services provisions apply when providing, selling, reselling or licencing technology (refer to paragraph 600.6 and 520.7 A1)
  - Provided a description of IT systems services that is broad in scope and goes beyond design and implementation (see proposed paragraph 606.2 A1)
  - Enhanced clarity about IT systems services that result in the assumption of a management responsibility therefore are prohibited for all audit clients: hosting audit client’s data and operating audit client’s network security, business continuity or disaster recovery functions (refer to paragraph 606.3 A1 and A2)
  - Withdrawing the presumption that providing certain IT system services, for example “off-the-shelf” accounting and financial information reporting software, do not usually create a threat as long as individuals within the firm do not assume a management responsibility (refer to extant paragraph 606.4 A2)
  - Highlighted the following services that might create a self-review threat therefore are prohibited for audit clients that are public interest entities (PIEs):
    - Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
    - Supporting an audit client’s IT systems, including network and software applications.
    - Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm (606.4.A3).
  - Application of independence provisions of the Code to assurance engagements on non-financial information, for example ESG including greenhouse gas statements (refer to proposed changes to section 900)



8. Staff's analysis is general support for the proposed changes to the Code. Specific matters to explore in more detail are included in agenda item 6.2.

**Specific matters explored in agenda item 6.2.**

9. The following matters are explored in detail in agenda item 6.2:
  - a. IT system services, including IT system services descriptions, IT system services prohibited for all audit clients and IT system services that might create self-review threat therefore prohibited for PIEs
  - b. Applicability of NAS when providing, selling, reselling or licencing technology
  - c. Relying on the output of technology and identifying threats arising from the reliance on the output of technology
  - d. Complex Circumstances
10. We intend to explore these matters during the Board meeting. The aim of the discussion will be to identify key areas for inclusion in the submission to the IESBA.

**Other matters**

11. The matters that are not included in agenda item 6.2. are described below. Given time constraints, there may not be time to explore all matters in detail during the Board meeting. The Board is asked to send their comments on the following matters to the staff for inclusion in a draft submission for the June meeting.

***Confidentiality and confidential information***

12. The IESBA proposes a new definition of "confidential information" in the Glossary: "any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain". The definition is intended to encompass all the possible scenarios in which information might be obtained and establishes a threshold for confidential information (i.e., information that is not in the public domain).
13. Additional application paragraph (114.1 A1) explains that the confidentiality of information relates to the entire data governance cycle: collection, use, transfer, storage, dissemination and lawful destruction.
14. The concept of "privacy" is not explicitly included in the proposed revisions. This is intentional, because privacy is often covered in jurisdiction-level laws and regulations. Professional accountants are already required to comply with the overriding provisions in paragraphs R100.7 to 100.7 A1 of the Code: "...some jurisdictions might have provisions that differ from or go beyond those set out in the Code," and "accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation."

***Professional competence and due care***

15. Proposed additional application material clarifies that professional competence requires: "the application of interpersonal, communication and organisational skills when undertaking professional activities" (par.113.1 A1). This revision is proposed to highlight the importance of non-technical skills.
16. The IESBA determined that the importance of "soft-skills" is already included in International Education Standards: IES 3: Professional Skills and IES 4: Professional Values, Ethics and Attitudes. The IESBA decided not to include a specific reference to the IES standards in the Code. This is further explained in paragraphs 29-32 of Explanatory Memorandum (agenda item 6.3).

### ***Routine or mechanical***

17. The proposed revisions (par.601.5 A2 and 601.5 A3) clarify that automated services are not necessarily routine or mechanical. The additional application material includes factors to consider when determining if automated services are routine or mechanical. These factors include how the technology functions and whether technology is based on expertise or judgements.
18. This revision is in response to feedback arising from NAS project, where stakeholders raised concerns that automated services could result in the assumption of a management responsibility. The IESBA therefore further clarified that when technology is used in performing a professional activity for an audit client, the NAS provisions, including the prohibition on assuming management responsibility apply (par.400.16 A1)

### ***Section 900 revisions (Part 4B of the Code) Applying the Conceptual Framework to Independence for Assurance Engagements other than Audit and Review Engagements***

19. The proposals include the addition of an explicit statement that this part of the Code applies also to “assurance engagements on entity’s non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements”. The IESBA intention was to explicitly cover non-financial reporting. However, the IESBA acknowledges that this is an evolving area, and more refinements might be required in the future.
20. The other revisions of Part 4B mostly mirror the revisions in Part 4A of the Code and provide some specific examples relevant to assurance engagements other than audit or review, including a technology-related NAS that might create a self-review threat and examples of certain technology-related professional activities that involve the assumption of a management responsibility.

### **Planned outreach**

21. A webinar to inform stakeholders about the content of the exposure draft is planned for April. This will be a 90-minute event that covers all aspects of recent changes to the Code, rather than an event focussed on this ED. We plan to use polling to obtain some views about the key aspects of this exposure draft. At this stage we do not plan to host a specific roundtable discussion on this ED but seek thoughts from the board as to whether or not this is needed.
22. We have issued an alert requesting written responses to the exposure draft by May.
23. A draft submission will be presented to the Board for approval at the June meeting.

### **Recommendations**

24. We recommend that the Board NOTE the key matters in the IESBA ED Technology-related Revisions to the Code and PROVIDE guidance on matters to be included in submission to the IESBA.

### **Material Presented**

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues Paper
Agenda item 6.3	IESBA ED Technology-related Revisions to the Code

# IESBA Technology Exposure Draft

Issues to explore  
April 2022

1

## The structure of the presentation

This presentation includes key proposals that staff wish to explore with the Board.

Each proposal includes the IESBA reasons for the proposed changes.

The revisions to the Code are in [a purple mark up](#).

They are followed by staff commentary.

The questions to the Board are in [a blue font](#).

The Board's views will inform the development of a submission to the IESBA.

2

## Key proposals that staff wish to explore with the NZAuASB:

1. IT system services
2. Applicability of NAS when providing, selling, reselling or licensing technology
3. Relying on the output of technology and identifying threats arising from the reliance on the output of technology
4. Complex Circumstances

3

## IT system services

The IESBA intention is to ensure that the NAS provisions relating to technology are applicable to the widest IT system services possible. Accordingly, the description of IT system services is expanded beyond design and implementation of hardware or software.

Proposed revisions identify also:

- IT system services that are prohibited for all audit clients because the provision of these services involves assuming management responsibility.
- IT systems services that might create a self-review threat are proposed. These services are prohibited for PIE audit clients.

4

## IT system services

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, or updating IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client.

606.2 A21 Services related to IT systems include the design or implementation of hardware or software systems. [...]

5

## Prohibited IT system services

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Provides services in relation to the hosting (directly or indirectly) of an audit client's data.
- Operates an audit client's network security, business continuity or disaster recovery function.

606.3 A2 The collection, receipt and retention of data provided by an audit client to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

6

## IT system services that might create a self-review threat

Addition of new paragraph:

606.4 A3 Examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

7

## IT system services that might create a self-review threat

Withdrawal of the extant paragraph:

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

- ~~—(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.~~

8

## IT system services

The proposed revisions are more explicit regarding prohibited services and services that might create self-review threat. “Off-shelf” software is now included in the services that might create self-review threat, because nowadays off-shelf software usually requires a tailoring/customization as part of the implementation process.

Does the Board support:

- prohibition on services in relation to hosting of an audit client’s data and operating audit client’s network security, business continuity and disaster recovery functions?
- examples of IT system services that might create a self-review threat?

9

## Applicability of NAS when providing, selling, reselling or licensing technology

Outreach has indicated some confusion as to whether the NAS provisions apply when a firm sells or licenses technology that performs NAS. There is also confusion as to whether this creates a close business relationship.

The IESBA is of the view that the NAS provisions do apply in these circumstances and has also identified examples of arrangements that do create a close business relationship.

To clarify these two matters the following changes are proposed:

10

## Applicability of NAS when providing, selling, reselling or licensing technology

520.7 A1 If a firm or a network firm provides, sells, resells or licenses technology to an audit client, the requirements and application material in Section 600 apply.

600.6 The requirements and application material in this section also apply in those circumstances where:

(a) A firm or a network firm uses technology to provide a non-assurance service to an audit client; or

(b) A firm or a network firm provides, sells, resells or licenses technology to an audit client.

11

## Revised examples of close business relationship

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include: [...]

- Distribution or marketing aArrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

12



## Applicability of NAS when providing, selling, reselling or licensing technology

### Staff view

Although revised examples of close business relationship do not relate directly to technology, the wording is broad and encompasses technology related products or services. This wording aligns with the proposed wording on applicability of NAS when technology is involved.

### Does the Board support:

- the clarification that NAS provisions apply when providing, selling, reselling, or licensing technology to an audit client?
- IESBA revised examples that constitute a close business relationship?
- IESBA approach that no further examples are provided as they would require complex explanations on the nature of the arrangements?

13

## Relying on the output of technology and identifying threats arising from the reliance on the output of technology

Use of technology is considered a specific circumstance that might create threats to compliance with fundamental principles. Professional accountants should also consider if they can rely on the output of the technology in a similar manner as when they rely on the work of others.

The IESBA proposes to add specific considerations that can help identifying threats and specific factors to consider if the output of the technology is reasonable or appropriate for the intended purpose.

14

## Technology-related Considerations when identifying threats

200.6 A2 and 300.6 A2: The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the accountant or the employing organization.
- Whether the technology was designed or developed by the accountant or employing organization and therefore might create a self-interest or self-review threat.

15

## Reliance on the output of technology

200.7 A2 / 320.10 A2 Factors to consider in determining whether reliance on the output of technology is reasonable / when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether new technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.

16

## Relying on the output of technology and identifying threats arising from the reliance on the output of technology

Does the Board support the proposals which set out the thought process to be undertaken when considering whether the use of technology might create a threat to compliance with the fundamental principles?

Does the Board support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology?

Are there other factors that should be considered?

17

## Complex circumstances

The IESBA acknowledges that complex circumstances have always existed and are not a new phenomenon specific to technology. However, the IESBA observes that rapid digitalization has increased the interconnectedness of social, economic, and geopolitical systems, which is a complex circumstance that professional accountants are now facing.

With the focus on ensuring that the Code remains relevant and fit-for-purpose, the IESBA determined not to restrict the proposed provisions relating to complex circumstances to technology-specific situations.

18

## Complex circumstances

120.13 A1 The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.13 A2 Complex circumstances arise where the relevant facts and circumstances involve:

(a) Elements that are uncertain; and

(b) Multiple variables and assumptions,

which are interconnected or interdependent. Such facts and circumstances might also be rapidly changing.

19

## Complex circumstances

120.13 A3 Managing the evolving interaction of such facts and circumstances as they develop assists the professional accountant to mitigate the challenges arising from complex circumstances. This might include:

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- Using technology to analyze relevant data to better inform the accountant's judgment.
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.
- Monitoring any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made.

20

## Complex circumstances

The proposed application material acknowledges existence of complex circumstances and provides a list of factors that professional accountants could consider when managing complex circumstances.

Does the Board support the proposed application material relating to complex circumstances?

21

## Final comments

This presentation focused on four significant issues included in the proposed revisions to the Code. The Board Summary paper includes brief description of further proposed revisions in the Technology ED.

The staff is looking forward to further Board comments that could inform the development of a submission to the IESBA.

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**Exposure Draft**  
**February 2022**  
*Comments due: June 20, 2022*

*International Ethics Standards Board  
for Accountants®*

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## Proposed Technology-related Revisions to the Code

**IESBA**

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## About the IESBA

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

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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## REQUEST FOR COMMENTS

This Exposure Draft, [Proposed Technology-related Revisions to the Code](#), was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **June 20, 2022**.

Respondents are asked to submit their comments electronically through the IESBA website using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, Program and Senior Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.



**PROPOSED TECHNOLOGY-RELATED REVISIONS TO THE CODE**  
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## EXPLANATORY MEMORANDUM

### I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed technology-related revisions to the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).
2. The IESBA approved these proposed changes for exposure at its November-December 2021 meeting.

### II. Background and Overview

#### A. Project Objective and Scope

3. The genesis of the technology project was a focus on developments in technology as a high priority area in the IESBA's [Strategy Work Plan 2019-2023](#), consistent also with strategic input from the Public Interest Oversight Board (PIOB). The project involves a review of the Code to determine technology-related revisions that are necessary for the Code to continue to remain relevant and fit for purpose in response to the transformative effects of major trends and developments in technology on the work of the global accountancy profession.
4. The technology project was approved in March 2020, and has been informed by various inputs, including:
  - (a) A Working Group<sup>1</sup> [Report](#) which was issued in February 2020 (Phase 1 Report), and summarized the IESBA's 2018-2019 fact-finding and research on the impact of trends and developments in artificial intelligence (AI), big data, and data analytics on the ethical behavior of professional accountants, both in business (PAIBs) and in public practice (PAPPs). The Report outlined seven areas ("recommendations") that formed the basis of the IESBA's [Technology Project Proposal](#).
  - (b) Stakeholder [responses](#) to two Technology [Surveys](#) issued by the Technology Task Force in October 2020 on the topics of "Technology and Complexity in the Professional Environment" and "The Impact of Technology on Auditor Independence."
  - (c) Technology-related feedback on the January 2020 Non-Assurance Services (NAS) [Exposure Draft](#) that the IESBA determined would be addressed by the Technology Task Force.<sup>2</sup>
  - (d) Continued stakeholder input, including from over 50 targeted outreach meetings and events involving a broad range of stakeholder groups across many geographies; the IESBA's Consultative Advisory Group (CAG); the IESBA-National Standard Setters Liaison Group (NSS); the Forum of Firms (FoF); IFAC's Small and Medium Practices Advisory Group (SMP AG); and certain members of the Monitoring Group (i.e., the International Organization of Securities Commissions (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR)).

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<sup>1</sup> The 2019 Technology Working Group was chaired by former IESBA Member Patricia Mulvaney, and included members Greg Driscoll, IESBA Technical Advisor, Brian Friedrich, IESBA Member, Hironori Fukukawa, IESBA Member, and Myriam Madden, former IESBA Member.

<sup>2</sup> When the IESBA approved the NAS revisions to the Code in December 2020, the IESBA determined that technology-specific matters should be addressed as part of the Technology project (see pages 7-8 and paragraphs 102, 103, 124 and 125 of the [NAS Basis for Conclusions](#)). Section IV, A-D of this Explanatory Memorandum explains how the proposals have addressed such matters.

5. The proposals incorporate input from IESBA deliberations dating back to June 2020 in the course of which the IESBA considered findings in the Phase 1 Report, including the seven recommendations. As part of its deliberations, the IESBA considered whether some of the concepts underlying the recommendations are already incorporated and inherent in the fundamental principles of the Code, as revised by the [role and mindset revisions](#) to the Code (see paragraph 7 below).

## B. About the Proposed Revisions

6. The proposed technology-related revisions are to the most current version of the Code (“extant Code”), including all revisions that will become effective in December 2022 (i.e., [revisions relating to the objectivity of an engagement quality reviewer and appropriate reviewers](#), and the [revised NAS](#) and [fee-related provisions](#) of the Code).<sup>3</sup> The proposals also take into account the revisions that the IESBA approved in December 2021 that are subject to PIOB approval (i.e., the quality management-related conforming amendments to the Code, and the revisions relating to the Definitions of Listed Entity and Public Interest Entity (PIE)).

### *Recently Issued Pronouncements that Apply in Technology-Related Circumstances*

7. The technology-related revisions build on recent revisions to the Code, including those arising from the Role and Mindset and NAS projects. The revisions resulting from these projects introduced changes to the Code that are relevant to technology. In particular:
- The role and mindset revisions, which became effective on December 31, 2021:
    - Note that maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and **technology-related** developments (see paragraph 113.1 A2).
    - Acknowledge that a professional accountant’s (PA) exercise of professional or business judgment can be compromised by undue influence of, or undue reliance on, individuals, organizations, **technology** or other factors (see paragraph 110.1 A1).
    - Highlight that conscious or unconscious **bias** affects the **exercise of professional judgment** when identifying, evaluating and addressing threats to compliance with the fundamental principles. Those revisions also provide examples of bias. (See paragraphs 120.12 A1 to 120.12 A2.) Most relevant is **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.
  - The revised NAS provisions that will become effective for audits of financial statements for periods beginning on or after December 15, 2022:
    - Prohibit firms from providing IT systems services to audit clients that are PIEs if the provision of such services might create a self-review threat (see paragraph R606.6).
    - Provide examples of services that are prohibited because they give rise to a self-review

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<sup>3</sup> To access the Code and to obtain final pronouncements issued subsequent to April 2021, visit the IESBA’s website at: [www.ethicsboard.org/standards-pronouncements](http://www.ethicsboard.org/standards-pronouncements).

threat. Such examples include the provision of services to PIE audit clients that involve designing or implementing *IT systems* that (a) form part of the internal control over financial reporting, or (b) generate information for the client's accounting records or financial statements on which the firm will express an opinion (see paragraph 606.6 A1).

**C. Highlights of Proposed Technology-related Revisions**

8. The proposed technology-related revisions to the extant Code have been developed in a principles-based manner in order to preserve the relevance of the Code as technology evolves.<sup>4</sup> Accordingly, the use of the term “technology” in the proposals is broad and is meant to encompass all technologies (including AI and machine learning, blockchain, and other future technologies not yet known).
9. In developing the proposed technology-related revisions, the IESBA reviewed and considered the entire Code, including the independence provisions.

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

10. Key proposed revisions to Part 1:
  - Expand on the extant Code (including the role and mindset revisions) to acknowledge further technology-related considerations in describing the fundamental principles of professional competence and due care and confidentiality (see proposed revisions to paragraphs 113.1 A1, R113.3, 114.1 A3; and proposed paragraph 114.1 A1 and the glossary).
  - Provide additional considerations to assist in applying the conceptual framework, including:
    - A recognition that public trust is driven in part from a PA's ethical behavior in professional or business relationships, which might involve technology-related facts and circumstances (see proposed revisions to paragraph 120.14 A3).
    - A discussion of complex circumstances and why these circumstances are a consideration in applying the conceptual framework. The discussion includes a description of the facts and circumstances involved when complex circumstances arise and provides guidance to assist PAs manage such circumstances or mitigate their impact (see proposed paragraphs 120.13 A1 to A3).

*Parts 2 and 3 – Professional Accountants in Business and Professional Accountants in Public Practice*

11. Within Parts 2 and 3 of the Code, the proposals:
  - Provide new application material to assist in identifying threats to compliance with the fundamental principles when a PA uses or relies upon the output from technology (see proposed paragraphs 200.6 A2 and 300.6 A2).
  - Provide guidance to assist PAs when they rely on, or use, the output of technology. In particular, the proposals include a range of factors and other considerations intended to guide such thinking

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<sup>4</sup> The [Phase 1 Report](#), which states that “generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that PAs and firms might encounter,” supports this principles-based approach.

(see proposed revisions to paragraphs R220.7 and R320.10, and proposed paragraphs 220.7 A2, 220.7 A3 and 320.10 A2).

*Parts 4A and 4B – International Independence Standards (IIS)*

12. In the case of the independence provisions that apply to audit and review engagements, the proposals:
- Include clarifications and refinements to the revised NAS provisions that were issued in April 2021. In particular, proposed revisions are being made to revised Section 600 to:
    - Clarify that the NAS provisions apply (i.e., firms should consider the relevance of such provisions) in circumstances where technology is used by a firm or network firm to provide a NAS to an audit client, or where a firm or network firm provides, sells, resells or licenses technology to an audit client (see proposed paragraphs 600.6 and 520.7 A1).
    - Explicitly draw out that the client’s dependency on the service, including the frequency with which the service will be provided, is relevant in identifying the different threats that might be created by providing a NAS to an audit client, and in evaluating the level of such threats (see proposed third bullet of paragraph 600.9 A2).
    - Provide a description of IT systems services that is broad in scope and goes beyond design and implementation (see proposed paragraph 606.2 A1). There is also enhanced clarity about the examples of IT systems services that:
      - Result in the assumption of a management responsibility for an audit client (e.g., services relating to hosting of an audit client’s data) and therefore are prohibited (see proposed paragraphs 606.3 A1 to 606.3 A2).
      - Might create a self-review threat (e.g., implementing accounting or financial information reporting software) (see proposed paragraph 606.4 A3). In the case of audit clients that are PIEs, such services are prohibited.
    - Withdraw the presumption in extant paragraph 606.4 A2 that providing certain IT system services<sup>5</sup> does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility.
    - Acknowledge that accounting and bookkeeping services can either be manual or automated and provide new application material to prompt firms’ consideration of how the technology functions and whether the technology is based on expertise or judgments of the firm or a network firm when determining whether an automated accounting or bookkeeping service is “routine or mechanical” (see proposed paragraph 601.5 A2 and proposed revisions in paragraph 601.5 A3). There is also enhanced clarity on the prohibition on assuming management responsibilities to emphasize that when technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.15 and R400.16 apply regardless of the nature or extent of such use (see proposed paragraph 400.16 A1).
  - Provide enhanced clarity about the nature of technology-related arrangements that create a close

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<sup>5</sup> For example, implementing “off-the-shelf” accounting and financial information reporting software that was not developed by a firm or a network firm, if the customization required to meet the client’s needs is not significant.

business relationship (see proposals in paragraph 520.3 A2).

13. In the case of the independence provisions that apply to assurance engagements other than audit and review engagements, the proposals:
- Clarify, by an explicit statement that “[Part 4B of the Code] applies to assurance engagements on an entity’s non-financial information, for example, environmental, social and governance (ESG) disclosures” (see proposal in paragraph 900.1).
  - Include proposed amendments that are intended to preserve the existing alignment between Parts 4A and 4B of the Code (see proposed paragraphs 900.14 A1, 920.3 A2, 920.6 A1, 950.5 and 950.7 A2 third bullet).
  - Provide an example of a technology-related NAS that might create a self-review threat<sup>6</sup> in relation to the subject matter information of an assurance engagement, and examples of certain technology-related professional activities that involve the assumption of management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement (see proposed paragraphs 950.10 A1 and 900.13 A4 and A5).

**D. Interactions with Other IESBA Work Streams and the IAASB**

*Technology Working Group*

14. In addition to its Technology Task Force (which is responsible for the proposed revisions in this Exposure Draft), the IESBA has established a new Technology Working Group. This Working Group is responsible for:
- Developing or facilitating thought leadership and other materials<sup>7</sup> that highlight technology trends and developments and the resulting ethics (and independence) implications for PAs.
  - Undertaking fact-finding to identify and assess the potential impact of technology developments<sup>8</sup> on the accountancy profession.
15. The Technology Working Group’s work is still ongoing. However, it has shared relevant insights and observations with the Task Force and these were considered in developing the technology-related proposals. The IESBA determined that it is appropriate for the proposals to be issued now given that they are largely principles-based. In addition, while the IESBA remains committed to pursuing fact finding on developments in technology and understanding their implications from a standard-setting perspective, there is a public interest need for timely enhancements to the Code given the rapid pace of change in, and use of, technology (see paragraphs 58 to 59 below).

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<sup>6</sup> As proposed, the technology-related services that might create a self-review threat relate to “designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.”

<sup>7</sup> This IESBA’s [Technology Focus Webpage](#) includes a compilation of the various thought leadership and other resource materials that have developed or considered by the Technology Working Group. This compilation is continually being updated as new material is developed/ identified.

<sup>8</sup> The scope of the Technology Working Group’s work is broad. In addition to the topics covered in the Phase 1 Report (i.e., AI, big data, and data analytics), this work also covers topics such as blockchain, cybersecurity, and cloud computing.

*IAASB-IESBA Coordination Matters*

16. In developing the proposals, the IESBA coordinated with the International Auditing and Assurance Standards Board (IAASB) to maintain the alignment and interconnectivity between the two Boards' sets of standards. Steps have in particular been taken to ensure that the proposed enhancements preserve the existing consistency in Part 4B of the Code with the terms and concepts in the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised), [Assurance Engagements other than Audits or Reviews of Historical Financial Information](#).

**III. Significant Matters – Fundamental Principles (Parts 1 to 3)****A. Identifying Threats Arising from the Reliance on the Output of Technology**

17. The proposals explain that use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. They provide considerations to help in identifying threats that might arise when PAs rely upon the output from technology (see proposed paragraphs 200.6 A2 and 300.6 A2). The proposed application material sets out the following considerations to help in identifying such threats and is intended to support the proper application of the conceptual framework and complement the overarching provisions in Section 120:

- Whether information about how the technology functions is available to the PA.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the PA has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the PA or the employing organization.
- Whether the technology was designed or developed by the PA or employing organization and therefore might create a self-interest or self-review threat.

18. The IESBA deliberated whether such application material might be located within Section 120 but ultimately determined that consistent with the Code's building blocks approach, the appropriate location for the new application material is both Parts 2 and 3 of the Code. This is because the guidance sets out additional provisions for applying the conceptual framework for PAIBs (i.e., Section 200) and PAPPs (i.e., Section 300). The IESBA believes that placing this guidance in Sections 200 and 300 will make the considerations more visible to PAIBs and PAPPs and will better assist them in identifying threats that might arise from reliance on the output from technology.

**B. Relying on the Work of Others or on the Output of Technology**

19. The proposals provide examples of factors for PAIBs and PAPPs to consider in determining whether reliance on or use of the output of technology is reasonable or appropriate for the intended purpose (see proposed paragraphs 220.7 A2 and 320.10 A2). Among others, such factors include:
- The PA's ability to understand the output from the technology for the context in which it is to be used.
  - Whether the technology is established and effective for the purpose intended.
  - Whether new technology has been appropriately tested and evaluated for the purpose intended.

- The appropriateness of the inputs to the technology.

The IESBA noted that inputs to technology are not only data, but also other information such as decisions made by individuals relating to the operation of the technology (see last bullet of proposed paragraphs 220.7 A2 and 320.10 A2).

20. The IESBA considered possible circumstances where it might not be feasible for a PAIB to be able to determine whether the reliance on the output of technology is reasonable, for example, where “junior level” PAIBs might be asked to perform a task without the ability to obtain the information to determine the reasonableness of such reliance. To address this, proposed paragraph 220.7 A3 acknowledges that a PAIB’s position in an employing organization impacts the PAIB’s ability to obtain information in relation to the factors required to determine whether reliance on the work of others or on the output of technology is reasonable.

### **C. Consideration of “Complex Circumstances” When Applying the Conceptual Framework**

21. PAs might find themselves working in complex circumstances brought on by, amongst other factors, the impact of new technologies. Also, 82% of respondents to the [Technology and Complexity in the Professional Environment](#) survey expressed support for having more guidance in the Code to help PAs navigate complex circumstances. The IESBA determined that the existence of complex circumstances is a consideration in applying the conceptual framework, but not a new category of threat. Accordingly, the proposals include a discussion of complex circumstances in proposed paragraphs 120.13 A1 to 120.13 A3. Among other matters, this new application material:

- Recognizes that some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.
- Explains the relevant facts and circumstances that give rise to complex circumstances.
- Provides guidance to help PAs manage these complex circumstances and mitigate the resulting challenges.

22. The IESBA’s view is that complex circumstances involve (a) elements that are uncertain, and (b) multiple variables and assumptions, which are interconnected or interdependent (see paragraph 120.13 A2 (a) and (b)). The IESBA determined that the characteristics described in proposed sub-paragraphs 120.13 A2 (a) and (b) would always need to be present when complex circumstances arise. The IESBA acknowledges that other conditions might be present when complex circumstances arise, such as rapidly changing facts and circumstances, but is of the view that these other conditions are not determinative as to when a complex circumstance arises.

#### *Complex Circumstances – Broad Versus Specific Provisions*

23. In finalizing the proposals, the IESBA acknowledged that complex circumstances have always existed and are not a new phenomenon specific to technology. However, the IESBA observes that rapid digitalization has increased the interconnectedness of social, economic, and geopolitical systems, which



is a complex circumstance that PAs are now facing.<sup>9</sup> In this regard, the IESBA considered whether the proposed facts and circumstances involved when complex circumstances arise should be specific to technology, for example, to:

- Highlight that the use of machine learning-based AI models is complex because it is dependent on multiple data inputs that collectively impact the machine learning in uncertain ways that might render the output unpredictable (i.e., meeting the description in proposed paragraph 120.13 A2). In particular, the IESBA noted that the volume of data inputs that drive the pace of machine learning might render it a “black box” scenario and might impact a PA’s ability to keep up with understanding and explaining the AI outputs.
- Emphasize why the actions listed in proposed paragraph 120.13 A3 are important to manage the complexity of AI outputs.<sup>10</sup> For example, monitoring any developments or changes in the AI outputs and consulting with experts might help the PA assess the reasonableness of such outputs before a “black box” scenario is created.

24. Focusing on ensuring that the Code remains relevant and fit-for-purpose, the IESBA determined not to restrict the proposed provisions relating to complex circumstances to technology-specific situations. In arriving at this determination, the IESBA was mindful of the plethora of non-technology examples pertaining to complex circumstances provided by survey respondents<sup>11</sup> (e.g., rapidly changing laws and regulations with differing public interest angles from a jurisdictional versus global perspective).

#### *The Term “Complex”*

25. It has been drawn to the IESBA’s attention that, in some jurisdictions, the same word might be used to translate “complex” and “complicated.” As the IESBA’s intention in including proposed paragraphs 120.13 A1 to A3 is to highlight the particular considerations that give rise to complex circumstances, the IESBA is seeking input as to jurisdictions where this issue might arise and how, in such jurisdictions, the term ‘complex’ is translated.
26. Apart from translation considerations, the IESBA also noted that ‘complex’ and ‘complicated’ are often used interchangeably by the general public and anticipates that some PAs might turn to the new application material on complex circumstances whenever ‘unclear’, ‘difficult’, ‘complicated’ or ‘complex’ circumstances are encountered. In this regard, the IESBA believes that there will not be a downside to a PA considering the actions to manage complex circumstances in addition to applying the conceptual framework.

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<sup>9</sup> For example, see thought leadership on [Ethical Leadership in an Era of Complexity and Digital Change](#), which includes contributions from the Technology Working Group.

<sup>10</sup> In the scenario where a PA is relying on, or using, the output of AI models, proposed paragraphs 200.6 A2 and 300.6 A2 also contain considerations relevant when identifying threats to compliance with the fundamental principles. Proposed paragraphs 220.7 A2 and 320.10 A2 contain factors to consider when relying on or using the output of AI.

<sup>11</sup> Paragraphs 7 and 8 of the [Summary of Technology Survey Results](#).

**D. Professional Competence and Due Care**

27. Building on the extant Code (including the role and mindset revisions), the proposals highlight the importance of non-technical professional skills needed by PAs in the digital age (i.e., “soft” skills) with the proposed revisions in paragraph 113.1 A1. The proposals take into account the following:
- The International Federation of Accountants’ (IFAC) recently revised International Education Standards (IESs) that came into effect on January 1, 2021, which already reflect the increasing demand for PAs to be skilled in information and communications technologies. Specifically, the IESBA’s proposals incorporate language to emphasize the importance of the interpersonal, communication, and organizational skills as outlined in [IES 3: Professional Skills](#).<sup>12</sup>
  - The execution of professional activities generally requires the application of soft skills, and this is not specific to technology-related circumstances. The IESBA noted that soft skills are increasingly regarded as critical for the future-ready PA. Concepts such as “growth mindset,” “having an inquiring mind,” and “exercising professional judgment” formed part of the IESBA’s deliberations in finalizing the role and mindset revisions. They are also reflected in the provisions set out in [IES 4: Professional Values, Ethics, and Attitudes](#).<sup>13</sup> In this regard, the IESBA determined that IES 4 and the remainder of the specific learning outcomes in IES 3 paragraph 7 relating to intellectual skills (e.g., critical thinking, adaptability), and personal skills (e.g., commitment to lifelong learning) are already incorporated in the Code (i.e., as part of the role and mindset revisions).
28. The IESBA noted that some representatives of IFAC’s International Panel on Accountancy Education (IPAE) expressed support for the proposed revisions in paragraph 113.1 A1, and a preference for the inclusion of a reference to IESs or equivalent education standards.

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<sup>12</sup> The level of proficiency for “Interpersonal and Communication Skills” as specified by IES 3 is for PAs to:

- Demonstrate collaboration, cooperation and teamwork when working towards organizational goals.
- Communicate clearly and concisely when presenting, discussing, and reporting in formal and informal situations.
- Demonstrate awareness of cultural and language differences in all communication.
- Apply active listening and effective interviewing techniques.
- Apply negotiation skills to reach solutions and agreements.
- Apply consultative skills to minimize or resolve conflict, solve problems, and maximize opportunities.
- Present ideas and influence others to provide support and commitment.

The level of proficiency for “Organizational Skills” as specified by IES 3 is for PAs to:

- Undertake assignments in accordance with established practices to meet prescribed deadlines.
- Review own work and that of others to determine whether it complies with the organization's quality standards.
- Apply people management skills to motivate and develop others.
- Apply delegation skills to deliver assignments.
- Apply leadership skills to influence others to work towards organizational goals.

<sup>13</sup> Skills defined in learning outcomes for IES 4, paragraph 11 are (a) Professional skepticism and professional judgment, (b) Ethical principles, and (c) Commitment to the public interest.

*Consideration of a Reference to Standards of Professional Competence in the Code*

29. The IESBA considered and on balance determined not to include guidance such as the following in the Code to explicitly refer PAs to standards of professional competence, for example, those in the IESs:

113.1 AX Standards of professional competence, such as those in the International Education Standards, are implemented through the professional competency requirements of individual jurisdictions.

30. In weighing whether to include such guidance, the IESBA noted that the extant Code includes an implicit obligation for PAs to identify the relevant applicable professional competence standards and resources in order to comply with the requirement in paragraph R113.1, appropriately informed by the guidance in paragraph 113.1 A2.<sup>14</sup>
31. The IESBA's position is consistent with the approach that the IAASB took in finalizing its International Standard on Quality Management (ISQM) 1, [Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#). In particular, ISQM 1 paragraph A88 aligns with the terminology utilized in the IESs but does not make an explicit reference to the IESs as an example of standards of professional competence.
32. Finally, the IESBA notes that standards of professional competence in the IESs are made available to PAs through their professional accountancy organizations (PAOs), which are subject to IFAC's [Statements of Membership Obligations \(SMOs\)](#).<sup>15</sup> In this regard, a PAO's initial professional development programs for aspiring accountants and continuing professional development programs for PAs will be based on the relevant professional competency standards to enable PAs to meet the relevant professional competency requirements.

**E. Confidentiality and Confidential Information**

33. The proposals explain how PAs maintain the confidentiality of information acquired in the course of professional and business relationships. In particular, they include an explicit prompt for PAs to secure such information in the course of the entire data governance cycle (i.e., from data generation or collection through to their use, transfer, storage, dissemination and lawful destruction) (see proposed paragraph 114.1 A1). In this regard, the IESBA is proposing a new definition of "Confidential Information" in the Glossary. The IESBA believes its proposals are particularly relevant in light of today's data-driven world and the ease with which data are accessible. In addition, the proposals include refinements to enhance the flow of the provisions in Section 114 and to modernize the language used in the last two bullets in

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<sup>14</sup> Extant paragraph R113.1 requires PAs to "attain and maintain professional knowledge and skills...based on **current technical and professional standards and relevant legislation**" and "act diligently and in accordance with **applicable technical and professional standards**". Paragraph 113.1 A2 explains that "**continuing professional development** enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment."

<sup>15</sup> [SMO 2](#) requires compliance with the IESs and other pronouncements developed by the former International Accounting Education Standards Board (IAESB) and issued by IFAC. Paragraphs 5 and 6 of SMO 2 state that:

- Where IFAC member bodies have direct responsibility, they shall implement all requirements of SMO 2.
- Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to (a) encourage those responsible for the requirements to follow SMO 2 in implementing them; and (b) assist in the implementation where appropriate.

paragraph 114.1 A3 (e.g., “type of communication and to whom it is addressed” is changed to “means of communicating the information”).

34. The IESBA’s proposed definition of confidential information is broad and includes “any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain.” The proposed definition is intended to encompass all the possible scenarios in which information might be obtained and establishes a threshold for confidential information (i.e., information that is not in the public domain). The approach mitigates the risk of having varying levels of subjectivity to determine what constitutes confidential information. In addition, what constitutes confidential information should not be impacted by the capacity in which the PA receives the information.

#### **F. Consideration of Terminology in Existing AI Ethics Guidance**

35. The IESBA considered whether the terminology included in different sources of AI ethics guidance (e.g., accountability, transparency, explainability and privacy) should be leveraged for inclusion in the Code to minimize unnecessary differences that might detract from understanding ethics issues that might arise from the use of emerging technologies that involve AI and machine learning. In this regard, the Phase 1 Report included a comparison of common principles used in five different AI Ethics guidelines<sup>16</sup> to the Code’s five fundamental principles of ethics and concluded that generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that PAs and firms might encounter.

36. The IESBA believes that the concepts underlying the terminology used in the various sources of AI Ethics guidelines are sufficiently incorporated in the proposed technology-related revisions to the Code. For example, the terms:

- (a) **Accountability** – The concepts in the guidelines explaining the term “accountability” are addressed in the proposals that set out relevant considerations in identifying threats to compliance with the fundamental principles when PAs rely on the output of technology (see proposed paragraphs 200.6 A2 and 300.6 A2); and in the examples of factors that PAs are to consider in determining whether the use of, or reliance on, the output of technology is reasonable (see proposed paragraphs 220.7 A2 and 320.10 A2). Although PAs do not need to be experts in technology, the IESBA anticipates that they will have a reasonable degree of awareness and understanding of certain matters with a view to deciding whether reliance on the output of technology is reasonable.
- (b) **Transparency and Explainability** – The IESBA’s current thinking is that “transparency” and “explainability” are related concepts. Transparency refers to the extent of being able to understand how a system functions or a decision was made, whereas explainability involves the ability to explain, and so understand, why a system produced certain outputs or a decision-maker’s rationale for decisions made.

The key concepts set out in the descriptions of “transparency” and “explainability” in the AI guidelines are covered by the proposed revisions in paragraph R113.3 and proposals in paragraphs 120.13 A3, 200.6 A2, 220.7 A2, 300.6 A2 and 320.10 A2. For example, those proposals include:

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<sup>16</sup> The Phase 1 Report compared five different sets of AI Ethics guidelines to the Code, namely those issued by Microsoft, IBM, the European Commission, the Organisation for Economic Cooperation and Development (OECD), and the Australian Government.

- Making clients, the employing organization or other users of the PA’s professional services or activities *aware* of the limitations inherent in the services or activities and providing them with *sufficient information to understand* the implications of those limitations.
  - Considering whether information about *how* the technology functions is available to the PA.
  - Considering whether the technology is *appropriate for the purpose* for which it is to be used.
  - Considering whether the PA has the professional competence to *understand, use* and *explain* the output from the technology.
  - Considering the PA’s ability to *understand* the output from the technology for the context in which it is to be *used*.
- (c) Privacy – The discussion of the Code’s fundamental principle of confidentiality is all encompassing and is intended to cover privacy in a principles-based manner. This is because the concept of privacy is often covered in jurisdiction-level laws and regulations (e.g., the EU’s General Data Protection Regulation). In finalizing the proposals, the IESBA considered that it would be inappropriate to expand on the concept of privacy in the Code given that it gives rise to varying and potentially contradictory approaches to interpretation and application across different jurisdictions.

The IESBA considered and agreed not to include “privacy” as a requirement to be observed by PAs, as might be required under applicable laws or regulations, in the proposed definition of “confidential information” in the Glossary. The IESBA concluded that “privacy” is addressed by national laws and/or regulations which PAs are already required to comply with in the overriding provisions in paragraphs R100.7 to 100.7 A1 of the Code: “...some jurisdictions might have provisions that differ from or go beyond those set out in the Code,” and “accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.”

**G. Ethical Leadership**

37. The IESBA noted that PAs might be increasingly involved in using, developing or implementing technology. These roles involve dealings with individuals outside the PAs’ employing organizations or firms.
38. Given that ethical behavior is considered to be the cornerstone of public trust, the IESBA is proposing further refinements to emphasize the need for PAs to “demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant, the firm or the employing organization has a professional or business relationship” (see proposed revisions in paragraph 120.14 A3).

## IV. Significant Matters – Independence (Parts 4A and 4B)

### A. Applicability of NAS Provisions When Providing, Selling, Reselling or Licensing Technology (Sections 520 and 600)

39. The survey titled [The Impact of Technology on Auditor Independence](#) indicated that 24% of respondents did not think that NAS provisions are relevant when a firm sells or licenses technology that performs a NAS. Accordingly, the IESBA is proposing revisions to:
- Make clear that the NAS provisions apply when a firm or a network firm uses technology to provide a NAS to an audit client (see proposed paragraph 600.6). The proposed guidance is intentionally broad and is intended to encompass all the possible ways through which a firm or a network firm might perform a NAS, including, for example, when a firm’s staff uses third-party software to perform the NAS, or when a firm uses its own technology to perform the NAS.
  - Prompt firms to consider the relevance of the NAS provisions in Section 600 when technology is provided, sold, resold<sup>17</sup> or licensed by a firm or a network firm to an audit client (see proposed paragraphs 600.6 and 520.7 A1). That prompt is important to address the fact that 24% of survey respondents did not think that the NAS provisions are relevant when a firm sells or licenses technology that performs a NAS. Therefore, those users of the Code who might look to Section 520 for guidance in such circumstances will be guided by proposed paragraph 520.7 A1 to refer to and consider the provisions in Section 600.
  - Add the concept of “sells” and “resells” to the existing examples of close business relationship where a firm or a network firm distributes or markets the client’s products or services, or vice versa (see proposed revisions in paragraph 520.3 A2 bullet 3).
  - Add an example of a close business relationship arising from arrangements under which a firm or a network firm develops jointly with an audit client, products or solutions that one or both parties sells or licenses to third parties (see proposed paragraph 520.3 A2 bullet 4).

#### *Consideration of Additional Examples*

40. The IESBA considered additional examples of close business relationships where firms are licensing software: (a) to their audit clients, who are in turn directly utilizing the technology in the delivery of services to their own customers/clients; or (b) from an audit client and directly using the technology in the delivery of services to their clients. The IESBA’s current thinking is that at a high level and subject to the details of the selling and licensing arrangements, such arrangements are covered by the second bullet in paragraph 520.3 A2. The IESBA is therefore not proposing the inclusion of such examples.
41. Furthermore, the IESBA considered that if such examples are incorporated, it would require an elaboration of the nature of the specific sale or licensing arrangement in order for readers to understand the nature of the firm’s interests in that arrangement. The IESBA is of the view that doing so would detract from the principles-based nature of the Code. For example, an elaboration of the nature of the

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<sup>17</sup> The IESBA noted that reselling could consist of a “pass-through” of products developed by third parties to audit clients with no other services attached or could also combine ancillary/ associated services provided by the firm or a network firm with the product being resold. In either case, firms are prompted to consider whether the NAS provisions are relevant to the facts and circumstances of the reselling arrangement.

arrangement (i.e., to determine the closeness of the business relationship) might require the Code to prescribe consideration of a plethora of factors, including but not limited to:

- The promotion of the use of the technology in marketing or proposal materials provided to the end user.
- Whether the technology is in substance the reason why an end user might elect to use a firm for its service delivery.
- Any branding on output created by the technology and delivered to the end user.
- Other considerations, such as fees received or paid in relation to the use of the software from that arrangement.

42. The IESBA is expressly seeking respondents' input on its proposed approach which would not involve providing additional examples of close business relationships in the Code (see paragraphs 40 and 41 above).

#### **B. Factors That Are Relevant in Identifying and Evaluating Threats (Section 600)**

43. The proposals include new application material to help in identifying and evaluating the level of threats that might be created by providing technology-related NAS. In particular, the proposals prompt firms to consider their audit clients' dependency on the service being provided, including the frequency with which the service will be provided (see proposed third bullet of paragraph 600.9 A2).

44. The IESBA is of the view that if an audit client requests a firm or a network firm to conduct a service that involves using technology with increased frequency (e.g., due to the insights gained from the application of data analytics), such a service could be regarded as forming part of the audit client's internal controls over financial reporting (i.e., the client's dependency on the NAS). Survey respondents highlighted this scenario as being increasingly relevant in the digital age because the "lines" between management and the firm's responsibilities might become blurred when technology has enabled the provision of frequent or continuous monitoring or analysis.

#### **C. Automated Services and the Placement of "Routine or Mechanical" (Section 400 and Subsection 601)**

45. The NAS project clarified that "routine or mechanical" accounting and bookkeeping services: (a) involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and (b) require little or no professional judgement. Proposed paragraph 601.5 A2 further reminds users of the Code that automated NAS are not necessarily routine or mechanical.

46. In finalizing the technology-related proposals, the IESBA incorporated stakeholder feedback arising from the NAS project which noted that automated services that appear to be "routine or mechanical" could, in substance, result in an assumption of a management responsibility. In this regard, the proposals emphasize that regardless of whether technology is used in performing a professional activity for an audit client, the NAS provisions, including the prohibition on assuming a management responsibility, apply (see proposed paragraph 400.16 A1).

#### *Placement of Material Relating to "Routine or Mechanical" Services*

47. Some respondents to the NAS ED questioned the location of the discussion of routine or mechanical services in the Code, and pointed out that such services are not limited to accounting and bookkeeping

or administrative services (see paragraphs 102 and 103 of the [Basis for Conclusions: Revisions to the Non-Assurance Services Provisions of the Code](#)).

48. The IESBA deliberated this matter and came to the view that no change is needed at this time. In coming to this view, the IESBA considered the need to minimize changes to the revised NAS provisions to avoid potentially undermining the revised provisions or adversely impacting their adoption or implementation.

#### **D. IT Systems Services (Subsection 606)**

##### *Expanded Description of IT Systems Services*

49. The IESBA is proposing an expanded description of IT systems services to highlight the fact that services related to IT systems can extend beyond the design, development and implementation of hardware or software systems (see proposed paragraph 606.2 A1). The proposal is responsive to survey respondents who expressed support for the Code to include a discussion of IT systems services that involve collecting, storing and hosting of data, and ongoing support, maintenance, and updates of IT systems.
50. The proposed definition of “IT systems services” is intentionally very broad so that the NAS provisions (including the technology-related proposals) could be applicable to the widest range of IT systems services possible. As part of its deliberations, the IESBA considered whether its proposal should include definitions of all the terms used in the expanded description for IT systems services. The IESBA ultimately decided that to do so would be inappropriate because such definitions could have the unintended consequence of narrowing or limiting the application of the proposed changes to only those services clearly falling within such definitions. The IESBA’s intent is to make it explicit that Subsection 606 applies to all IT systems services that might be contemplated for an audit client, rather than limiting it to prescribed descriptions of specific services.

##### *IT Systems Services that Involve Assuming a Management Responsibility for an Audit Client or Might Create a Self-review Threat*

51. In developing the proposed revisions to subsection 606 of the Code, the IESBA sought to retain the principles and structure of the revised NAS provisions that were issued in April 2021. The proposed revisions:
- Highlight the types of IT systems services that always involve assuming a management responsibility and are therefore prohibited for all audit clients (see proposed paragraph 606.3 A1). In this regard, the IESBA considered that for such types of IT systems services, a firm would not be able to meet the precondition that the audit client’s management will make all the judgments and decisions that are the proper responsibility of management as set out in paragraphs R400.16 and R606.3.
  - Provide examples of IT systems services that might create a self-review threat and are therefore prohibited for PIE audit clients (see proposed paragraph 606.4 A3). In developing the examples, the IESBA also considered whether there are types of IT systems service that always create a self-review threat, and whether there are others that do not usually create a threat.

##### *Services in Relation to the Hosting of an Audit Client’s Data*

52. Proposed paragraphs 606.3 A1 and 606.3 A2 expressly deal with hosting of an audit client’s data as a service (either directly on internal servers or indirectly on a cloud provider’s servers). The IESBA determined that providing services in relation to the hosting of an audit client’s data results in the



assumption of a management responsibility. However, the proposals acknowledge that a firm or a network firm collecting, receiving and retaining audit client data to enable the provision of a permissible service does not result in the assumption of a management responsibility.

*Providing Advice and Recommendations in Relation to IT Systems*

53. The IESBA considered whether the proposals in subsection 606 would preclude firms from providing advice and recommendations in relation to IT systems to their audit clients. The IESBA believes that the extant general provisions relating to the provision of advice and recommendations in paragraphs 600.11 A1, R600.14, and R600.16 to 600.17 A1 provide sufficient principles-based guidance.

*Withdrawal of the Extant Approach for the Provision of Services Involving the Implementation of Certain “Off-the-shelf” Accounting or Financial Information Reporting Software*

54. The IESBA believes that it is no longer appropriate to permit firms to “...implement ‘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...” because the service “...does not usually create a threat...”. Accordingly, the IESBA is proposing to withdraw the related provision in extant subparagraph 606.4 A2(c).
55. In coming to this view, the IESBA noted that the extant provision was intended to address situations where “off-the-shelf” accounting or financial information reporting software comprised retail software packages for direct installation on a desktop computer or laptop, which was common in prior years. Today, “off-the-shelf” software is likely to be licensed directly from the software provider and is typically tailored as part of the implementation process. The IESBA’s current thinking is that implementation of accounting or financial information reporting software might create a self-review threat regardless of materiality and the extent of tailoring (i.e., whether it is customization, configuration, or any other form of implementation).
56. The proposals explain that the “implementation of accounting or financial information reporting software, whether or not it was developed by the firm or a network firm,” might create a self-review threat (see paragraph 606.4 A3). This means that in the case of non-PIE audit clients, firms will need to apply the conceptual framework to address the self-review threat that might be created, whereas for PIE audit clients, the provision of such a service will be prohibited.

**E. Proposed Revisions to Part 4B of the Code**

57. The proposed revisions preserve the existing alignment between Parts 4A and 4B of the Code (see paragraph 16 above). In particular, the proposed revisions to Part 4B of the Code:
- Indicate by way of an explicit statement that “[Part 4B of the Code] applies to assurance engagements on an entity’s non-financial information, for example, environmental, social and governance (ESG) disclosures” (see proposed revision in paragraph 900.1). This proposal responds to respondents to the technology survey who called for guidance in the Code to cover non-financial reporting. As non-financial reporting is an evolving area, the IESBA took a “light touch” approach to this proposal to keep it specific and narrow, allowing for the possibility of refinements in the future.
  - Provide examples of activities that might involve assuming a management responsibility in relation to the underlying subject matter, and in an attestation engagement, the subject matter information

of an assurance engagement. This includes providing services related to hosting of the underlying subject matter or subject matter information (see proposed paragraphs 900.13 A4 and A5).

- Emphasize that the prohibition on management responsibility applies regardless of the nature and extent of use of technology in performing a professional activity for an assurance client (see proposed paragraph 900.14 A1).
- Provide examples of technology-related arrangements that constitute a close business relationship (see proposed revisions in paragraph 920.3 A2).
- Remind firms of the need to consider and apply Section 950 if a firm provides, sells, resells or licenses technology to an assurance client (see proposed paragraphs 920.6 A1 and 950.5).
- Explain that the provision of certain types of IT systems services might create a self-review threat in relation to the subject matter information of an assurance engagement (see proposed revisions in paragraph 950.10 A1).

## **V. Analysis of Overall Impact of the Proposed Changes**

58. The IESBA believes that the proposals are both relevant and important because the use and impact of technology represent one of the most important issues affecting the accountancy profession today and for the foreseeable future. The pace of change in, and use of, technology has accelerated during the COVID-19 pandemic. The proposals include several enhancements to modernize the Code in a principles-based manner with respect to technology.
59. The public interest will be served with these technology-related proposals because they will help ensure that the Code's provisions remain relevant and fit for purpose to respond to the transformative effects of major trends and developments in technology in relation to accounting, assurance and finance functions. Especially in the area of independence, the proposals more clearly delineate the boundaries of technology-related services that are permissible for firms to provide to their audit clients, or technology-related business relationships they might pursue with their audit clients. Such clarification and strengthening of the International Independence Standards will reinforce public trust in the independence of auditors and assurance practitioners.
60. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals will entail costs that may be significant for some stakeholders. In particular, firms can expect some level of implementation costs associated with changes to their internal policies and methodologies, and related awareness and training initiatives. The nature and extent of such costs will depend on the range of services they provide to their clients, especially audit clients. National standard setters and professional accountancy organizations can also expect costs associated with their adoption efforts, including translation where applicable, awareness raising, and education and training initiatives.

## **VI. Project Timetable and Effective Date**

61. The indicative remaining timeline for the Technology project is set out below. This timeline takes into account a 120-day comment period which is intended to provide stakeholders with ample time to understand the proposals in the context of their relevant jurisdictional circumstances and undertake any necessary consultations at their levels or within their networks.

Indicative Timing	Milestone
June 20, 2022	<ul style="list-style-type: none"> <li>• Comment deadline</li> </ul>
September 2022	<ul style="list-style-type: none"> <li>• IESBA CAG to provide input on the Task Force's summary of the significant ED comments and its related responses</li> </ul>
September and December 2022	<ul style="list-style-type: none"> <li>• IESBA to consider a full review of ED responses and the Task Force's related revisions to the proposed text</li> </ul>
March 2023	<ul style="list-style-type: none"> <li>• IESBA CAG to provide final advice for IESBA consideration in finalizing the project</li> <li>• IESBA to approve final technology-related revisions to the Code and determine the effective date</li> </ul>

## VII. Guide for Respondents

62. The IESBA welcomes comments on all matters addressed in this ED, but especially on those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### Request for Specific Comments

63. The IESBA is seeking specific comments on the matters set out below:

#### *Technology-related Considerations When Applying the Conceptual Framework*

1. Do you support the proposals which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?

#### *Determining Whether the Reliance on, or Use of, the Output of Technology is Reasonable or Appropriate for the Intended Purpose*

2. Do you support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2? Are there other factors that should be considered?

#### *Consideration of "Complex Circumstances" When Applying the Conceptual Framework*

3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?
4. Are you aware of any other considerations, including jurisdiction-specific translation considerations (see paragraph 25 of the explanatory memorandum), that may impact the proposed revisions?

*Professional Competence and Due Care*

5. Do you support the proposed revisions to explain the skills that PAs need in the digital age, and to enhance transparency in proposed paragraph 113.1 A1 and the proposed revisions to paragraph R113.3, respectively?
6. Do you agree with the IESBA not to include additional new application material (as illustrated in paragraph 29 of the explanatory memorandum) that would make an explicit reference to standards of professional competence such as the IESs (as implemented through the competency requirements in jurisdictions) in the Code?

*Confidentiality and Confidential Information*

7. Do you support (a) the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3; and (b) the proposed Glossary definition of “confidential information?”
8. Do you agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code (see sub-paragraph 36(c) of the explanatory memorandum)?

*Independence (Parts 4A and 4B)*

9. Do you support the proposed revisions to the International Independence Standards, including:
  - (a) The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.
  - (b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2. See also paragraphs 40 to 42 of the explanatory memorandum.
  - (c) The proposed revisions to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7 A1 and 600.6).
10. Do you support the proposed revisions to subsection 606, including:
  - (a) The prohibition on services in relation to hosting (directly or indirectly) of an audit client’s data, and the operation of an audit client’s network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility (see proposed paragraph 606.3 A1 and related paragraph 606.3 A2)?
  - (b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c)<sup>18</sup> and the addition of “Implementing accounting or financial information reporting software, whether or not it

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<sup>18</sup> Extant subparagraph 606.4 A2(c) states that “Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility: ... 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.”

was developed by the firm or a network firm” as an example of an IT systems service that might create a self-review threat<sup>19</sup> in proposed paragraph 606.4 A3?

- (c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?

11. Do you support the proposed changes to Part 4B of the Code?

### **Request for General Comments**

64. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an audit inspection or enforcement perspective from members of the regulatory and audit oversight communities.
- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comments on potential translation issues respondents may note in reviewing the proposals beyond question 4 in the request for specific comments above.

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<sup>19</sup> This means that in the case of non-PIE audit clients, firms will need to apply the conceptual framework to address the threat. For PIE audit clients, the provision of such a service will be prohibited.

**EXPOSURE DRAFT: PROPOSED TECHNOLOGY-RELATED  
REVISIONS TO THE CODE  
(MARK-UP FROM EXTANT\*)**

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

...

**SECTION 110 – THE FUNDAMENTAL PRINCIPLES**

...

**SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE**

**R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain and maintain professional knowledge and skills<sup>s</sup> at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence requires:

- (a) ~~the~~ exercise of sound judgment in applying professional knowledge and skills; and
- (b) The application of interpersonal, communication and organizational skills—when undertaking professional activities.

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

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

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

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\* The proposed revisions in this Exposure Draft are to the most recent version of the Code, including revisions that will become effective in December 2022 (i.e., revisions relating to the objectivity of an engagement quality reviewer and other appropriate reviewers, and the revised non-assurance service (NAS) and fee-related provisions of the Code).

This Exposure Draft also takes into account the revisions that the IESBA approved in December 2021 that are subject to approval by the Public Interest Oversight Board (i.e., the quality management-related conforming amendments to the Code, and the revisions relating to the Definitions of Listed Entity and Public Interest Entity).

To access the Code and to obtain final pronouncements issued subsequent to April 2021, visit the IESBA's website at: [www.ethicsboard.org/standards-pronouncements](http://www.ethicsboard.org/standards-pronouncements).

- R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities and provide them with sufficient information to understand the implications of those limitations.

## **SUBSECTION 114 – CONFIDENTIALITY**

- R114.1** A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:
- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
  - (b) Maintain confidentiality of information within the firm or employing organization;
  - (c) Maintain confidentiality of information disclosed by a prospective client or employing organization;
  - (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
  - (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
  - (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
  - (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to secure such information in the course of its collection, use, transfer, storage, dissemination and lawful destruction.

- 114.1 A<sup>24</sup> Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:
- (a) Disclosure is required by law, for example:
    - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
    - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
  - (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and

- (c) There is a professional duty or right to disclose, when not prohibited by law:
- (i) To comply with the quality review of a professional body;
  - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
  - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
  - (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A<sup>32</sup> In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed meantype of communicatingen, the informationand to whom it is addressed.
- Whether the parties to whom the informationcommunication is to be addressed or access is to be granted are appropriate recipients.

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

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## **SECTION 120**

### **THE CONCEPTUAL FRAMEWORK**

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#### **Requirements and Application Material**

...

#### **Other Considerations when Applying the Conceptual Framework**

##### *Bias*

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



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

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

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

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

### Complex Circumstances

120.13 A1 The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.13 A2 Complex circumstances arise where the relevant facts and circumstances involve:

- (a) Elements that are uncertain; and
- (b) Multiple variables and assumptions.

which are interconnected or interdependent. Such facts and circumstances might also be rapidly changing.

120.13 A3 Managing the evolving interaction of such facts and circumstances as they develop assists the professional accountant to mitigate the challenges arising from complex circumstances. This might include:

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- Using technology to analyze relevant data to better inform the accountant's judgment.
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.
- Monitoring any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made.

*Organizational Culture*

120.143 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.143 A2 The promotion of an ethical culture within an organization is most effective when:

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

120.143 A3 Professional accountants are expected to:

- (a) ~~e~~Encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and
- (b) Demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant, the firm or the employing organization has a professional or business relationship.

...

## PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS

### SECTION 200

### APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

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#### Requirements and Application Material

##### General

**R200.5** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

200.5 A1 A professional accountant has a responsibility to further the legitimate objectives of the accountant's employing organization. The Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization in accordance with paragraph 120.143 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

##### Identifying Threats

200.6 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 that might create threats for a professional accountant when undertaking a professional activity:

(a) Self-interest Threats

- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.

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- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
  - A professional accountant having access to corporate assets for personal use.
  - A professional accountant being offered a gift or special treatment from a supplier of the employing organization.
- (b) Self-review Threats
- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) Advocacy Threats
- A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.
- (d) Familiarity Threats
- A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
  - A professional accountant having a long association with individuals influencing business decisions.
- (e) Intimidation Threats
- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
    - o The application of an accounting principle.
    - o The way in which financial information is to be reported.
  - An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

200.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the accountant or the employing organization.
- Whether the technology was designed or developed by the accountant or employing organization and therefore might create a self-interest or self-review threat.

...

## SECTION 220

### PREPARATION AND PRESENTATION OF INFORMATION

...

#### Requirements and Application Material

...

#### Relying on the Work of Others or on the Output of Technology

**R220.7** A professional accountant who intends to rely on:

(a) ~~the work of others, individuals, either whether~~ internal or external to the employing organization, or other organizations, or

(b) The output of technology, whether that technology was developed internally or provided by third parties.

shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on the work of others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

220.7 A2 Factors to consider in determining whether reliance on the output of technology is reasonable include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether new technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.

220.7 A3 Another consideration is whether the professional accountant's position within the employing organization impacts the accountant's ability to obtain information in relation to the factors required to determine whether reliance on the work of others or on the output of technology is reasonable.

...

## **PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 300**

### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

...

#### **Requirements and Application Material**

##### **General**

**R300.4** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

**R300.5** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

**300.5 A1** Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

##### **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 a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A 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 for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A 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.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.

- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

300.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the firm.
- Whether the technology was designed or developed by the firm and therefore might create a self-interest or self-review threat.

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## **SECTION 320 PROFESSIONAL APPOINTMENTS**

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### **Requirements and Application Material**

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#### **Using the Work of an Expert or the Output of Technology**

**R320.10** When a professional accountant intends to use the work of an expert or the output of technology in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose ~~warranted~~.

320.10 A1 Factors to consider when a professional accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

320.10 A2 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether the new technology has been appropriately tested and evaluated for the purpose intended.



- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.

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## **INTERNATIONAL INDEPENDENCE STANDARDS**

### **(PARTS 4A AND 4B)**

#### **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

##### **SECTION 400**

##### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

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##### **Requirements and Application Material**

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##### **Prohibition on Assuming Management Responsibilities**

**R400.15** A firm or a network firm shall not assume a management responsibility for an audit client.

400.15 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.

400.15 A2 When a firm or a network firm assumes a management responsibility for an audit 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.

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

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.

- Deciding which recommendations of the firm or 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.

400.15 A4 Subject to compliance with paragraph R400.16, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

**R400.16** When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (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.

400.16 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.15 and R400.16 apply regardless of the nature or extent of such use.

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## **SECTION 520 BUSINESS RELATIONSHIPS**

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### **Requirements and Application Material**

#### **General**

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- ~~Distribution or marketing a~~Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

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### **Buying Goods or Services**

520.6 A1 The purchase of goods and services from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit team.

### **Providing, Selling, Reselling or Licensing Technology**

520.7 A1 If a firm or a network firm provides, sells, resells or licenses technology to an audit client, the requirements and application material in Section 600 apply.

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## **SECTION 600**

### **PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT 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 clients, consistent with their skills and expertise. Providing non-assurance services to audit 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 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 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 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 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.
- 600.6 The requirements and application material in this section also apply in those circumstances where:
- (a) A firm or a network firm uses technology to provide a non-assurance service to an audit client; or
- (b) A firm or a network firm provides, sells, resells or licenses technology to an audit client.

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## Requirements and Application Material

### General

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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 client is set out in paragraph 120.6 A3.
- 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:
- 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 client's dependency on the service, including the frequency with which the service will be provided.
  - 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. R400.15 to R400.16).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- 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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#### Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

**R600.14** Before providing a non-assurance service to an audit 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; and
- (b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

Audit Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

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

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## SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

### Introduction

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

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### Requirements and Application Material

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*Audit Clients that are Not Public Interest Entities*

**R601.5** A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (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:

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

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how

the technology functions and whether the technology is based on expertise or judgments of the firm or a network firm.

601.5 A<sup>32</sup> Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- 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 clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.16 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A<sup>43</sup> 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 client that is not a public interest entity include:

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

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## **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 client.

### **Requirements and Application Material**

#### **Description of Service**

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.

- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, or updating IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client.

606.2 A~~2~~<sup>1</sup> ~~Services related to IT systems include the design or implementation of hardware or software systems.~~The IT systems might:

- (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 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 R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (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)~~ (b) The client, through a competent individual, preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, and implementation, operation, maintenance, monitoring, or updating of the IT systems process;
- ~~(d)~~ (c) The client evaluates the adequacy and results of the design, development, and implementation, operation, maintenance, monitoring, or updating of the IT system; and
- ~~(e)~~ (d) The client is responsible for operating the IT system ~~(hardware or software)~~ and for the data it generates and uses ~~or generates~~.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Provides services in relation to the hosting (directly or indirectly) of an audit client's data.
- Operates an audit client's network security, business continuity or disaster recovery function.

606.3 A2 The collection, receipt and retention of data provided by an audit client to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.



## Potential Threats Arising from the Provision of IT Systems Services

### All Audit Clients

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

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

- ~~(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 A<sup>23</sup> Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:

- 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.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

### Audit 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 client that is not a public interest entity is using professionals who are not audit team members to perform the service.

*Audit Clients that are Public Interest Entities*

**R606.6** A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R600.14 and R600.16).

~~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:~~

- ~~• 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.~~

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## **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**

#### **Introduction**

##### **General**

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.
- An audit of specific elements, accounts or items of a financial statement.

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#### **Requirements and Application Material**

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##### **Prohibition on Assuming Management Responsibilities**

**R900.13** A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not

- related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.
- 900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.
- 900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
  - Hiring or dismissing employees.
  - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
  - Authorizing transactions.
  - Controlling or managing bank accounts or investments.
  - Deciding which recommendations of the firm or other third parties to implement.
  - Reporting to those charged with governance on behalf of management.
  - Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- 900.13 A4 Examples of assuming a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, include:
- Providing services in relation to the hosting (directly or indirectly) of the underlying subject matter or subject matter information.
  - Operating an assurance client's network security, business continuity or disaster recovery function related to the underlying subject matter or subject matter information.
- 900.13 A5 The collection, receipt and retention of data to enable the performance of assurance and non-assurance engagements does not result in an assumption of management responsibility.
- 900.13 A~~6~~<sup>4</sup> 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.
- R900.14** When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related

judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (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.

900.14 A1 When technology is used in performing a professional activity for an assurance client, the requirements in paragraphs R900.13 and R900.14 apply regardless of the nature or extent of such use.

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## **SECTION 920 BUSINESS RELATIONSHIPS**

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### **Requirements and Application Material**

#### **General**

- 920.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.
- 920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
  - Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
  - Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
  - ~~Distribution or marketing a~~Arrangements under which the firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's products or services.

- Arrangements under which a firm develops jointly with the assurance client, products or solutions which one or both parties sell or license to third parties.

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### **Buying Goods or Services**

920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

### **Providing, Selling, Reselling or Licensing Technology**

920.6 A1 If a firm provides, sells, resells or licenses technology to an assurance client, the requirements and application material in Section 950 apply.

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## **SECTION 950**

### **PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE 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.

950.5 The requirements and application material in this section also apply in those circumstances where:

- (a) A firm uses technology to provide a non-assurance service to an assurance client; or
- (b) A firm provides, sells, resells or licenses technology to an assurance client.

## Requirements and Application Material

### General

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#### *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.

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:

- 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 client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
  - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
  - The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

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## 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:

- (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.

(c) Designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.

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:

- (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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## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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Conceptual framework This term is described in Section 120.

Confidential information Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain.

Contingent fee A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

**EXPOSURE DRAFT: PROPOSED TECHNOLOGY-RELATED  
REVISIONS TO THE CODE  
(CLEAN)**

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

...

**SECTION 110 – THE FUNDAMENTAL PRINCIPLES**

...

**SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE**

- R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:
- (a)** Attain and maintain professional knowledge and skills at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (b)** Act diligently and in accordance with applicable technical and professional standards.
- 113.1 A1 Serving clients and employing organizations with professional competence requires:
- (a)** The exercise of sound judgment in applying professional knowledge and skills; and
  - (b)** The application of interpersonal, communication and organizational skills.
- 113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.
- 113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- R113.2** In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.
- R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities and provide them with sufficient information to understand the implications of those limitations.



**SUBSECTION 114 – CONFIDENTIALITY**

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

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

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to secure such information in the course of its collection, use, transfer, storage, dissemination and lawful destruction.

114.1 A2 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

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

- (iii) To protect the professional interests of a professional accountant in legal proceedings; or
- (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A3 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating, the information.
- Whether the parties to whom the information is to be addressed or access is to be granted are appropriate recipients.

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

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## **SECTION 120**

### **THE CONCEPTUAL FRAMEWORK**

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#### **Requirements and Application Material**

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#### **Other Considerations when Applying the Conceptual Framework**

##### *Bias*

- 120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.
- 120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:
- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.

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

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

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

#### *Complex Circumstances*

120.13 A1 The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.13 A2 Complex circumstances arise where the relevant facts and circumstances involve:

- (a) Elements that are uncertain; and
- (b) Multiple variables and assumptions,

which are interconnected or interdependent. Such facts and circumstances might also be rapidly changing.

120.13 A3 Managing the evolving interaction of such facts and circumstances as they develop assists the professional accountant to mitigate the challenges arising from complex circumstances. This might include:

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- Using technology to analyze relevant data to better inform the accountant's judgment.

- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.
- Monitoring any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made.

*Organizational Culture*

120.14 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.14 A2 The promotion of an ethical culture within an organization is most effective when:

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

120.14 A3 Professional accountants are expected to:

- (a) Encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and
- (b) Demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant, the firm or the employing organization has a professional or business relationship.

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## **PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS**

### **SECTION 200**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

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#### **Requirements and Application Material**

##### **General**

**R200.5** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

200.5 A1 A professional accountant has a responsibility to further the legitimate objectives of the accountant's employing organization. The Code does not seek to hinder accountants from

fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

- 200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.
- 200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization in accordance with paragraph 120.14 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:
- Ethics education and training programs.
  - Management processes and performance evaluation and reward criteria that promote an ethical culture.
  - Ethics and whistle-blowing policies.
  - Policies and procedures designed to prevent non-compliance with laws and regulations.

### Identifying Threats

200.6 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 that might create threats for a professional accountant when undertaking a professional activity:

- (a) Self-interest Threats
- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
  - A professional accountant participating in incentive compensation arrangements offered by the employing organization.
  - A professional accountant having access to corporate assets for personal use.
  - A professional accountant being offered a gift or special treatment from a supplier of the employing organization.
- (b) Self-review Threats
- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) Advocacy Threats
- A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.
- (d) Familiarity Threats

EXPOSURE DRAFT

- A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
- A professional accountant having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - o The application of an accounting principle.
  - o The way in which financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

200.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the accountant or the employing organization.
- Whether the technology was designed or developed by the accountant or employing organization and therefore might create a self-interest or self-review threat.

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## SECTION 220

### PREPARATION AND PRESENTATION OF INFORMATION

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#### Requirements and Application Material

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#### Relying on the Work of Others or on the Output of Technology

**R220.7** A professional accountant who intends to rely on:

- (a) The work of others, whether internal or external to the employing organization, or other organizations, or
- (b) The output of technology, whether that technology was developed internally or provided by third parties,

shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on the work of others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

220.7 A2 Factors to consider in determining whether reliance on the output of technology is reasonable include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether new technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.

220.7 A3 Another consideration is whether the professional accountant's position within the employing organization impacts the accountant's ability to obtain information in relation to the factors

required to determine whether reliance on the work of others or on the output of technology is reasonable.

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## **PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 300**

### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

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#### **Requirements and Application Material**

##### **General**

**R300.4** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

**R300.5** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

**300.5 A1** Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

##### **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 a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A 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 for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A 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.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.

- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

300.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the firm.
- Whether the technology was designed or developed by the firm and therefore might create a self-interest or self-review threat.

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## **SECTION 320 PROFESSIONAL APPOINTMENTS**

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### **Requirements and Application Material**

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#### **Using the Work of an Expert or the Output of Technology**

**R320.10** When a professional accountant intends to use the work of an expert or the output of technology in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose.

320.10 A1 Factors to consider when a professional accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

320.10 A2 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether the new technology has been appropriately tested and evaluated for the purpose intended.

- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.

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## **INTERNATIONAL INDEPENDENCE STANDARDS**

### **(PARTS 4A AND 4B)**

#### **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

##### **SECTION 400**

##### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

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##### **Requirements and Application Material**

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##### **Prohibition on Assuming Management Responsibilities**

**R400.15** A firm or a network firm shall not assume a management responsibility for an audit client.

400.15 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.

400.15 A2 When a firm or a network firm assumes a management responsibility for an audit 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.

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

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.

- Deciding which recommendations of the firm or 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.

400.15 A4 Subject to compliance with paragraph R400.16, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

**R400.16** When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (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.

400.16 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.15 and R400.16 apply regardless of the nature or extent of such use.

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## **SECTION 520**

### **BUSINESS RELATIONSHIPS**

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#### **Requirements and Application Material**

##### **General**

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

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### **Buying Goods or Services**

520.6 A1 The purchase of goods and services from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit team.

### **Providing, Selling, Reselling or Licensing Technology**

520.7 A1 If a firm or a network firm provides, sells, resells or licenses technology to an audit client, the requirements and application material in Section 600 apply.

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## **SECTION 600**

### **PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT 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 clients, consistent with their skills and expertise. Providing non-assurance services to audit 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 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 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 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 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.
- 600.6 The requirements and application material in this section also apply in those circumstances where:
- (a) A firm or a network firm uses technology to provide a non-assurance service to an audit client; or
  - (b) A firm or a network firm provides, sells, resells or licenses technology to an audit client.

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## Requirements and Application Material

### General

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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 client is set out in paragraph 120.6 A3.
- 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:
- 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 client's dependency on the service, including the frequency with which the service will be provided.
  - 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. R400.15 to R400.16).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- 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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#### Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

**R600.14** Before providing a non-assurance service to an audit 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; and
- (b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

Audit Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

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

...

## **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 client.

...

### **Requirements and Application Material**

...

*Audit Clients that are Not Public Interest Entities*

**R601.5** A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (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:

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

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how



the technology functions and whether the technology is based on expertise or judgments of the firm or a network firm.

601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- 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 clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.16 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A4 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 client that is not a public interest entity include:

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

...

## **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 client.

### **Requirements and Application Material**

#### **Description of Service**

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.

- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, or updating IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client.

606.2 A2 The IT systems might:

- (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 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 R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client, through a competent individual, preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, or updating of the IT systems;
- (c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, or updating of the IT system; and
- (d) The client is responsible for operating the IT system and for the data it generates and uses.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Provides services in relation to the hosting (directly or indirectly) of an audit client's data.
- Operates an audit client's network security, business continuity or disaster recovery function.

606.3 A2 The collection, receipt and retention of data provided by an audit client to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

## Potential Threats Arising from the Provision of IT Systems Services

### *All Audit Clients*

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

606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:

- 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.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

### *Audit 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 client that is not a public interest entity is using professionals who are not audit team members to perform the service.

### *Audit Clients that are Public Interest Entities*

**R606.6** A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R600.14 and R600.16).

...

## **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**

### **Introduction**

#### **General**

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.
- An audit of specific elements, accounts or items of a financial statement.

...

### **Requirements and Application Material**

...

#### **Prohibition on Assuming Management Responsibilities**

**R900.13** A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

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

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a

management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

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

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

900.13 A4 Examples of assuming a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, include:

- Providing services in relation to the hosting (directly or indirectly) of the underlying subject matter or subject matter information.
- Operating an assurance client's network security, business continuity or disaster recovery function related to the underlying subject matter or subject matter information.

900.13 A5 The collection, receipt and retention of data to enable the performance of assurance and non-assurance engagements does not result in an assumption of management responsibility.

900.13 A6 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.

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

- (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.

900.14 A1 When technology is used in performing a professional activity for an assurance client, the requirements in paragraphs R900.13 and R900.14 apply regardless of the nature or extent of such use.

...

## **SECTION 920 BUSINESS RELATIONSHIPS**

...

### **Requirements and Application Material**

#### **General**

920.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's products or services.
- Arrangements under which a firm develops jointly with the assurance client, products or solutions which one or both parties sell or license to third parties.

...

#### **Buying Goods or Services**

920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length.

However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

### **Providing, Selling, Reselling or Licensing Technology**

920.6 A1 If a firm provides, sells, resells or licenses technology to an assurance client, the requirements and application material in Section 950 apply.

...

## **SECTION 950**

### **PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE 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.

950.5 The requirements and application material in this section also apply in those circumstances where:

- (a) A firm uses technology to provide a non-assurance service to an assurance client; or
- (b) A firm provides, sells, resells or licenses technology to an assurance client.

## Requirements and Application Material

### General

...

#### *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.

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:

- 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 client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
  - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
  - The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

...

#### 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:

- (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.
- (c) Designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.

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:

- (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.

...

## **GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS**

...

Conceptual framework This term is described in Section 120.

Confidential information Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain.

Contingent fee A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

...

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**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	7.1
<b>Meeting date:</b>	7 April 2021
<b>Subject:</b>	National Standard Setters Agenda
<b>Date:</b>	24 March 2022
<b>Prepared By:</b>	Misha Pieters

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 **Action Required** **For Information Purposes Only**

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**Agenda Item Objectives**

1. To obtain feedback on agenda items to be discussed at the Virtual National Standard Setters meetings to be held in May 2022.

**Background**

2. The NZAuASB Chair and the director of assurance will attend upcoming virtual national standards setters (NSS) meetings scheduled for May 10<sup>th</sup> to May 12<sup>th</sup>. There is one day of IESBA NSS meetings and two days of IAASB discussions. There is no combined joint meeting this time.
3. The IAASB's NSS agenda will cover:
  - a. A high-level update on responses to the exposure draft of a separate standard for audits of financial statements of less complex entities.
  - b. Jurisdictional developments of international relevance – “tour de table”.
  - c. An update on the IAASB's direction for Assurance on Sustainability/Environmental, Social and Governance (ESG) Reporting and to obtain NSS perspectives on relevant issues.
4. The IESBA's NSS agenda has not been circulated at the time of the NZAuASB paper distribution. Possible topics for discussion at the IESBA NSS include:
  - a. Tax Planning – this topic is largely beyond the mandate of the NZAuASB as it relates to tax planning services performed by professional accountants, outside of the context of an assurance engagement.
  - b. An update on the IESBA's discussions on ESG-related developments to determine a way forward to advance the IESBA's ESG related initiatives including the formation of an ESG Working Group to undertake fact finding and inform development of staff guidance to highlight applicability of the Code to ESG.

**IAASB NSS discussions**

5. At the March IAASB meeting, the IAASB explored priority actions to address globally relevant issues relating to sustainability/ESG assurance matters. This included exploring whether:

- i. The IAASB focus its efforts on sustainability/ESG reporting more broadly or on particular:
    1. Topics – e.g., focus on assurance on climate-related disclosures.
    2. Information disclosure on the topics e.g. assurance on governance information
    3. Mechanisms for reporting e.g. assurance on sustainability reports
    4. Framework neutral in terms of reporting standards
  - ii. Should the IAASB remain neutral on the intended users of the assurance report? Some frameworks focus on users with a financial interest, while other frameworks may be prepared for broader groups
  - iii. Have the challenges of performing assurance on sustainability already been addressed in ISAE 3000 or in the EER guidance? What challenges are urgent?
 

Challenges being explored, to the extent that practitioners seek clarity as to “what” an assurance practitioner is expected to do (not “how” they are to do it) include:

    - a) Engagement acceptance;
    - b) Differentiating between limited and reasonable assurance;
    - c) The nature and extent of audit evidence, and underlying work effort needed (including sampling), taking into account the nature of the underlying sustainability / ESG information;
    - d) Materiality, including materiality for non-quantitative information;
    - e) Consideration of the risks of material misstatement;
    - f) Fraud;
    - g) Groups, i.e., when the reporting entity consolidates information from other group entities;
    - h) Supply chain issues outside of the corporate group (i.e., challenges in obtaining assurance on information from upstream and downstream supply chains);
    - i) Reliance on the work of others, and the use of experts;
    - j) Interactions between the auditor of the financial statements and the practitioner(s) undertaking a separate assurance engagement (when different), including in circumstances when the respective engagements are performed by different personnel within a firm; and
    - k) Reporting requirements to meet user needs for consistency and transparency.
  - iv. Should the IAASB undertake a project on subject matter specific ISAE for climate reporting before targeting ISAE 3000 for revisions?
  - v. Integration of sustainability information within the financial statements and whether IAASB action is needed? The recommendation is not to prioritise the impact on the audit of financial statements or the auditors’ responsibilities relating to other information.
6. We seek views from the NZAuASB on the priority actions for the IAASB to address globally relevant issues relating to sustainability/ESG assurance matters.

7. We have been asked to complete a request for information detailing information about national developments of international relevance as well as information about significant activities related to emerging technologies relevant to audit or assurance. We plan to include an update on the capital raising project.
8. In addition, we have been asked to complete a request for information detailing national developments with respect to both reporting and assurance on sustainability / environmental, social and governance (ESG). We will provide an update on the climate disclosures and related assurance project as part of that update.

**Material Presented**

Agenda item 7.1

Board Meeting Summary Paper

**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	8.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	Service Performance Information Project Update
<b>Date:</b>	21 March 2022
<b>Prepared By:</b>	Lisa Thomas

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 **Action Required** **For Information Purposes Only**

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**Agenda Item Objectives**

1. For the Board to:
  - I. NOTE the update on the project to develop a standard for Service Performance Information (SPI) in conjunction with the Office of the Auditor General, that meets the requirements for the public sector
  - II. APPROVE a recommendation relating to the scope of and effective date for NZ AS 1 *Audit of Service Performance Information* (NZ AS 1).

**Background**

2. Representatives from the XRB and the office of the Auditor-General have formed an advisory group and are meeting monthly to discuss the development of an auditing standard for service performance information that meets the requirements of the public sector.
3. Representatives from the OAG are Greg Schollum (Deputy Controller and Auditor-General) and David Eng (Director of Performance Reporting), and from the XRB Mark Maloney, John Kensington and Lisa Thomas. The meetings are chaired by Karen Shires (PwC). Grant Taylor from EY has recently joined the advisory group.
4. A “greenfields” approach is being explored. The most challenging aspect of the audit of service performance information was identified as being the assessment of “appropriate and meaningful” service performance information, so this topic is prioritised in the first instance.

**Recent Advisory Group Activity**

5. The SPI advisory group met for a third time focusing on what constitutes “appropriate and meaningful” service performance information.
6. The advisory group is supportive of developing a principle-based standard that can be applied across all sectors requiring the auditor to consider legislative requirements, generally accepted accounting practice and the entity’s purpose with a view that these three legs should result in true and fair reporting, enabling a user to meaningfully assess the performance of the entity.

7. A high-level approach will be taken in the development of a standard using plain English (minimising use of existing technical terms) and integrating questions for the auditor to consider when auditing service performance information.

### **Timeline considerations for NZ AS 1**

#### *What is the problem?*

8. Tier 1 and tier 2 entities for periods beginning on or after 1 January 2022 will be required to report using PBE FRS 48<sup>1</sup> and have those financial statements audited. Tier 3 charities are already required to report a Performance report that includes service performance information and have their performance report either audited or reviewed depending on size criteria.
9. The XRB has issued NZ AS 1 for audits of service performance information and is applicable to all reporting frameworks from both the charity and public sector for periods beginning on or after 1 January 2022. The Office of the Auditor-General however will not adopt NZ AS 1 in its current form. It is unlikely that a new service performance information standard to replace extant NZ AS 1 will be in place by year end.
10. The advisory group discussed these timing concerns and discussed that at a minimum a new scope paragraph might need to be developed for NZ AS 1 that carves out the public sector for a limited time.
11. The merits of deferring NZ AS 1 for a further 12 months were also discussed by the advisory group. NZ AS 1 was deferred last year for 12 months to align with PBE FRS 48 to avoid confusion for tier 1 and tier 2 entities required to report using PBE FRS 48.
12. To address the timing concerns these two possible options are explored. The pros and cons of each are outlined below.

#### *What is the solution?*

##### ***Option 1: New scope paragraph that carves out the public sector***

13. An advantage of this approach is that the standard would remain effective for charity sector public benefit entities. Audit firms who audit this sector have continued to voice support for the standard, as they did during its development.
14. If a new standard is developed however, auditors in the charity sector will be required to transition to a new standard within approximately 12 months of transitioning to NZ AS 1. This could be viewed negatively by audit firms who would be required to invest resources by way of training and methodology for two standards within a short period of time.

##### ***Option 2: Further deferral of NZ AS 1 for 12 months***

15. Based on the current timeline, deferring the effective date of NZ AS 1 for a further 12 months would enable the outcome of the project to be known. This would prevent audit firms from having to transition twice.
16. In the meantime, we would not be withdrawing NZ AS 1 so it can still be used or alternatively standards are in place for the charity sector being ISAE (NZ) 3000 (Revised) *Assurance engagements Other than Audits and Reviews of Historical Financial Information* and explanatory guidance EG AU-9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities* and AG -4 *The Audit of Performance Reports* for the public sector.

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<sup>1</sup> PBE FRS 48 *Service Performance Reporting*



17. It is acknowledged however that although these alternative standards are available, ISAE (NZ) 3000, is generic and does not provide the same level of guidance as a specific standard that addresses the audit of service performance information.

**Recommendations**

18. On balance we recommend that the Board defers NZ AS 1 for a further 12 months. This does not prevent audit firms that are supportive of the standard from early adopting however enables them to make an informed decision on investing resources in a standard that may be superseded. Also, whilst not ideal, for entities that choose not to early adopt, there are alternative standards that can be used in the meantime to meet the legal obligation of an audit of service performance information.
19. Regardless of the NZAuASB decision, staff recommend that communication is released soon to make stakeholders aware that a project is underway to work through the concerns of the public sector. This recommendation was supported by the advisory group.

**Material Presented**

Agenda item 8.1

Board Meeting Summary Paper

# NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 9.1

**Meeting date:** 7 April 2022

**Subject:** Conforming and Consequential Amendments to Other Standards as a Result of the New and Revised Quality Management Standards

Annual improvements and Conforming Amendments to the Domestic Assurance Standards

**Date:** 23 February 2022

**Prepared By:** Vivian Teh

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**Action Required**

**For Information Purposes Only**

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### **Agenda Item Objectives**

1. The objective of this agenda item is for the Board to APPROVE the:
  - a. conforming and consequential amendments to Other Standards<sup>1</sup> as a result of the new and revised quality management (QM) standards; and
  - b. annual improvements and Conforming Amendments to the Domestic Assurance Standards.

### **IAASB’s conforming amendments**

2. The IAASB issued its suite of QM standards and the Conforming Amendments to ISAs and Related Material arising from the QM projects in December 2020. This suite of standards comprises ISQM 1<sup>2</sup>, ISQM 2<sup>3</sup> and ISA 220 (Revised)<sup>4</sup>. The NZ equivalent quality management standards are Professional and Ethical Standard (PES) 3, PES 4 and ISA (NZ) 220 (Revised) respectively.
3. The effective dates of the new and revised QM standards are as follows:
  - a. ISQM 1/PES 3 is effective as of December 15, 2022;
  - b. ISQM 2/PES 4 is effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022, and other assurance and related services engagements beginning on or after December 15, 2022; and

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<sup>1</sup> Other Standards comprise the New Zealand equivalent International Review Standard, other assurance Engagement Standards and Related Services Standard.

<sup>2</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<sup>3</sup> ISQM 2, *Engagement Quality Reviews*

<sup>4</sup> International Standard on Auditing (ISA) 220 (Revised), *Quality Management on an Audit of Financial Statement*

- c. ISA 220 (Revised) is effective for audits of financial statements for periods beginning on or after December 15, 2022.
4. In January 2022, the IAASB issued the conforming and consequential amendments to the IAASB's other standards as a result of the new and revised QM Standards.
5. These conforming and consequential amendments have previously been exposed in New Zealand in conjunction with the international exposure. The NZAuASB's submission to the IAASB's proposed conforming amendments was supportive of the changes. The conforming and consequential amendments to the New Zealand equivalent Other Standards is presented in agenda item 7.3. New Zealand changes have been made for the usual reasons, including to reflect the New Zealand titles, spelling and to ensure that appropriate New Zealand specific paragraphs have been amended appropriately.
6. The amending standard includes only those paragraphs where changes are being made. A tabular presentation format has been used to show the extant text with mark ups on the amendments made to the Other Standards.
7. The effective date for the conforming and consequential amendments to the Other Standards will be aligned with the effective dates of the quality management standards as outlined above:
  - (a) Reviews of financial statements for periods beginning on or after 15 December 2022; and
  - (b) Other assurance and related services engagement beginning on or after 15 December 2022.

#### **Annual Improvements and Conforming Amendments to the Domestic Assurance Standards**

8. At its February 2022 meeting the Board approved an exposure draft of annual improvements and conforming amendments to the domestic assurance standards. The NZAuASB's Domestic assurance Standards comprise the Standard on Assurance Engagements (SAEs) and the New Zealand Standard on Review Engagements (NZ SREs) which are either not issued internationally or which are not being updated internationally.
9. Submissions closed on 15 March 2022. We did not receive any comments and therefore recommend that the board approve the proposals as exposed.

#### **Recommendations**

10. We recommend that the Board APPROVE:
  - a. the conforming and consequential amendments to Other Standards and the corresponding signing memorandum; and
  - b. annual improvements and Conforming Amendments to the Domestic Assurance Standards.

#### **Next steps**

11. The outstanding conforming amendments arising from the revised quality management standards relate to:
  - a. Conforming amendments to the Code of Ethics – the IESBA approved conforming amendments at its December 2021 meeting and the final standard is expected to be issued following PIOB approval in April.
12. We recommend that the remaining conforming amendments arising from the quality management standards be approved by the Board by way of circular resolution.
13. Once issued, all of the conforming amendments will then be compiled into the standards and updated on the XRB website prior to the effective date of December 2022.

**Material Presented**

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Signing memorandum QM Other standards amendments
Agenda item 9.3	Conforming and consequential amendments to other standards
Agenda item 9.4	Signing memorandum Annual improvements
Agenda item 9.5	Annual Improvements and Conforming Amendments to the Domestic Assurance Standards

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**Date:** [Date]

**To:** Michele Embling, Chair External Reporting Board

**From:** Robert Buchanan, Chair NZAuASB

**Subject: Certificate Signing Memorandum:**  
*Conforming and Consequential Amendments to Other Standards as a Result of the New and Revised Quality Management Standards*

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## Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Conforming and Consequential Amendments to Other Standards as a Result of the New and Revised Quality Management Standards*.

## Background

### *International process*

2. The International Auditing and Assurance Standards Board (IAASB) published [new and revised Quality Management \(QM\) standards](#) in December 2020. This suite of standards comprises ISQM 1<sup>1</sup>, ISQM 2<sup>2</sup> and ISA 220 (Revised)<sup>3</sup>. The [New Zealand equivalent QM standards](#) are Professional and Ethical Standard (PES) 3, PES 4 and ISA (NZ) 220 (Revised) respectively, and were issued by External Reporting Board (XRB) in July 2021.
3. The IAASB's Other Standards<sup>4</sup> refer to the International Standard on Quality Control (ISQC 1)<sup>5</sup> in various ways ranging from simple references to the title of the standard, cross references to material within ISQC 1, and alignment of terminology. Conforming and consequential amendments to the IAASB's Other Standards are necessary to avoid conflicts with the QM standards.

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<sup>1</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<sup>2</sup> ISQM 2, *Engagement Quality Reviews*

<sup>3</sup> International Standard on Auditing (ISA) 220 (Revised), *Quality Management on an Audit of Financial Statement*

<sup>4</sup> The IAASB's Other Standards comprise the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs), and the International Standards on Related Services (ISRSs).

<sup>5</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

4. The [exposure draft](#) covering the necessary conforming and consequential amendments to address inconsistencies was published on 22 February 2021 for comments by 24 May 2021. 20 comment letters were received from stakeholders, including from regulators and audit oversight authorities, national auditing standard setters and accounting firms.
5. The *Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards* was approved with 16 out of 17<sup>6</sup> affirmative votes of the IAASB members present at the IAASB's October 2021 Meeting. The IAASB issued the final pronouncement in January 2022.

#### *Domestic process and harmonisation with Australia*

6. The NZAuASB consulted its constituency in relation to the IAASB Exposure Draft by seeking input by way of an alert as the amendments have a narrow scope and do not involve reconsideration of the objectives, requirements, and application material of the IAASB's Other Standards, in their own right. The conforming and consequential amendments are limited to, for example, updating titles of standards, updating references to the QM standards, and aligning terminology. No outreach was planned for New Zealand stakeholders.
7. We received no comment letters from New Zealand stakeholders on the proposals.
8. The NZAuASB's [submission](#) was supportive of the proposed changes.
9. In adopting the IAASB standard, we have made the usual changes to titles and spelling.
10. The AUASB has not yet considered the Australian equivalent standard but there are not expected to be harmonisation differences between New Zealand and Australia in relation to this standard.
11. The *Conforming and Consequential Amendments to Other Standards as a Result of the New and Revised Quality Management Standards* were approved with affirmative votes of X out of X NZAuASB members in April 2022 meeting.

#### **Privacy**

12. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance

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<sup>6</sup> The member abstaining from voting noted that he chose to abstain rather than vote against the conforming and consequential amendments because the Staff, in his view, did a good job of appropriately reflecting the changes to ISQM 1 in the IAASB's other standards but that he could not vote in favour of the amendments due to the inclusion of the same definition of the engagement team as was in ISQM 1. The member is of the view that the new definition of engagement team may be inappropriate for assurance engagements other than audits.

standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

#### **Due process**

13. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

#### **Consistency with XRB Financial Reporting Strategy**

14. The adoption of Conforming and Consequential Amendments to Other Standards as a Result of the New and Revised Quality Management Standards 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**

15. 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**

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

#### **Attachments**

*Conforming and Consequential Amendments to Other Standards as a Result of the New and Revised Quality Management Standards*

Certificate of Determination

Robert Buchanan

Chair NZAuASB

**CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER STANDARDS AS A RESULT OF THE NEW AND REVISED QUALITY MANAGEMENT STANDARDS**

This Standard was issued on [date] 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 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

An auditor that is required to apply this Standard is required to apply the Standard in accordance with the effective date which is set out in Part C.

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 the conforming amendments necessary as a result of the new and revised Quality Management Standards.



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ISBN [To update]

## **CONTENTS**

### **A: INTRODUCTION**

### **B: CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER STANDARDS AS A RESULT OF THE NEW AND REVISED QUALITY MANAGEMENT STANDARDS**

### **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 other standards as a result of the new and revised Quality Management Standards. A tabular presentation format has been used to show the conforming and consequential amendments to the standards. Underline and strikethrough are used to indicate proposed changes.

These conforming and consequential amendments affect the following standards and are arranged in the following manner:

### CONTENT

Standard	Page
ISRE (NZ) 2400, <i>Review of Historical Financial Statements Performed by an Assurance Practitioner</i> ..... <b>Bookmark not defined.</b>	<b>Error!</b>
ISAE (NZ) 3000 (Revised), <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> .....	12
ISAE (NZ) 3402, <i>Assurance Reports on Controls at a Service Organisation</i> .....	24
ISAE (NZ) 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i> .....	<a href="#">27</a>
ISAE (NZ) 3420, <i>Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus</i> .....	30
ISRS (NZ) 4400, <i>Agreed-upon Procedures Engagements</i> .....	32

**B: CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER STANDARDS AS A RESULT OF THE NEW AND REVISED QUALITY MANAGEMENT STANDARDS**

Ref.	Conforming and Consequential Amendments to the Standards
<b>ISRE (NZ) 2400</b>	<b>Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity</b>
ISRE (NZ) 2400, under Contents	Engagement Level Quality <del>Control</del> <u>Management</u>
ISRE (NZ) 2400, paragraph 4	<p><b>Introduction</b></p> <p><i>Relationship with Professional and Ethical Standard 3 (<del>Amended</del>)<sup>2</sup></i></p> <p>The system of <del>Quality control</del><u>Quality control management systems</u>, and policies and or procedures are the responsibility of the firm. Professional and Ethical Standard 3 (<del>Amended</del>) applies to firms of <del>assurance practitioners</del> in respect of a firm’s engagements to review financial statements.<sup>3</sup> The provisions of this ISRE (NZ) regarding <del>quality control</del><u>quality management</u> at the level of individual review engagements are premised on the basis that the firm is subject to Professional and Ethical Standard 3 (<del>Amended</del>) or requirements that are at least as demanding. (Ref: Para. A3–A5)</p> <p><sup>2</sup> Professional and Ethical Standard 3 (<del>Amended</del>), <i>Quality <del>Control</del><u>Management</u> for Firms that Perform Audits <del>and/or</del> Reviews of Financial Statements, <del>and/or</del> Other Assurance <u>or Related Services</u> Engagements</i></p> <p><sup>3</sup> Professional and Ethical Standard 3 (<del>Amended</del>), paragraph 45</p>
ISRE (NZ) 2400, paragraph 17(i)	<p><i>Relevant ethical requirements – Principles of professional ethics and <del>e</del>Ethical requirements that are applicable to which assurance practitioners the engagement team is subject to when undertaking reviews of financial statements engagements, which, Relevant ethical requirements</i> ordinarily comprise the provisions of Professional and Ethical Standard 1, <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>; related to a reviews of financial statements, together with national requirements that are more restrictive.</p>
ISRE (NZ) 2400, paragraph 24	<p><b>Requirements</b></p> <p><b>Engagement Level Quality <del>Control</del><u>Management</u></b></p> <p>The engagement partner shall <del>possess</del><u>have</u> competence in assurance skills and techniques, and <del>competence</del> in financial reporting, <u>and capabilities, including having sufficient time</u>, appropriate to the engagement circumstances. (Ref: Para. A26)</p>
ISRE (NZ) 2400, paragraph 25	The engagement partner shall take <u>overall</u> responsibility for: (Ref: Para. A27–A30)

Ref.	Conforming and Consequential Amendments to the Standards
ISRE (NZ) 2400, paragraph 25 (a)	(a) <del>The overall</del> <u>Managing and achieving quality of</u> on each review engagement to which that partner is assigned <u>and being sufficiently and appropriately involved throughout the engagement;</u>
ISRE (NZ) 2400, paragraph 25	(b) The direction, supervision, planning and performance of the review engagement in compliance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and applicable legal and regulatory requirements; (Ref: Para. A31)
ISRE (NZ) 2400, paragraph 25	(c) The assurance practitioner's report being appropriate in the circumstances; and
ISRE (NZ) 2400, paragraph 25	(d) The engagement being performed in accordance with the firm's quality <del>control</del> <u>management policies or procedures, including the following:</u>
ISRE (NZ) 2400, paragraph 25	(i) Being satisfied that <del>appropriate procedures regarding the</del> <u>firm's policies or procedures for the acceptance and continuance of client relationships and review</u> engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity; (Ref: Para. A32–A33)
ISRE (NZ) 2400, paragraph 25	(iA) <u>Determining 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 engagement, the firm's policies or procedures, and any changes that may arise during the engagement.</u>
ISRE (NZ) 2400, paragraph 25	(ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities, including <u>having sufficient time, as well as assurance skills and techniques and expertise in financial reporting, to:</u>
ISRE (NZ) 2400, paragraph 25	a. Perform the review engagement in accordance with professional standards and applicable legal and regulatory requirements; and
ISRE (NZ) 2400, paragraph 25	b. Enable a report that is appropriate in the circumstances to be issued; <del>and</del>
ISRE (NZ) 2400, paragraph 25	(iii) Taking responsibility for appropriate engagement documentation being maintained; <u>and</u> (iv) <u>When an engagement quality review is required in accordance with ISQM 1 or the firm's policies or procedures, not dating the report until the completion of the engagement quality review.</u> <sup>5A</sup>

<sup>5A</sup>Professional and Ethical Standard 4, *Engagement Quality Reviews*

Ref.	Conforming and Consequential Amendments to the Standards
ISRE (NZ) 2400, paragraph NZ25.1	<p><i>Reviewing Work Performed</i></p> <p>The engagement partner shall take <u>overall</u> responsibility for reviewing the engagement team's work in accordance with the firm's policies <del>and</del> <u>or</u> procedures for review engagements. (Ref: Para. NZA33.1-NZA33.5)</p>
ISRE (NZ) 2400, paragraph NZ25.2	<p><i>Consultation</i></p> <p>The engagement partner shall:</p> <p>(a) Take <u>overall</u> responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;</p> <p>...</p>
ISRE (NZ) 2400, paragraph 27	<p><i>Compliance with Relevant Ethical Requirements</i></p> <p>Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality <u>management control</u> or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.</p>
ISRE (NZ) 2400, paragraph NZ27.1	<p><i>Independence</i></p> <p>The engagement partner shall form a conclusion on compliance with independence requirements that apply to the engagement. In doing so, the engagement partner shall: (Ref: Para. NZA33.9)</p> <p>...</p> <p>(b) Evaluate information on identified breaches, if any, of the firm's independence policies <del>and</del> <u>or</u> procedures to determine whether they create a threat to independence for the review engagement; and</p> <p>...</p>
ISRE (NZ) 2400, paragraph 28	<p><i>Monitoring and Remediation</i></p> <p><del>An effective firm's system of quality management control for a firm includes establishing a monitoring and remediation process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate and operate effectively.</del></p> <p>(a) <u>Provide the firm with relevant, reliable and timely information about the design, implementation and operation of the system of quality management.</u></p> <p>(b) <u>Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.</u></p> <p>The engagement partner shall consider the <u>information from results</u> <del>of</del> the firm's monitoring and remediation process, as <u>communicated</u></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p><del>evidenced in the latest information circulated</del> by the firm and, if applicable, other network firms, and whether <del>deficiencies noted in that</del> information may affect the review engagement.</p>
<p>ISRE (NZ) 2400, paragraph 94</p>	<p><b>Documentation</b></p> <p>...</p> <p>In documenting the nature, timing and extent of procedures performed as required in this ISRE (NZ), the assurance practitioner shall record:</p> <ul style="list-style-type: none"> <li>(a) Who performed the work and the date such work was completed; and</li> <li>(b) Who reviewed the work performed for the purpose of quality <del>control</del><u>management</u> for the engagement, and the date and extent of the review.</li> </ul>
<p>ISRE (NZ) 2400, paragraph A3</p>	<p><b>Application and Other Explanatory Material</b></p> <p><b>Scope of this ISRE (NZ) (Ref: Para. 1–2)</b></p> <p>...</p> <p><i>Relationship with Professional and Ethical Standard 3 (<del>Amended</del>)</i> (Ref: Para. 4)</p> <p>Professional and Ethical Standard 3 (<del>Amended</del>) deals with the firm's responsibilities to <del>establish and maintain its design, implement and operate a system of quality control</del><u>manage</u> for assurance engagements including review engagements.<sup>5B</sup> <u>ISQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.</u><sup>5C</sup> <u>ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.</u><sup>5D</sup></p> <p><del>Those responsibilities are directed at establishing the firm's:</del></p> <ul style="list-style-type: none"> <li>• <del>Quality control system; and</del></li> <li>• <del>Related policies designed to achieve the objective of the quality control system and the firm's procedures to implement and monitor compliance with those policies, including policies and procedures that address each of the following elements:</del> <ul style="list-style-type: none"> <li>◦ <del>Leadership responsibilities for quality within the firm.</del></li> <li>◦ <del>Relevant ethical requirements.</del></li> <li>◦ <del>Acceptance and continuance of client relationships and specific engagements.</del></li> <li>◦ <del>Human resources</del></li> <li>◦ <del>Engagement performance.</del></li> <li>◦ <del>Monitoring.</del></li> </ul> </li> </ul> <p><u>A system of quality management addresses the following eight components:</u><sup>5E</sup></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>(a) <u>The firm’s risk assessment process;</u>            (b) <u>Governance and leadership;</u>            (c) <u>Relevant ethical requirements;</u>            (d) <u>Acceptance and continuance of client relationships and specific engagements;</u>            (e) <u>Engagement performance;</u>            (f) <u>Resources;</u>            (g) <u>Information and communication; and</u>            (h) <u>The monitoring and remediation process.</u></p> <p><u>Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.</u></p> <p><sup>5B</sup> <u>ISQM 1, paragraph 1</u>  <sup>5C</sup> <u>ISQM 1, paragraph 2(a)</u>  <sup>5D</sup> <u>ISQM 1, paragraph 2(b)</u>  <sup>5E</sup> <u>ISQM 1, paragraph 6</u></p>
ISRE (NZ) 2400, paragraph A4	<p>Under Professional and Ethical Standard 3 (<del>Amended</del>), the <u>objective of the firm has an obligation to establish and maintain to design, implement and operate a system of quality control management for assurance engagements, including reviews of financial statements, that to provides it the firm with reasonable assurance that:</u></p> <p>(a) <u>The firm and its personnel <del>comply</del> fulfil their responsibilities in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</u></p> <p>(b) <u>Reports</u>Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>7</sup></p> <p><sup>7</sup> Professional and Ethical Standard 3 (<del>Amended</del>), paragraph 44-14</p>
ISRE (NZ) 2400, paragraph NZA5.1	<p>Professional and Ethical Standard 3 (<del>Amended</del>) contains requirements which are at least as demanding as its international equivalent, ISQEM 1 <u>Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements</u><sup>8</sup>, as it addresses <u>all the elements referred to in</u> requirements of ISQEM 1 and imposes obligations on the firm that achieves the <u>aims of the requirements set out in</u> objective of ISQEM 1.</p>
ISRE (NZ) 2400, paragraph A27	<p>Within the context of the firm’s system of quality <del>control</del>management, engagement teams have a responsibility to implement <u>quality control</u>the firm’s policies or procedures applicable to the engagement, and <u>provide</u>communicate to the firm with relevant information <u>to enable the functioning of that part of</u></p>



Ref.	Conforming and Consequential Amendments to the Standards
	<p><del>arising from the review engagement that is required to be communicated by the firm's policies or procedures to support the firm's system of quality management control relating to independence.</del></p>
ISRE (NZ) 2400, paragraph A28	<p>The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking <u>overall</u> responsibility for <del>the overall</del> <u>managing and achieving</u> quality on each review engagement, emphasize the fact that quality is essential in performing a review engagement; and the importance to the quality of the review engagement of:</p> <ol style="list-style-type: none"> <li>(a) Performing work that complies with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and regulatory and legal requirements.</li> <li>(b) Complying with the firm's quality <del>control</del> <u>management</u> policies <del>and</del> <u>or</u> procedures as applicable.</li> <li>(c) Issuing a report for the engagement that is appropriate in the circumstances.</li> <li>(d) The engagement team's ability to raise concerns without fear of reprisals.</li> </ol>
ISRE (NZ) 2400, paragraph A29	<p><del>Unless information provided by the firm or other parties suggests otherwise</del> Ordinarily, the engagement team <del>is entitled to rely</del> <u>may depend</u> on the firm's system of quality <del>control</del> <u>management</u> unless:</p> <ul style="list-style-type: none"> <li>• <u>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</u></li> <li>• <u>Information provided by the firm or other parties about the effectiveness of such policies or procedures suggests otherwise.</u></li> </ul> <p>For example, the engagement team may <del>rely</del> <u>depend</u> on the firm's system of quality <del>control</del> <u>management</u> in relation to:</p> <ul style="list-style-type: none"> <li>• <u>Competence and capabilities of personnel through their recruitment and formal training.</u></li> <li>• <u>Independence through the accumulation and communication of relevant independence information.</u></li> <li>• <u>Maintenance of client relationships through <u>the firm's policies or procedures for acceptance and continuance of client relationships and specific review engagements systems.</u></u></li> <li>• <u>Adherence to regulatory and legal requirements through the <u>firm's monitoring and remediation</u> process.</u></li> </ul> <p>In considering deficiencies<sup>2A</sup> identified in the firm's system of quality <del>control</del> <u>management</u> that may affect the review engagement,</p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>the engagement partner may consider <del>measures</del> <u>the remedial actions taken/undertaken</u> by the firm to <del>rectify</del> <u>address</u> those deficiencies.</p> <p><sup>7A</sup> Professional and Ethical Standard 3, paragraph 16(a)</p>
ISRE (NZ) 2400, paragraph A30	<p>A30. A deficiency in the firm’s system of quality <del>control</del> <u>management</u> does not necessarily indicate that a review engagement was not performed in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and applicable legal and regulatory requirements, or that the assurance practitioner’s report was not appropriate.</p>
ISRE (NZ) 2400, paragraph A31	<p><i>Assignment of Engagement Teams</i> (Ref: Para. 25(b))</p> <p>When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team’s:</p> <p>...</p> <ul style="list-style-type: none"> <li>• <del>Understanding of the firm’s quality management control policies and/or</del> <u>Understanding of the firm’s quality management control policies and/or</u> procedures.</li> </ul>
ISRE 2400, paragraph A32	<p><i>Acceptance and Continuance of Client Relationships and Review Engagements</i> (Ref: Para. 25(d)(i))</p> <p>Professional and Ethical Standard 3 (<del>Amended</del>)<sup>7B</sup> requires the firm to establish quality objectives that address the <u>acceptance and continuance of client relationships and specific review engagements</u>.</p> <p><del>obtain information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.</del></p> <p>Information that assists the engagement partner in determining whether <u>the firm’s policies or procedures for the acceptance and continuance of client relationships and review engagements have been followed, and that conclusions reached</u> are appropriate, may include information concerning:</p> <ul style="list-style-type: none"> <li>• The integrity of the principal owners, key management and those charged with governance; and</li> <li>• Significant matters that have arisen during the current or a previous review engagement, and their implications for continuing the relationship.</li> </ul> <p><sup>7B</sup> Professional and Ethical Standard 3, paragraph 30</p>
ISRE (NZ) 2400, paragraph A34	<p><b>Acceptance and Continuance of Client Relationships and Review Engagements</b> (Ref: Para. 29)</p> <p>The assurance practitioner’s consideration of <u>acceptance and engagement continuance of client relationships and review engagements</u>, and relevant ethical requirements, including independence, occurs throughout the engagement, as conditions and changes in circumstances occur. Performing initial procedures on</p>

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	<p><del>acceptance and engagement</del> <u>continuation of client relationships and review engagements</u> and evaluation of relevant ethical requirements (including independence) at the beginning of an engagement informs the assurance practitioner's decisions and actions prior to the performance of other significant activities for the engagement.</p>
ISRE (NZ) 2400, paragraph A151	<p><b>Documentation</b>  Professional and Ethical Standard 3 (<del>Amended</del>) requires the firm to establish a <u>quality objective that engagement documentation is assembled</u> <del>time limits that reflect the need to complete the assembly of final engagement files</del> on a timely basis <u>after the date of the engagement report</u>.</p>
<b>ISAE (NZ) 3000 (Revised)</b>	<b>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</b>
ISAE (NZ) 3000 (Revised), under Contents	Quality <del>Control</del> <u>Management</u>
ISAE (NZ) 3000 (Revised), paragraph 3	<p><b>Introduction</b>  ...  (a) The members of the engagement team and the engagement quality <del>control</del> reviewer (for those engagements where one has been appointed) are subject to Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A30–A34)  (b) The assurance practitioner who is performing the engagement is a member of a firm that is subject to Professional and Ethical Standard 3 (<del>Amended</del>)<sup>1</sup> or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality <del>control</del> <u>management</u>, that are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>). (Ref: Para. A61–A66)</p> <p><sup>1</sup> Professional and Ethical Standard 3 (<del>Amended</del>), "Quality <del>Control</del> <u>Management</u> for Firms that Perform Audits <del>and/or</del> Reviews of Financial Statements, <del>and/or</del> Other Assurance or Related Services Engagements."</p>
ISAE (NZ) 3000 (Revised), paragraph 4	Quality <del>control</del> <u>management</u> within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high quality assurance engagements. Assurance practitioners will be familiar with such requirements. If a competent assurance practitioner other than a

Ref.	Conforming and Consequential Amendments to the Standards
	<p>member of a professional accounting body in public practice chooses to represent compliance with this or other ISAEs (NZ), it is important to recognise that this ISAE (NZ) includes requirements that reflect the premise in the preceding paragraph.</p>
<p>ISAE (NZ) 3000 (Revised), paragraph 12</p>	<p><b>Definitions</b></p> <p>...</p> <p>(h) Engagement team—All assurance practitioners and staff performing the engagement, and any <u>other</u> individuals <del>engaged by the firm or a network firm</del> who perform procedures on the engagement. <del>This excludes</del> <u>excluding</u> an assurance practitioner’s external expert <del>engaged by the firm or a network firm.</del></p> <p>...</p> <p>(j) <del>Firm— A sole assurance practitioner, partnership or corporation or other entity of individual assurance practitioners. “Firm” should be read as referring to its, or public sector equivalents where relevant.</del></p> <p>...</p> <p>NZ12.3 Lead assurance practitioner—The <u>assurance practitioner</u> <del>or other individual, appointed by person in the firm,</del> who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. The “lead assurance practitioner” should be read as referring to its public sector equivalents where relevant.</p>
<p>ISAE (NZ) 3000 (Revised), paragraph 21</p>	<p>The lead assurance practitioner shall be satisfied that <u>the firm’s policies or appropriate procedures for</u> <del>regarding</del> the acceptance and continuance of client relationships and assurance engagements have been followed by the firm, and shall determine that conclusions reached in this regard are appropriate.</p>
<p>ISAE (NZ) 3000 (Revised), paragraph 22 (b)</p>	<p><b>Acceptance and Continuance</b></p> <p>...</p> <p>The assurance practitioner shall accept or continue an assurance engagement only when: (Ref: Para. A30-A34)</p> <p>...</p> <p>(b) The assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, <u>including having being given sufficient time to perform the engagement</u> <del>having being given</del> (see also paragraph 32); and</p> <p>...</p>

**Commented [VT1]:** Added to align with PES 3

**Commented [V2]:** As per ISAE 3000 – ‘partner’ is used, assurance practitioners is used to be consistent.

Ref.	Conforming and Consequential Amendments to the Standards
ISAE (NZ) 3000 (Revised), paragraph 23	<p><b>1.</b> If the lead assurance practitioner obtains information that <del>may</del><u>would</u> have caused the firm to decline the engagement had that information been <u>known by the firm prior to accepting or continuing the client relationship or specific engagement available earlier</u>, the lead assurance practitioner shall communicate that information promptly to the firm, so that the firm and the lead assurance practitioner can take the necessary action.</p>
ISAE (NZ) 3000 (Revised), paragraph 31	<p><b>Quality Control Management</b>  <i>Characteristics of the Lead Assurance Practitioner</i>  The lead assurance practitioner shall:</p> <p>(a) Be a member of a firm that applies Professional and Ethical Standard 3 <del>(Amended)</del><sup>3</sup>, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>;</p>
	<p><i>Engagement Resources</i>  (aa) <u>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 engagement, the firm’s policies or procedures, and any changes that may arise during the engagement.</u></p> <p>...</p> <p><sup>3</sup> The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 3 <del>(Amended)</del> as the “engagement partner”.</p>
ISAE (NZ) 3000 (Revised), paragraph 32(a)	<p><i>Assignment of the Team</i>  The lead assurance partner shall: (Ref: Para. A69)</p> <p>(a) Be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, <u>including having sufficient time to:</u> ...</p>
ISAE (NZ) 3000 (Revised), paragraph 33	<p><i>Responsibilities of the Lead Assurance Practitioner</i>  The lead assurance practitioner shall take <u>overall</u> responsibility for <del>the overall</del><u>managing and achieving</u> quality on the engagement <u>and being sufficiently and appropriately involved throughout the engagement</u>. This includes responsibility for:</p> <p>(a) <u>Being satisfied that the firm’s policies or procedures for</u> <del>Appropriate procedures being performed regarding</del> the acceptance and continuance of client relationships and <u>assurance engagements have been followed;</u></p> <p>(b) The engagement being planned and performed (including appropriate direction and supervision <u>of engagement team</u></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p><del>members) to comply</del> <u>in accordance</u> with professional standards and applicable legal and regulatory requirements;</p> <p>(c) Reviews being performed in accordance with the firm's <del>review</del> policies <del>and/or</del> procedures and reviewing the engagement documentation on or before the date of the assurance report; ...</p>
ISAE (NZ) 3000 (Revised), paragraph NZ33.1	<p>The lead assurance practitioner shall form a conclusion on compliance with independence requirements that apply to the engagement. In doing so, the lead assurance practitioner shall:</p> <p>...</p> <p>(b) Evaluate information on identified breaches, if any, of the firm's independence policies <del>and/or</del> procedures to determine whether they create a threat to independence for the assurance engagement; and</p> <p>...</p>
ISAE (NZ) 3000 (Revised), paragraph 34	<p>Throughout the engagement, the lead assurance practitioner shall remain alert, through observation and making enquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the lead assurance practitioner's attention through the firm's system of quality <del>control</del> <u>management</u> or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the lead assurance practitioner, in consultation with others in the firm, shall determine the appropriate action.</p>
ISAE (NZ) 3000 (Revised), paragraph 35	<p>The lead assurance practitioner shall consider the <u>information from results</u> of the firm's monitoring <u>and remediation</u> process, as <del>communicated</del> <u>evidenced in the latest information circulated</u> by the firm and, if applicable, other network firms and whether <del>deficiencies noted in that</del> <u>the</u> information may affect the assurance engagement.</p>
ISAE (NZ) 3000 (Revised), paragraph 36	<p><i>Engagement Quality <del>Control</del> Review</i></p> <p>For those engagements, <del>if any,</del> for which <u>an engagement quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required in accordance with Professional and Ethical Standard 3 or the firm's policies or procedures;</u></p> <p>(a) <del>The lead assurance practitioner shall take responsibility for discussing</del> <u>significant matters and significant judgements</u> arising during the engagement with the engagement quality <del>control</del> reviewer, and not date the assurance report until completion of that review. <del>2A; and</del></p> <p>(b) <del>The engagement quality control reviewer shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating</del></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p><del>the assurance report. This evaluation shall involve: (Ref: Para. A75)</del></p> <ul style="list-style-type: none"> <li><del>(i) Discussion of significant matters with the lead assurance practitioner;</del></li> <li><del>(ii) Review of the subject matter information and the proposed assurance report;</del></li> <li><del>(iii) Review of selected engagement documentation relating to the significant judgements the engagement team made and the conclusions it reached; and</del></li> <li><del>(v) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.</del></li> </ul> <p><sup>2A</sup> ISQM 2, <i>Engagement Quality Reviews</i></p>
<p>ISAE (NZ) 3000 (Revised), paragraph 69</p>	<p><b>Preparing the Assurance Report</b></p> <p><i>Assurance Report Content</i></p> <p>The assurance report shall include, at a minimum, the following basic elements:</p> <p>...</p> <ul style="list-style-type: none"> <li>(i) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3 <del>(Amended)</del>, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>. (Ref: Para. A172)</li> </ul> <p>...</p> <ul style="list-style-type: none"> <li>(n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which: <ul style="list-style-type: none"> <li><u>(i) The assurance practitioner has obtained the evidence on which the assurance practitioner’s conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the subject matter information; and</u></li> <li><u>(ii) When an engagement quality review is required in accordance with ISQM 14 or the firm’s policies or procedures, the engagement quality review is complete.</u> (Ref: Para. <del>A184A–A185A</del>)</li> </ul> </li> </ul> <p>...</p>

Ref.	Conforming and Consequential Amendments to the Standards
ISAE (NZ) 3000 (Revised), paragraph A60	<p><b>Quality <del>Control</del> Management</b></p> <p><i>Assurance Practitioners in Public Practice</i> (Ref: Para. 20, 31(a)–(b))</p> <p>This ISAE (NZ) has been written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by assurance practitioners in public practice. Such measures include:</p> <ul style="list-style-type: none"> <li>• Competency requirements, such as education and experience benchmarks for entry to membership, and ongoing continuing professional development as well as life-long learning requirements.</li> <li>• <del>A system of quality management</del> <u>Quality control policies and procedures</u> implemented across the firm. Professional and Ethical Standard 3 (<del>Amended</del>) applies to all firms of assurance practitioners in respect of assurance <del>and related services</del> engagements.</li> <li>• A comprehensive Code of Ethics, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.</li> </ul>
ISAE (NZ) 3000 (Revised), paragraph A61	<p><i>Firm Level Quality <del>Control</del> Management</i> (Ref: Para. 3(b), 31(a))</p> <p>Professional and Ethical Standard 3 (<del>Amended</del>) deals with the firm’s responsibilities to <del>establish and maintain design, implement and operate a its</del> <u>establish and maintain design, implement and operate a</u> system of quality <del>control</del> <u>management</u> for assurance engagements.<sup>3A</sup> It sets out the responsibilities of the firm for establishing <del>policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply quality objectives that address the fulfillment of responsibilities in accordance</del> <u>policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply quality objectives that address the fulfillment of responsibilities in accordance</u> with relevant ethical requirements, including those <del>pertainin</del> <u>related</u> to independence. Professional and Ethical Standard 3 also deals with the firm’s responsibility to <del>establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.</del><sup>3B</sup> <u>Professional and Ethical Standard 4 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.</u><sup>3C</sup></p> <p><del>Compliance with Professional and Ethical Standard 3 (Amended) requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm’s personnel. A system of quality management addresses the following eight components:</del><sup>3D</sup></p>

**Commented [VT3]:** This was extant text from ISAE, but not included in ISAE (NZ). Suggest to add to be consistent?



Ref.	Conforming and Consequential Amendments to the Standards
	<p>(a) <del>The firm's risk assessment process</del> <u>Leadership responsibilities for quality within the firm;</u></p> <p>(b) <u>Governance and leadership;</u></p> <p><del>(bc)</del> <u>Relevant ethical requirements;</u></p> <p><del>(ed)</del> <u>Acceptance and continuance of client relationships and specific engagements;</u></p> <p>(e) <u>Engagement performance; and</u></p> <p><del>(df)</del> <u>Human Resources;</u></p> <p><del>(g)</del> <u>Information and communication; and</u></p> <p><del>(fh)</del> <u>Monitoring</u> <del>The monitoring and remediation process.</del></p> <p><u>Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.</u></p> <p><sup>3A</sup> <u>ISQM 1, paragraph 1</u></p> <p><sup>3B</sup> <del>ISQM 2, Engagement Quality Reviews</del></p> <p><sup>3B</sup> <u>ISQM 1, paragraph 2(a)</u></p> <p><sup>3C</sup> <u>ISQM 1, paragraph 2(b)</u></p> <p><sup>3D</sup> <u>ISQM 1, paragraph 6</u></p>
ISAE (NZ) 3000 (Revised), paragraph A62	<p>Other professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to <u>design, implement, and operate</u> <del>establish and maintain</del> a system of quality <del>control</del> <u>management</u>, are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>) when they address <del>all</del> the <u>requirements of Professional and Ethical Standard 3</u> <del>matters referred to in the preceding paragraph</del> and impose obligations on the firm <del>to</del> <u>that achieve the aims of the requirements set out in</u> <del>objective of</del> Professional and Ethical Standard 3 (<del>Amended</del>).</p>
ISAE (NZ) 3000 (Revised), paragraph A63	<p>The actions of the lead assurance practitioner, and appropriate messages to the other members of the engagement team, in the context of the lead assurance practitioner taking <u>overall</u> responsibility <del>for the overall managing and achieving quality on each engagement and being</del> <u>sufficiently and appropriately involved throughout the engagement</u>, emphasize the fact that quality is essential in performing an assurance engagement, and the importance to the quality of the assurance engagement of:</p> <p>(a) Performing work that complies with professional standards and regulatory and legal requirements.</p> <p>(b) Complying with the firm's <del>quality control</del> <u>policies and/or</u> procedures as applicable.</p> <p>(c) Issuing a report for the engagement that is appropriate in the circumstances.</p>

Ref.	Conforming and Consequential Amendments to the Standards
	(d) The engagement team's ability to raise concerns without fear of reprisals.
ISAE (NZ) 3000 (Revised), paragraph A64	<p>An effective firm's system of quality <del>control</del> management includes <u>establishing a monitoring and remediation process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.</u></p> <p>(a) <u>Provide the firm with relevant, reliable and timely information about the design, implementation and operation of the system of quality management.</u></p> <p>(b) <u>Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.</u></p>
ISAE (NZ) 3000 (Revised), paragraph A65	<p><del>Unless information provided by the firm or other parties suggests otherwise</del> Ordinarily, the engagement team <del>is entitled to rely</del> may <del>depend</del> on the firm's system of quality <del>control</del> management unless:</p> <ul style="list-style-type: none"> <li>• <u>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</u></li> <li>• <u>Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise.</u></li> </ul> <p>For example, the engagement team may <del>rely</del> depend on the firm's system of quality <del>control</del> management in relation to:</p> <p>(a) <u>Competence and capabilities of personnel through their recruitment and formal training.</u></p> <p>(b) <u>Independence through the accumulation and communication of relevant independence information.</u></p> <p>(c) <u>Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance systems of client relationships and assurance engagements.</u></p> <p>(d) <u>Adherence to regulatory and legal requirements through the firm's monitoring and remediation process.</u></p> <p>In considering deficiencies<sup>4A</sup> identified in the firm's system of quality <del>control</del> management that may affect the assurance engagement, the lead assurance practitioner may consider <u>the remedial actions measures undertaken by the firm to rectify address those deficiencies.</u></p> <p><sup>4A</sup> ISQM 1, paragraph 16(a)</p>

Ref.	Conforming and Consequential Amendments to the Standards
ISAE (NZ) 3000 (Revised), paragraph A66	A deficiency in the firm's system of quality <del>control</del> <u>management</u> does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.
ISAE (NZ) 3000 (Revised), paragraph A69	<p><del>Assignment of the Team</del> <u>Engagement Resources</u></p> <p>Collective Competence and Capabilities (Ref: Para. 32)</p> <p>Professional and Ethical Standard 3 (<del>Amended</del>) requires the firm to establish <del>policies and procedures</del> <u>quality objectives that address</u> for the acceptance and continuance of client relationships and <del>assurance</del> <u>specific engagements, designed to provide the firm with reasonable assurance that it will only undertake</u>. <del>The quality objectives deal with the appropriateness of judgements by the firm about whether to accept or continue relationships and engagements that are based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so.</del><sup>5</sup></p> <p><sup>5</sup> Professional and Ethical Standard 3 (<del>Amended</del>), paragraphs <del>26</del>30(a)(ii) and A72</p>
ISAE (NZ) 3000 (Revised), paragraph A74	<p><del>Review Responsibilities</del> (Ref: Para. 33(c))</p> <p>Under Professional and Ethical Standard 3 (<del>Amended</del>), the firm's <del>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. review responsibility policies and procedures are determined</del> <u>Professional and Ethical Standard 3 also requires that such direction, supervision and review is planned and performed</u> on the basis that the work <del>performed by</del> <u>of less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.</u><sup>6</sup></p> <p><sup>6</sup> Professional and Ethical Standard 3 (<del>Amended</del>), paragraph <del>33</del>31(b)</p>
ISAE (NZ) 3000 (Revised), paragraph A75	<p><del>Engagement Quality Control</del> <u>Review</u> (Ref: Para. 36(b))</p> <p>Other matters that may be considered in an engagement quality <del>control</del> review include:</p> <ul style="list-style-type: none"> <li>(a) The engagement team's evaluation of the firm's independence in relation to the engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether engagement documentation selected for review reflects the work performed in relation to the significant judgements and supports the conclusions reached.</li> </ul>

Ref.	Conforming and Consequential Amendments to the Standards
ISAE (NZ) 3000 (Revised), paragraph A86	<p><b>Planning and Performing the Engagement</b></p> <p><i>Planning</i> (Ref: Para. 40)</p> <p>Planning involves the lead assurance practitioner, other key members of the engagement team, and any key assurance practitioner’s external experts developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them. Adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner to properly assign work to engagement team members, and facilitates the <del>direction- and supervision of engagement team members-</del> and the review of their work. ...</p>
ISAE (NZ) 3000 (Revised), paragraph A121	<p><i>Considerations When an Assurance Practitioner’s Expert Is Involved on the Engagement</i></p> <p>Nature, Timing and Extent of Procedures (Ref: Para. 52)</p> <p>The following matters are often relevant when determining the nature, timing and extent of procedures with respect to the work of an assurance practitioner’s expert when some of the assurance work is performed by one or more assurance practitioner’s expert (see paragraph A70):</p> <p>...</p> <p>(e) Whether that expert is subject to the assurance practitioner’s firm’s <del>quality control</del> management policies <del>and</del> <u>or</u> procedures (see also paragraphs A124–A125).</p>
ISAE (NZ) 3000 (Revised), paragraph A124	<p>The assurance practitioner’s firm’s <del>quality control</del> <u>management</u> policies <del>and</del> <u>or</u> procedures</p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>An assurance practitioner's internal expert may be a partner or staff, including temporary staff, of the assurance practitioner's firm, and therefore subject to the <u>firm's system of quality management, including its control policies and/or procedures, of that firm</u> in accordance with Professional and Ethical Standard 3 (<del>Amended</del>) or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>). Alternatively, an assurance practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality <del>control</del> management policies <u>and/or</u> procedures with the assurance practitioner's firm. An assurance practitioner's external expert is not a member of the engagement team <del>and is not subject to quality control policies and procedures in accordance with Professional and Ethical Standard 3 (Amended).</del></p>
<p>ISAE 3000 (Revised), paragraph A125</p>	<p>Engagement teams are entitled to rely on the firm's system of <del>quality control, unless information provided by the firm or other parties suggests otherwise.</del> Ordinarily, the engagement team may <u>depend on the firm's system of quality management (see paragraph A65).</u> The extent of <del>that reliance</del> <u>dependence</u> will vary with the circumstances, and may affect the nature, timing and extent of the assurance practitioner's procedures with respect to such matters as:</p> <p>...</p> <ul style="list-style-type: none"> <li>• The assurance practitioner's evaluation of the adequacy of the assurance practitioner's expert's work. For example, the firm's training programs may provide the assurance practitioner's internal experts with an appropriate understanding of the interrelationship of their expertise with the evidence gathering process. <del>Reliance</del> <u>Depending</u> on such training and other firm processes, such as protocols for scoping the work of the assurance practitioner's internal experts, may affect the nature, timing and extent of the assurance practitioner's procedures to evaluate the adequacy of the assurance practitioner's expert's work.</li> <li>• Adherence to regulatory and legal requirements, through <u>the firm's monitoring and remediation</u> processes.</li> </ul> <p>...</p> <p>Such <del>dependance</del> <u>reliance</u> does not reduce the assurance practitioner's responsibility to meet the requirements of this ISAE (NZ).</p>
<p>ISAE (NZ) 3000 (Revised), paragraph A126</p>	<p>The Competence, Capabilities and Objectivity of the Assurance Practitioner's Expert (Ref: Para. 52(a))</p> <p>Information regarding the competence, capabilities and objectivity of an assurance practitioner's expert may come from a variety of sources, such as:</p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>...</p> <ul style="list-style-type: none"> <li>The firm's quality <del>control</del><u>management</u> policies <del>and</del> procedures (see also paragraphs A124–A125).</li> </ul>
<p>ISAE (NZ) 3000 (Revised), paragraph A147</p>	<p><b>Forming the Assurance Conclusion</b></p> <p><i>Sufficiency and Appropriateness of Evidence</i> (Ref: Para. 12(i), 64)</p> <p>Evidence is necessary to support the assurance practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources such as previous engagements (provided the assurance practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or a firm's <del>quality control</del><u>quality control policies or procedures for the client</u> acceptance and <u>continuance of client relationships and assurance engagements</u>.</p> <p>Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by an expert employed or engaged by the appropriate party(ies). Evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is used by the assurance practitioner, and therefore, also constitutes evidence. Most of the assurance practitioner's work in forming the assurance conclusion consists of obtaining and evaluating evidence.</p>
<p>ISAE (NZ) 3000 (Revised), paragraph A156</p>	<p>Scope Limitations (Ref: Para. 26, 66)</p> <p>A scope limitation may arise from:</p> <p>...</p> <p>(c) Limitations imposed by the responsible party, the measurer or evaluator, or the engaging party on the assurance practitioner that, for example, may prevent the assurance practitioner from performing a procedure the assurance practitioner considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the assurance practitioner's consideration of engagement risk and <del>the engagement</del> <u>acceptance and continuance of the client relationship and the assurance engagement</u>.</p>

Ref.	Conforming and Consequential Amendments to the Standards
ISAE (NZ) 3000 (Revised), paragraph A172	<p><b>Preparing the Assurance Report</b></p> <p>Applicable Quality <del>Control</del><u>Management</u> Requirements (Ref: Para. 69(i))</p> <p>The following is an illustration of a statement in the assurance report regarding applicable quality <del>control</del><u>management</u> requirements:</p> <p style="padding-left: 40px;">The firm applies Professional and Ethical Standard 3 <del>(Amended)</del> and, accordingly, maintains a comprehensive <u>which requires the firm to design, implement and operate a system of quality <del>control</del><u>management</u> including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</u></p>
ISAE (NZ) 3000 (Revised), paragraph A205	<p><i>Assembly of the Final Engagement File</i></p> <p>Professional and Ethical Standard 3 <del>(Amended)</del> (or other professional requirements, or requirements in law or regulation that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>) requires firms to establish a <u>quality objective that addresses policies and procedures for the timely completion of the assembly of engagement files documentation on a timely basis after the date of the engagement report.</u><sup>12</sup> 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 assurance report.<sup>13</sup></p> <p><sup>12</sup> Professional and Ethical Standard 3 <del>(Amended)</del>, paragraph 45<del>31</del><u>1(f)</u></p> <p><sup>13</sup> Professional and Ethical Standard 3 <del>(Amended)</del>, paragraph A54<del>83</del><u>83</u></p>
ISAE (NZ) 3000 (Revised), paragraph A207	<p>Professional and Ethical Standard 3 <del>(Amended)</del> requires firms to establish a <u>quality objective policies and procedures that addresses for the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.</u><sup>13</sup> The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.<sup>14</sup></p> <p><sup>13</sup> Professional and Ethical Standard 3 <del>(Amended)</del>, paragraph 47<del>31</del><u>1(f)</u></p> <p><sup>14</sup> Professional and Ethical Standard 3 <del>(Amended)</del>, paragraph A64<del>85</del><u>85</u></p>
<b>ISAE (NZ) 3402</b>	<b>Assurance Reports on Controls at a Service Organization</b>
ISAE (NZ) 3402, paragraph 6	<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1<sup>5</sup> <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>, issued by the New Zealand Auditing and Assurance Standards Board, or other professional requirements, or requirements imposed by law and regulation, that are at least as demanding.<sup>6</sup> It also requires the lead assurance practitioner<sup>7</sup> to be a</p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>member of a firm that applies Professional and Ethical Standard 3 (<del>Amended</del>) or requirements that are at least as demanding.<sup>8</sup></p> <p><sup>7</sup> The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 3 (<del>Amended</del>) as the “engagement partner.”</p> <p><sup>8</sup> ISAE (NZ) 3000 (Revised), paragraph 3(b) and 31(a). Professional and Ethical Standard 3 “Quality <del>Control</del><u>Management</u> for Firms that Perform Audits <del>and</del> Reviews of Financial Statements, <del>and</del> Other Assurance or Related Services Engagements (<del>Amended</del>)”.</p>
ISAE (NZ) 3402, paragraph 50	<p>The service auditor shall assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor’s assurance report.<sup>12</sup></p> <p><sup>12</sup> Paragraphs <del>A54–A55</del><u>A83–A85</u> of Professional and Ethical Standard 3 (<del>Amended</del>) provide further guidance.</p>
ISAE (NZ) 3402, paragraph 53	<p><b>Preparing the Service Auditor’s Assurance Report</b></p> <p><i>Content of the Service Auditor’s Assurance Report</i></p> <p>The service auditor’s assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A47)</p> <p>...</p> <p>(h) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3 (<del>Amended</del>), or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>). If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>).</p> <p>...</p> <p>(n) The date of the service auditor’s assurance report, which shall be no earlier than the date on which:</p> <p>(i) <del>The</del> <u>the</u> service auditor has obtained the evidence on which the service auditor’s opinion is based; <del>and</del></p> <p>(ii) <u>When an engagement quality review is required in accordance with Professional and Ethical Standard 3 or the firm’s policies or procedures, the engagement quality review is complete.</u></p>
ISAE (NZ) 3402, paragraph A46	<p><b>Documentation</b></p> <p>Professional and Ethical Standard 3 (<del>Amended</del>)<sup>17</sup> (or other professional requirements, or requirements in law or regulation that are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>)) requires firms to establish <u>a quality objective that addresses the assembly of engagement documentation on a timely</u></p>



Ref.	Conforming and Consequential Amendments to the Standards
	<p>basis after the date of the engagement report policies and procedures for the timely completion of the assembly of engagement files.<sup>18</sup> 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 service auditor's report.<sup>19</sup></p> <p><sup>17</sup> Professional and Ethical Standard 3-(Amended), "Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance or Related Services Engagements".</p> <p><sup>18</sup> Professional and Ethical Standard 3-(Amended), paragraph 4531(f)</p> <p><sup>19</sup> Professional and Ethical Standard 3-(Amended), paragraph A54A83</p>
ISAE (NZ) 3402, Appendix 2	<p><b>Example 1: Type 2 Service Auditor's Assurance Report</b></p> <p>...</p> <p><i>Our Independence and Quality Management Control</i></p> <p>We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.</p> <p>The firm applies Professional and Ethical Standard 3-(Amended)<sup>22</sup> and accordingly maintains a comprehensive, which requires the firm to design, implement and operate a system of quality control management including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p><sup>22</sup> Professional and Ethical Standard 3-(Amended), "Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance or Related Services Engagements"</p>
ISAE (NZ) 3402, Appendix 2	<p><b>Example 2: Type 1 Service Auditor's Assurance Report</b></p> <p>...</p> <p><i>Our Independence and Quality Management Control</i></p> <p>We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1-(Revised) <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.</p> <p>The firm applies Professional and Ethical Standard 3-(Amended)<sup>24</sup> and accordingly maintains a comprehensive, which requires the firm to design, implement and operate a system of quality control management including documented policies and/or procedures regarding compliance</p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p><sup>24</sup> Professional and Ethical Standard 3-(Amended), “Quality ControlManagement for Firms that Perform Audits andor Reviews of Financial Statements, andor Other Assurance or Related Services Engagements”</p>
<b>ISAE (NZ) 3410</b>	<b>Assurance Engagements on Greenhouse Gas Statements</b>
ISAE (NZ) 3410, paragraph 10	<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1<sup>6</sup> <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>7</sup> It also requires the lead assurance practitioner<sup>8</sup> to be a member of a firm that applies Professional and Ethical Standard 3-(Amended),<sup>9</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3-(Amended). (Ref: Para. A5–A6)</p> <p><sup>8</sup> The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 3 (Amended) as the “engagement partner.”</p> <p><sup>9</sup> ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31 (a). Professional and Ethical Standard 3 “Quality ControlManagement for Firms that Perform Audits andor Reviews of Financial Statements, andor Other Assurance or Related Services Engagements-(Amended)”.</p>
ISAE (NZ) 3410, Documentation	<p><b>Documentation</b></p> <p><del>Quality ControlManagement</del></p>
ISAE (NZ) 3410, paragraph 71	<p><b>Engagement Quality Control Review</b></p> <p><del>For those engagements, if any, for which a quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve: (Ref: Para. A130)</del></p> <p><del>(a) Discussion of significant matters with the lead assurance practitioner, including the engagement team’s professional competencies with respect to the quantification and reporting of emissions and assurance;</del></p> <p><del>(b) Review of the GHG statement and the proposed assurance report;</del></p> <p><del>(c) Review of selected engagement documentation relating to the significant judgements the engagement team made and the conclusions it reached; and</del></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p><del>(d) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.</del></p>
<p>ISAE (NZ) 3410, paragraph 76</p>	<p><b>Assurance Report Content</b></p> <p>The assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A134)</p> <p>...</p> <p>(i) A statement that the firm of which the practitioner is a member applies Professional and Ethical Standard 3 <del>(Amended)</del>, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>.</p> <p>...</p> <p>(n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which:</p> <p>(i) <del>the</del> assurance practitioner has obtained the evidence on which the assurance practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the GHG statement; <u>and</u></p> <p>(ii) <u>When an engagement quality review is required in accordance with Professional and Ethical Standard 3 or the firm's policies or procedures, the engagement quality review is complete.</u></p> <p>...</p>
<p>ISAE (NZ) 3410, paragraph A128</p>	<p><b>Documentation</b></p> <p><i>Matters Arising after the Date of the Assurance Report</i> (Ref: Para. 68)</p> <p>Examples of exceptional circumstances include facts which become known to the assurance practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the GHG statement to be amended or the assurance practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the engagement documentation are reviewed in accordance with the firm's policies <del>and</del> <u>or</u> procedures with respect to <u>the nature, timing and extent of the review responsibilities of engagement team members' work as required by</u></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>Professional and Ethical Standard 3 (<del>Amended</del>),<sup>26</sup> with the lead assurance practitioner taking final responsibility for the changes.<sup>26</sup></p> <p><sup>26</sup> PES 3 (<del>Amended</del>), “<del>Quality Control</del> <u>Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements</u>, paragraphs <del>32–33</del> 31(b)”</p>
<p>ISAE (NZ) 3410, paragraph A129</p>	<p><del>Assembly of the Final Engagement File</del> (Ref: Para. 69)</p> <p>Professional and Ethical Standard 3 (<del>Amended</del>) (or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 (<del>Amended</del>)) requires firms to establish a quality objective that <u>addresses policies and procedures the assembly of engagement documentation on a timely basis after the date of the engagement report for the timely completion of the assembly of engagement files.</u><sup>27</sup> 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 assurance report.<sup>28</sup></p> <p><sup>27</sup> PES 3 (<del>Amended</del>), paragraph 4531(f)</p> <p><sup>28</sup> PES 3 (<del>Amended</del>), paragraph A54A83</p>
<p>ISAE (NZ) 3410, paragraph A130</p>	<p><del>Engagement Quality Control Review</del> (Ref: Para. 71)</p> <p><del>Other matters that may be considered in an engagement quality control review include:</del></p> <ul style="list-style-type: none"> <li><del>• The engagement team’s evaluation of the firm’s independence in relation to the engagement.</del></li> <li><del>• Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.</del></li> <li><del>• Whether engagement documentation selected for review reflects the work performed in relation to the significant judgements and supports the conclusions reached.</del></li> </ul>
<p>ISAE (NZ) 3410, Appendix 2 Illustration 1</p>	<p><b>Illustrations of Assurance Reports on GHG Statements</b></p> <p><b><u>Illustration 1:</u></b></p> <p>...</p> <p><i>Our Independence and Quality</i> (<del>Control Management</del>)</p> <p>We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.</p>

**Commented [VT4]:** Not in the suggested change in ISAE

**Commented [MP5R4]:** Confirmed as an error with IAASB staff so suggest we fix here

Ref.	Conforming and Consequential Amendments to the Standards
	<p>The firm applies Professional and Ethical Standard 3-(Amended)<sup>31</sup> and accordingly maintains a comprehensive, which requires the firm to design, implement and operate a system of quality control management including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p><sup>31</sup> Professional Ethical Standard 3-(Amended), “Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements-(Amended)”.</p>
<p>ISAE (NZ) 3410, Appendix 2 Illustration 2</p>	<p><b>Illustrations of Assurance Reports on GHG Statements</b></p> <p><b>Illustration 2:</b></p> <p>...</p> <p><i>Our Independence and Quality Control Management</i></p> <p>We have complied with the independence and other ethical requirements of the Professional and Ethical Standard 1-(Revised) <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by the <u>New Zealand Auditing and Assurance Standards Board</u>, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.</p> <p>The firm applies Professional and Ethical Standard 3-(Amended)<sup>34</sup> and accordingly maintains a comprehensive, which requires the firm to design, implement and operate a system of quality control management including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p><sup>34</sup> Professional Ethical Standard 3-(Amended), “Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements-(Amended)”.</p>
<p><b>ISAE (NZ) 3420</b></p>	<p><b>Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus</b></p>
<p>ISAE (NZ) 3420, paragraph 8</p>	<p>Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1<sup>3</sup> <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by the New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>4</sup> It also requires the lead assurance practitioner<sup>5</sup> to be a member of a firm that applies Professional and Ethical Standard 3-(Amended)<sup>6</sup>, or other professional requirements, or requirements in law or regulation, that</p>

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Ref.	Conforming and Consequential Amendments to the Standards
	<p>are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>.</p> <p><sup>3</sup> In Professional and Ethical Standard 1, the term “engagement partner” should be read as referring to “lead assurance practitioner.”</p> <p><sup>4</sup> ISAE (NZ) 3000 (Revised), paragraphs 3(a), 20 and 34</p> <p><sup>5</sup> The term lead assurance practitioner is referred to in Professional and Ethical Standard 3 as the “engagement partner”.</p> <p><sup>6</sup> ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31(a). Professional and Ethical Standard 3 <del>(Amended)</del>, “Quality <del>Control</del> <u>Management</u> for Firms that Perform Audits <del>and</del> <u>or</u> Reviews of Financial Statements, <del>and</del> <u>or</u> Other Assurance <del>and</del> <u>or</u> Related Services Engagements”</p>
<p>ISAE (NZ) 3420, paragraph 35</p>	<p>The assurance practitioner’s report shall include, at a minimum, the following basic elements: (Ref: Para. A57)</p> <p>...</p> <p>(g) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3 <del>(Amended)</del>, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3 <del>(Amended)</del>.</p> <p>...</p>
<p>ISAE (NZ) 3420, Appendix</p>	<p><b>Illustrative Practitioner’s Report with an Unmodified Opinion</b></p> <p>...</p> <p><i>Our Independence and <del>Quality Management</del> <u>Control</u></i></p> <p>We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.</p> <p><del>The firm applies Professional and Ethical Standard 3 (Amended)<sup>14</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</del></p> <p><u>The firm applies Professional and Ethical Standard 3<sup>14</sup>, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</u></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<sup>14</sup> Professional and Ethical Standard 3-(Amended), “Quality Control Management for Firms that Perform Audits <del>and</del> Reviews of Financial Statements, <del>and</del> Other Assurance <del>and</del> Related Services Engagements”.
<b>ISRS (NZ) 4400</b>	<b>Agreed-Upon Procedures Engagements</b>
ISRS (NZ) 4400, under Contents	Engagement Level Quality Control Management
ISRS (NZ) 4400, paragraph 3	<p><b>Introduction</b></p> <p><b>Scope of this ISRS (NZ)</b></p> <p><i>Relationship with <del>Relevant Quality Control Standards</del> Professional and Ethical Standard 3<sup>1</sup></i></p> <p>The system of <del>quality control systems management, and policies and</del> procedures are the responsibility of the firm. <del>Relevant quality control standards</del> Professional and Ethical Standard 3 apply to firms of professional accountants in respect of a firm’s agreed-upon procedures engagements.<sup>1A</sup> The provisions of this ISRS (NZ) regarding quality <del>control management</del> at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to <del>relevant quality control standards</del> Professional and Ethical Standard 3 or requirements that are at least as demanding. (Ref: Para. A3–A8)</p> <p><sup>1</sup> For related services engagements, including agreed-upon procedures engagements, relevant quality control standards means PS 1 Quality Control issued by the New Zealand Institute of Chartered Accountants. 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></p> <p><sup>1A</sup> Professional and Ethical Standard 3, paragraph 5</p>
ISRS (NZ) 4400, Paragraph 5	<p>The value of an agreed-upon procedures engagement performed in accordance with this ISRS (NZ) results from:</p> <p>...</p>
ISRS (NZ) 4400, Paragraph 12	<p>The practitioner’s objectives in an agreed-upon procedures engagement under this ISRS (NZ) are to:</p> <p>...</p> <p>(c) Communicate the procedures performed and the related findings in accordance with the requirements of this ISRS (NZ).</p>
ISRS (NZ) 4400, Paragraph 13	<p><b>Definitions</b></p> <p>For purposes of this ISRS (NZ), the following terms have the meanings attributed below:</p> <p>...</p> <p>(c) Engagement partner<sup>2</sup> – The partner or other <del>person</del> <del>in</del> individual, appointed by the firm, who is responsible for the engagement and its performance, and for the agreed-upon</p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>procedures report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p>...</p> <p>(e) Engagement team— All partners and staff performing the agreed-upon procedures engagement, and any other individuals <u>engaged by the firm or a network firm</u> who perform procedures on the engagement. <del>This excludes excluding a practitioner’s external expert engaged by the firm or a network firm.</del></p> <p>...</p> <p>(j) Professional judgement - The application of relevant training, knowledge and experience, within the context provided by this ISRS (NZ) and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.</p> <p>...</p> <p>(k) Relevant ethical requirements – <u>Principles of professional ethics and ethical requirements that are applicable to the engagement team</u> is subject to when undertaking agreed-upon procedures engagements. <del>These Relevant ethical requirements</del> ordinarily comprise the <u>provisions of Professional and Ethical Standard (PES) 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</u>, together with national requirements that are more restrictive.</p>
ISRS (NZ) 4400, paragraph 19	<p><b>Engagement Level Quality Control Management</b></p> <p>The engagement partner shall take <u>overall</u> responsibility for:</p> <p>(a) <del>The overall</del> <u>Managing and achieving quality of</u> on the agreed-upon procedures engagement including, if applicable, work performed by a practitioner’s expert, <u>and being sufficiently and appropriately involved throughout the engagement</u>; and (Ref: Para. A24)</p> <p>(b) The engagement being performed in accordance with the firm’s quality <del>control</del> <u>management</u> policies <del>and</del> or procedures by:</p> <p>(i) Following <del>appropriate</del> <u>the firm’s policies or procedures</u> regarding the acceptance and continuance of client relationships and <u>agreed-upon procedures</u> engagements; (Ref: Para. A25)</p> <p>(iA) <u>Determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into</u></p>



Ref.	Conforming and Consequential Amendments to the Standards
	<p><u>account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement;</u></p> <p>(ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, <u>including having sufficient time</u>, to perform the agreed-upon procedures engagement;</p> <p>(iii) Being alert for indications of <del>non-compliance</del> <u>breaches of relevant ethical requirements</u> by members of the engagement team <del>with relevant ethical requirements</del>, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have <del>not complied with</del> <u>breached</u> relevant ethical requirements; (Ref: Para. A26)</p> <p>(iv) <del>Directing, and</del> <u>supervising engagement team members, reviewing their work</u>, and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and</p> <p>(v) Taking responsibility for appropriate engagement documentation being <u>assembled, appropriately maintained and retained</u>.</p> <p>(vi) <u>When an engagement quality review is required in accordance with ISQM 1 or the firm's policies or procedures, not dating the report until the completion of the engagement quality review.</u><sup>3A</sup></p> <p><sup>3A</sup> <u>ISQM 2, Engagement Quality Reviews</u></p>
ISRS (NZ) 4400, paragraph 21	<p><b>Engagement Acceptance and Continuance</b></p> <p>Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the <u>agreed-upon procedures</u> engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)</p>
ISRS (NZ) 4400, paragraph 23	<p>If the engagement partner obtains information that may have caused the firm to decline the engagement had that information been <u>known by the firm prior to accepting or continuing the engagement available earlier</u>, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.</p>

Ref.	Conforming and Consequential Amendments to the Standards
ISRS (NZ) 4400, paragraph 26	<p><b>Agreeing the Terms of the Engagement</b></p> <p><i>Recurring Agreed-Upon Procedures Engagements</i></p> <p>On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the <u>firm's judgements about whether to accept or continue the engagement-acceptance considerations</u>, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)</p>
ISRS (NZ) 4400, paragraph 30	<p><b>The Agreed-Upon Procedures Report</b></p> <p>The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)</p> <p>...</p> <p>(g) A statement that the engagement was performed in accordance with ISRS <u>(NZ) 4400 (Revised)</u>;</p> <p>...</p> <p>(m) A statement that the firm of which the practitioner is a member applies <del>relevant quality control standards</del><u>Professional and Ethical Standard 3</u>, or other professional requirements, or requirements in law or regulation, that are at least as demanding as <del>relevant quality control standards</del><u>Professional and Ethical Standard 3</u>. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as <del>relevant quality control standards</del><u>Professional and Ethical Standard 3</u>;</p> <p>...</p>
ISRS (NZ) 4400, paragraph A3	<p><del>Relationship with Relevant Quality Control Standards</del><u>Professional and Ethical Standard 3</u> (Ref: Para. 3)</p> <p><del>Relevant quality control standards</del><u>Professional and Ethical Standard 3</u> deals with the firm's responsibilities to <del>establish and maintain its design, implement and operate a-system of quality control management</del><u>for related services engagements, including agreed-upon procedures engagements.</u><sup>3B</sup> <u>Professional and Ethical Standard 3</u> also deals with the firm's responsibility to <u>establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.</u> <u>Professional and Ethical Standard 4</u> deals with the <u>appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.</u><sup>3C</sup></p> <p><del>Those responsibilities are directed at establishing:</del></p> <ul style="list-style-type: none"> <li>• <del>The firm's quality control system; and</del></li> </ul>

Ref.	Conforming and Consequential Amendments to the Standards
	<ul style="list-style-type: none"> <li data-bbox="368 468 1032 551">The firm's related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.</li> </ul> <p data-bbox="368 562 727 584"><sup>3B</sup> Professional and Ethical Standard 3, paragraph 2(a)</p> <p data-bbox="368 591 727 613"><sup>3C</sup> Professional and Ethical Standard 3, paragraph 2(b)</p>
ISRS (NZ) 4400, paragraph A4	<p data-bbox="368 629 1032 792">Under <del>relevant quality control standards</del> <u>Professional and Ethical Standard 3</u>, the objective of the firm <del>has an obligation to establish and maintain</del> <u>is to design, implement and operate a system of quality control management for related services engagements, including agreed-upon procedures engagements, that provides the firm</u> with reasonable assurance that:</p> <p data-bbox="368 808 1032 920">(a) The firm and its personnel <del>comply</del> <u>fulfill their responsibilities in accordance</u> with professional standards and applicable legal and regulatory requirements, <del>and conduct engagements in accordance with such standards and requirements;</del> and</p> <p data-bbox="368 936 1032 987">(b) <del>Reports</del> <u>Engagement reports</u> issued by the firm or engagement partners are appropriate in the circumstances.<sup>3D</sup></p> <p data-bbox="368 1003 727 1025"><sup>3D</sup> Professional and Ethical Standard 3, paragraph 14</p>
ISRS (NZ) 4400, paragraph A5	<p data-bbox="368 1043 1032 1547">A jurisdiction that has not adopted <del>relevant quality control standards</del> <u>Professional and Ethical Standard 3</u> in relation to agreed-upon procedures engagements may set out requirements for quality <del>control</del> <u>management</u> in firms performing such engagements. The provisions of this ISRS (NZ) regarding quality <del>control</del> <u>management</u> at the engagement level are premised on the basis that quality <del>control</del> <u>management</u> requirements adopted are at least as demanding as those of <del>relevant quality control standards</del> <u>Professional and Ethical Standard 3</u>. This is achieved when those requirements <u>address the requirements of Professional and Ethical Standard 3 and impose obligations on the firm to achieve the objective of Professional and Ethical Standard 3, impose obligations on the firm to achieve the aims of the requirements of relevant quality control standards, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements: Compliance with Professional and Ethical Standard 3 requires, among other things, that the firm's system of quality management addresses the following eight components:</u><sup>3E</sup></p> <p data-bbox="368 1563 767 1585">(a) <u>The firm's risk assessment process;</u></p> <p data-bbox="368 1601 695 1624">(b) <u>Governance and leadership;</u></p> <p data-bbox="368 1639 719 1662">(c) <u>Relevant ethical requirements;</u></p> <p data-bbox="368 1677 959 1733">(d) <u>Acceptance and continuance of client relationships and specific engagements;</u></p> <p data-bbox="368 1749 679 1771">(e) <u>Engagement performance;</u></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>(f) <u>Resources;</u></p> <p>(g) <u>Information and communication; and</u></p> <p>(h) <u>The monitoring and remediation process.</u></p> <ul style="list-style-type: none"> <li>• <del>Leadership responsibilities for quality within the firm;</del></li> <li>• <del>Relevant ethical requirements;</del></li> <li>• <del>Acceptance and continuance of client relationships and specific engagements;</del></li> <li>• <del>Human resources;</del></li> <li>• <del>Engagement performance; and</del></li> <li>• <b>Monitoring.</b></li> </ul> <p><small><sup>6A</sup> Professional and Ethical Standard 3, paragraph 6</small></p>
ISRS (NZ) 4400, paragraph A6	<p>Within the context of the firm's system of quality <del>control</del> <u>management</u>, engagement teams have a responsibility to implement <del>quality control policies</del> or procedures applicable to the engagement.</p>
ISRS (NZ) 4400, paragraph A7	<p><del>Unless information provided by the firm or other parties suggests otherwise</del> <u>Ordinarily, the engagement team is entitled to rely</u> <del>may depend</del> on the firm's system of quality <del>control</del> <u>management unless:</u></p> <ul style="list-style-type: none"> <li>• <u>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</u></li> <li>• <u>Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise.</u></li> </ul> <p>For example, the engagement team may <del>rely</del> <u>depend</u> on the firm's system of quality <del>control</del> <u>management</u> in relation to:</p> <ul style="list-style-type: none"> <li>• <u>Competence and capabilities of personnel through their recruitment and formal training.</u></li> <li>• <u>Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of client relationships and agreed-upon procedures engagements systems.</u></li> <li>• <u>Adherence to legal and regulatory requirements through the firm's monitoring and remediation process.</u></li> </ul> <p>In considering deficiencies<sup>3F</sup> identified in the firm's system of quality <del>control</del> <u>management</u> that may affect the agreed-upon procedures engagement, the engagement partner may consider <del>measures</del> <u>the remedial actions undertaken by the firm to rectify</u> <del>address the situation</del> <u>those deficiencies that the engagement</u></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>partner considers are sufficient in the context of that agreed-upon procedures engagement.</p> <p><sup>3F</sup> Professional and Ethical Standard 3, paragraph 16(a)</p>
ISRS (NZ) 4400, paragraph A8	<p>A deficiency in the firm’s system of quality <del>control</del> <u>management</u> does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.</p>
ISRS (NZ) 4400, paragraph A11	<p>The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ISRS (NZ) include multiple engaging parties when relevant.</p>
ISRS (NZ) 4400, paragraph A24	<p><b>Engagement Level Quality Control Management</b> (Ref: Para. 19–20)</p> <p>The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking <u>overall</u> responsibility for <del>the overall managing and achieving</del> quality on each engagement, emphasize the importance to achieving the quality of the engagement of:</p> <ul style="list-style-type: none"> <li>(a) Performing work that complies with professional standards and regulatory and legal requirements;</li> <li>(b) Complying with the firm’s <del>quality control</del> policies <del>and/or</del> procedures as applicable; and</li> <li>(c) Issuing the practitioner’s report for the engagement in accordance with this ISRS (NZ).</li> </ul>
ISRS (NZ) 4400, paragraph A25	<p><del>Relevant quality control standards</del> <u>Professional and Ethical Standard 3</u> requires the firm <u>to establish a quality objectives dealing with the appropriateness of to obtain such</u> <del>its</del> <u>judgements about whether to accept or continue a client relationship or engagement based on information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client</u> <del>obtained</del> <u>about the nature and circumstances of the agreed-upon procedures engagement and</u> <del>Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity and ethical values of the principal owners, key client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgements. If the engagement partner has cause to doubt management’s integrity to a degree that is likely to affect proper performance of the</del></p>

Ref.	Conforming and Consequential Amendments to the Standards
	engagement, it may not be appropriate to accept the engagement.
ISRS (NZ) 4400, paragraph A26	<p><del>Relevant quality control standards</del> Professional and Ethical Standard 3 sets out the responsibilities of the firm for establishing <del>policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply</del> quality objectives that address the fulfillment of responsibilities in relation to <del>with</del> relevant ethical requirements. This ISRS (NZ) sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.<sup>7A</sup></p> <p><sup>7A</sup> Professional and Ethical Standard 3, paragraph 29</p>
ISRS (NZ) 4400, paragraph A37	<p><b>Engagement Acceptance and Continuance</b> (Ref: Para. 21–23)</p> <p><i>Compliance with Independence Requirements</i> (Ref: Para. 22(e), 24(e))</p> <p>Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering <del>engagement</del> acceptance and continuance <u>of the engagement</u> or agreeing the terms of engagement, the practitioner's knowledge of the following matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate for the purpose of the agreed-upon procedures engagement:</p> <p>...</p>
ISRS (NZ) 4400, paragraph A47	<p>A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality <del>control</del> <u>management</u>. <del>Ordinarily, the practitioner may depend is entitled to rely on</del> the firm's system of quality <del>control</del> <u>management</u>, unless:</p> <ul style="list-style-type: none"> <li>• <u>The practitioner'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</u></li> <li>• <u>Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise.</u></li> </ul> <p><del>information provided by the firm or other parties suggests otherwise. The extent of that reliance dependence will vary with the</del></p>

Ref.	Conforming and Consequential Amendments to the Standards
	<p>circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:</p> <ul style="list-style-type: none"> <li>• Competence and capabilities, through recruitment and training programs.</li> <li>• The practitioner's evaluation of the objectivity of the practitioner's expert.</li> <li>• Agreement with the practitioner's expert.</li> </ul> <p>Such <del>reliance dependence</del> does not reduce the practitioner's responsibility to meet the requirements of this ISRS (NZ).</p>
ISRS (NZ) 4400, Appendix 2	<p><b>Illustration 1</b></p> <p><i>Professional Ethics and Quality <del>Control</del>Management</i></p> <p>...</p> <p><del>Our firm applies [describe relevant quality control standards], and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</del></p> <p><u>Our firm applies Professional and Ethical Standard 3, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</u></p>
ISRS (NZ) 4400, Appendix 2	<p><b>Illustration 2</b></p> <p><i>Professional Ethics and Quality <del>Control</del>Management</i></p> <p>...</p> <p><del>Our firm applies International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</del></p> <p><u>Our firm applies Professional and Ethical Standard 3, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</u></p>

**C: EFFECTIVE DATE**

This Standard would be effective for:

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



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**Date:** [Date]

**To:** Michele Embling, Chair External Reporting Board

**From:** Robert Buchanan, Chair NZAuASB

**Subject: Certificate Signing Memorandum**  
*Annual Improvements and Conforming Amendments to the Domestic Assurance Standards*

---

### Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Annual Improvements and Conforming Amendments to the Domestic Assurance Standards*.

### Background

#### *Nature of the amendments*

2. The External Reporting Board (XRB) issued the [new and revised Quality Management \(QM\) standards](#) in July 2021, based on the international equivalent standards. As a result, the NZAuASB has developed conforming amendments in an amending standard.
3. The conforming amendments address inconsistencies between the Domestic Assurance Standards and the new and revised QM standards. The purpose of the conforming amendments is to avoid conflicts with the QM standards and to ensure that the Domestic Assurance Standards can continue to be applied together with the QM standards.
4. The conforming amendments have a narrow scope and do not involve reconsideration of the objectives, requirements and application material of the Domestic Assurance Standards. They comprise updates to references and other terminology to align with PES 3, PES 4 and other standards. For example, the domestic assurance standards currently refer to the firm's quality control. New terminology in PES 3 refers to 'quality management'.
5. The amending standard also includes annual improvements to the Domestic Assurance Standards.

#### *Domestic due process*

6. In February 2022, the NZAuASB issued an exposure draft (ED) 2022-1 *Annual Improvements and Conforming Amendments to the Domestic Assurance Standards*.

7. Comments on the ED were due by 15 March 2022. We have not received any comments from New Zealand constituents on the proposed amendments.
8. The AUASB has not yet considered the Australian equivalent standard but there are not expected to be harmonisation differences between New Zealand and Australia in relation to this standard.
9. The *Annual Improvements and Conforming Amendments to the Domestic Assurance Standards* were approved with affirmative votes of X out of X NZAuASB members at the 7 April 2022 meeting.

#### **Privacy**

10. 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**

11. 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**

12. The adoption of *Annual Improvements and Conforming Amendments to the Domestic Assurance Standards* 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. These domestic conforming amendments are needed to ensure that the Domestic Assurance Standards can continue to be applied together with the QM standards.

#### **Other matters**

13. 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**

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

#### **Attachments**

*Annual Improvements and Conforming Amendments to the Domestic Assurance Standards*

Certificate of Determination

Robert Buchanan

Chair NZAuASB



*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

## **ANNUAL IMPROVEMENTS AND CONFORMING AND CONSEQUENTIAL AMENDMENTS TO DOMESTIC ASSURANCE STANDARDS**

This Standard was issued on [date] 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 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

An auditor that is required to apply this Standard is required to apply the Standard in accordance with the effective date which is set out in Part C.

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 the conforming amendments necessary as a result of the new and revised Quality Management Standards.

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ISBN [To update]

## **CONTENTS**

### **A: INTRODUCTION**

### **B: ANNUAL IMPROVEMENTS AND CONFORMING AMENDMENTS TO DOMESTIC ASSURANCE STANDARDS**

### **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 contains annual improvements and conforming and consequential amendments to domestic assurance standards as a result of the new and revised Quality Management Standards. A tabular presentation format has been used to show the annual improvements and conforming and consequential amendments to the standards. Underline and strikethrough are used to indicate proposed changes.

The annual improvements and conforming and consequential amendments affect the following standards and are arranged in the following manner:

### **CONTENT**

<b>Standard</b>	<b>Page</b>
SAE 3100, (Revised), <i>Assurance Engagements on Compliance</i> .....	5
SAE 3150, <i>Assurance Engagements on Controls</i> .....	9
NZ SRE 2410 (Revised), <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i> .....	12

**B: ANNUAL IMPROVEMENTS AND CONFORMING AND CONSEQUENTIAL AMENDMENTS TO DOMESTIC ASSURANCE STANDARDS**

Ref.	Amendments to the Standards
SAE 3100 (Revised)	<i>Assurance Engagements on Compliance</i>
SAE 3100 (Revised), under Contents	Quality Control <u>Management</u>
SAE 3100 (Revised), paragraph 8	An assurance engagement performed in accordance with ISAE (NZ) 3000 ( <u>Revised</u> ) measures or evaluates the underlying subject matter against suitable criteria. In a compliance engagement the assurance practitioner determines whether compliance requirements have been met by evaluating the subject matter against the compliance requirements, using the criteria. The criteria may be the compliance requirements, or a subset thereof. A table explaining the terminology applied in this SAE is contained in Appendix 2.
SAE 3100 (Revised), paragraph 9	<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding<sup>1</sup>. It also requires the lead assurance practitioner<sup>2</sup> to be a member of a firm that applies Professional and Ethical Standard 3 (<del>Amended</del>)<sup>3</sup> or requirements in law or regulation, that are at least as demanding related to assurance engagements.</p> <p><sup>2</sup> The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1 (<del>Revised</del>) and Professional and Ethical Standard 3 (<del>Amended</del>) as the “engagement partner”.</p>
SAE 3100 (Revised), paragraph 17 (l)	<p><b>Definitions</b></p> <p>Firm—A sole assurance-practitioner, partnership or corporation or other entity of <del>individual assurance practitioners, or public sector equivalent</del>. “Firm” should be read as referring to its public sector equivalents where relevant.</p>
SAE 3100 (Revised), paragraph 28	<p><b>Quality Control <u>Management</u></b></p> <p>The assurance practitioner shall implement quality <del>control</del> <u>management</u> procedures as required by ISAE (NZ) 3000 (Revised).</p>
SAE 3100 (Revised), paragraph 56 (l)	<p><i>Assurance Report Content</i></p> <p>A statement that the firm of which the assurance practitioner is a member applies <i>Professional and Ethical Standard 3 (<del>Amended</del>)</i>, or other professional requirements, or requirements in law and regulation, that are at least as demanding as <i>Professional and Ethical Standard 3 (<del>Amended</del>)</i>. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law and regulation, applied that are at least as demanding as <i>Professional and Ethical Standard 3 (<del>Amended</del>)</i>;</p>



Ref.	Amendments to the Standards									
SAE 3100 (Revised), paragraph A7	<p><b>Acceptance and Continuance</b></p> <p><i>Competence and Capabilities to Perform the Engagement</i></p> <p>Relevant competence and capabilities, <u>including having sufficient time</u> to perform the compliance engagement, as required by ISAE (NZ) 3000 (Revised) by persons who are to perform the engagement, include matters such as the following: ...</p>									
SAE 3100 (Revised), paragraph A65	<p>Professional and Ethical Standard 1<sup>36</sup>, sets out the approach to be taken by an assurance practitioner who encounters or is made aware of matter(s) of non-compliance or suspected matter(s) of non-compliance with laws or regulations. In these circumstances, the assurance practitioner shall consider the appropriate response to the identified matter(s) of non-compliance with laws and regulations in accordance with Professional and Ethical Standard 1 <del>(Revised)</del>.</p> <p><sup>36</sup> See Professional and Ethical Standard 1 <del>(Revised)</del>, Section <del>225</del> <u>260</u>, Responding to Non-Compliance with Laws and Regulations</p>									
SAE 3100 (Revised), Appendix 4	<p><i>Extract of table in Appendix 4.</i></p> <p><b>STANDARDS APPLICABLE TO EXAMPLE ENGAGEMENTS ON COMPLIANCE</b></p> <table border="1" data-bbox="549 1077 1426 1727"> <tbody> <tr> <td data-bbox="549 1077 762 1391"></td> <td data-bbox="762 1077 1066 1391"></td> <td data-bbox="1066 1077 1426 1391"> <p><b><u>APPLICABLE NZAuASB STANDARDS FOR ASSURANCE ENGAGEMENTS OR RELATED SERVICES</u></b>  <b><u>NON-ASSURANCE STANDARDS</u></b></p> </td> </tr> <tr> <td data-bbox="549 1391 762 1518"></td> <td data-bbox="762 1391 1066 1518"></td> <td data-bbox="1066 1391 1426 1518"> <p><b><u>ISRS (NZ) 4400 Agreed upon Procedures Engagements<sup>38</sup></u></b></p> </td> </tr> <tr> <td data-bbox="549 1518 762 1727"> <p><b>Subject Matter of Compliance Assurance Engagement</b></p> </td> <td data-bbox="762 1518 1066 1727"> <p>4. Procedures restricted to those specified by engaging party</p> </td> <td data-bbox="1066 1518 1426 1727"> <p style="text-align: center;">✓</p> </td> </tr> </tbody> </table> <p><sup>38</sup> <del>The External Reporting Board's legislative mandate is restricted to standards relating for use in assurance engagements required by statute. Other types of engagements, including compilations and agreed-upon procedures, fall outside of the Board's authority.</del></p>			<p><b><u>APPLICABLE NZAuASB STANDARDS FOR ASSURANCE ENGAGEMENTS OR RELATED SERVICES</u></b>  <b><u>NON-ASSURANCE STANDARDS</u></b></p>			<p><b><u>ISRS (NZ) 4400 Agreed upon Procedures Engagements<sup>38</sup></u></b></p>	<p><b>Subject Matter of Compliance Assurance Engagement</b></p>	<p>4. Procedures restricted to those specified by engaging party</p>	<p style="text-align: center;">✓</p>
		<p><b><u>APPLICABLE NZAuASB STANDARDS FOR ASSURANCE ENGAGEMENTS OR RELATED SERVICES</u></b>  <b><u>NON-ASSURANCE STANDARDS</u></b></p>								
		<p><b><u>ISRS (NZ) 4400 Agreed upon Procedures Engagements<sup>38</sup></u></b></p>								
<p><b>Subject Matter of Compliance Assurance Engagement</b></p>	<p>4. Procedures restricted to those specified by engaging party</p>	<p style="text-align: center;">✓</p>								

Ref.	Amendments to the Standards
SAE 3100 (Revised), Appendix 5, Example 1	<p><b>Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on ABC’s Statement of compliance with the [compliance requirements] as evaluated against the [suitable criteria]</b></p> <p>...</p> <p><i>[Our Independence and Quality <del>Control</del> Management]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3—<del>(Amended)</del>, <i>Quality <del>Control</del> Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> in undertaking this assurance engagement.</p>
SAE 3100 (Revised), Appendix 5, Example 2	<p><b>Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on ABC’s Statement of compliance with the [compliance requirements] as evaluated against the [suitable criteria]</b></p> <p>...</p> <p><i>[Our Independence and Quality <del>Control</del> Management]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3, <i>Quality <del>Control</del> Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> in undertaking this assurance engagement.</p>
SAE 3100 (Revised), Appendix 5, Example 3	<p><b>Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria]</b></p> <p>...</p> <p><i>[Our Independence and Quality <del>Control</del> Management]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3, <i>Quality <del>Control</del> Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> in undertaking this assurance engagement.</p>
SAE 3100 (Revised), Appendix 6, Example 1	<p><b>Example 1: Limited Assurance Report on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Direct engagement)</b></p> <p>...</p> <p><i>Our Independence and Quality <del>Control</del> Management</i></p> <p>We have complied with the <del>relevant</del> <u>independence and other ethical requirements of Professional Ethical Standard 1 International Code of</u></p>

Ref.	Amendments to the Standards
	<p><u><i>Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i></u> issued by the New Zealand Auditing and Assurance Standards Board, which is <del>relating to assurance engagements, which include independence and other requirements</del> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p><del>In accordance with the</del> <u>The firm applies</u> Professional and Ethical Standard 3 <del>(Amended)</del><sup>48</sup> <del>[name of the firm]</del>, which requires the firm to <u>design, implement and operate</u> <del>maintains a comprehensive</del> system of quality <del>control</del> <u>management</u> including <del>documented</del> policies <del>and</del> <u>or</u> procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p><small>48 Professional and Ethical Standard 3 <del>(Amended)</del> “<i>Quality <del>Control</del> Management for Firms that Perform Audits <del>and</del> or Reviews of Financial Statements, <del>and</del> or Other Assurance or Related Services Engagements <del>(Amended)</del></i>”.</small></p>
SAE 3100 (Revised), Appendix 6, Example 2	<p><b>Example 2: Reasonable Assurance Report on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Direct engagement)</b></p> <p>...</p> <p><i>Our Independence and Quality <del>Control</del> Management</i></p> <p>We have complied with the <del>relevant</del> <u>independence and other</u> ethical requirements <u>of Professional Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i></u> issued by the New Zealand Auditing and Assurance Standards Board, which is <del>relating to assurance engagements, which include independence and other requirements</del> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p><del>In accordance with the</del> <u>The firm applies</u> Professional and Ethical Standard 3 <del>(Amended)</del> <del>[name of the firm]</del>, which requires the firm to <u>design, implement and operate</u> <del>maintains a comprehensive</del> system of quality <del>control</del> <u>management</u> including <del>documented</del> policies <del>and</del> <u>or</u> procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
SAE 3100 (Revised), Appendix 6, Example 3	<p><b>Example 3: Reasonable Assurance Report on ABC’s Statement of Compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Attestation engagement)</b></p> <p>...</p> <p><i>Our Independence and Quality <del>Control</del> Management</i></p> <p>We have complied with the <del>relevant</del> <u>independence and other</u> ethical requirements <u>of Professional Ethical Standard 1 <i>International Code of</i></u></p>

Ref.	Amendments to the Standards
	<p><u><i>Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i></u> issued by the New Zealand Auditing and Assurance Standards Board, which is <del>relating to assurance engagements, which include independence and other requirements</del> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p><del>In accordance with the</del> <u>The firm applies Professional and Ethical Standard 3 (Amended) [name of the firm]</u>, which requires the firm to <u>design, implement and operate</u> <del>maintains a comprehensive system of quality control management including documented policies and or</del> procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
<b>SAE 3150</b>	<b><i>Assurance Engagements on Controls</i></b>
SAE 3150, under Contents	<u>Quality Control Management</u>
SAE 3150, Paragraph 1	<p>This Standard on Assurance Engagements (SAE) applies to assurance engagements to provide an assurance report on controls at an entity, except for engagements to which International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3402<sup>1</sup> is applicable.<sup>2</sup> (Ref: Para. A1)</p> <p><sup>2</sup> The assurance practitioner applies ISA (NZ) 315 (<u>Revised 2019</u>) <u>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</u> when obtaining an understanding of controls for the purposes of the audit of a financial statement, standards on review engagements when obtaining an understanding of controls for the purposes of the review of a financial statement or ISAE (NZ) 3000 (Revised) <u>Assurance Engagements Other than Audits or Reviews of Historical Financial Information, as revised in July 2014</u>, and any subject matter specific standard when understanding controls for the purposes of an assurance engagement on subject matters other than historical financial information.</p>
SAE 3150, Paragraph 9	<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, that the assurance practitioner complies with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> related to assurance engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding. It also requires the lead assurance practitioner<sup>8</sup> to be a member of a firm that applies Professional and Ethical Standard 3 (<del>Amended</del>) or requirements in law or regulation, that are at least as demanding related to assurance engagements.</p> <p><sup>8</sup> The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1 (<del>Revised</del>) and Professional and Ethical Standard 3 <u><i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i></u> <u><i>Quality Control for Firms that</i></u></p>

Ref.	Amendments to the Standards
	<i>Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended)</i> as the “engagement partner”.
SAE 3150, paragraph 17 (l)	<p><b>Definitions</b></p> <p>Firm—A sole assurance-practitioner, partnership or corporation or other entity of <del>individual</del> assurance practitioners, <u>or public sector equivalent</u>. <del>“Firm” should be read as referring to its public sector equivalents where relevant.</del></p>
SAE 3150, paragraph 28	<p><b>Quality Control Management</b></p> <p>The assurance practitioner shall implement <del>control</del> <u>management</u> procedures as required by ISAE (NZ) 3000 (Revised).</p>
SAE 3150, paragraph 88 (k)	<p><i>Assurance Report Content</i></p> <p>A statement that the firm of which the assurance practitioner is a member applies <i>Professional and Ethical Standard 3 (Amended)</i> or requirements in law and regulation, that are at least as demanding;</p>
SAE 3150, paragraph A12	<p><b>Acceptance and Continuance</b></p> <p><i>Competence and Capabilities to Perform the Engagement</i></p> <p>Relevant competence and capabilities, <u>including having sufficient time</u> to perform the compliance engagement, as required by ISAE (NZ) 3000 (Revised)<sup>42</sup> by persons who are to perform the engagement, include matters such as the following: ...</p>
SAE 3150, paragraph A151	<p>For application material on preparing and maintaining documentation refer to ISAE (NZ) 3000 (Revised)<sup>51</sup>.</p> <p><sup>51</sup> ISAE (NZ) 3000 (Revised), paragraph <del>A493200</del>-A2007.</p>
SAE 3150, Appendix 8, Example 1	<p><b>Example 1: Limited Assurance Report on Design and Description of the Entity’s Controls as at a Specified Date</b></p> <p>...</p> <p><i>[Our Independence and Quality-<del>Control</del> Management]</i></p> <p>We have complied with the <u>independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board</u>, or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, <del>which include independence and other requirements</del> <u>which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</u></p> <p><del>In accordance with</del> <u>The firm applies</u> 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 (Amended)</i> <del>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</del> or other professional requirements, or requirements in law or regulation, that are at least as demanding,</p>

Ref.	Amendments to the Standards
	<p><del>[name of firm] maintains, which requires the firm to design, implement and operate a comprehensive system of quality control management including documented policies and or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</del></p>
<p>SAE 3150, Appendix 8, Example 2</p>	<p><b>Example 2: Reasonable Assurance Report on the Design, Description, and Operating Effectiveness of the Entity’s Controls throughout the Period Independent Assurance Practitioner’s Report</b></p> <p>...</p> <p><i>[Our Independence and Quality-Control Management]</i></p> <p>We have complied with the <u>independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board</u>, or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, <del>which include independence and other requirements</del> <u>which is</u> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p><del>In accordance with</del> <u>The firm applies Professional and Ethical Standard 3 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</u> or other professional requirements, or requirements in law or regulation, that are at least as demanding, <del>[name of firm] maintains, which requires the firm to design, implement and operate a comprehensive system of quality control management including documented policies and or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</del></p>
<p>SAE 3150, Appendix 8, Example 3</p>	<p><b>Example 3: Reasonable Assurance Report on the Design and Implementation of the Entity’s Controls as at a Specified Date</b></p> <p>...</p> <p><i>[Our Independence and Quality-Control Management]</i></p> <p>We have complied with the <u>independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board</u>, or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, <del>which include independence and other requirements</del> <u>which is</u> founded on fundamental principles of integrity, objectivity,</p>

Ref.	Amendments to the Standards
	<p>professional competence and due care, confidentiality and professional behaviour.</p> <p><del>In accordance with</del> <u>The firm applies 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> (Amended) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i></u> or other professional requirements, or requirements in law or regulation, that are at least as demanding, <del>{name of firm} maintains,</del> <u>which requires the firm to design, implement and operate a comprehensive system of quality control management including documented policies and or procedures</u> regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
SAE 3150, Appendix 8, Example 4	<p><b>Example 4: Reasonable Assurance Report on the Design and Operating Effectiveness of the Entity’s Controls throughout the Period</b></p> <p>...</p> <p><i>[Our Independence and <del>Quality Control</del> Management]</i></p> <p>We have complied with the <u>independence and other ethical requirements of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> issued by the New Zealand Auditing and Assurance Standards Board,</u> or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, <del>which include independence and other requirements</del> <u>which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</u></p> <p><del>In accordance with</del> <u>The firm applies 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> (Amended) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i></u> or other professional requirements, or requirements in law or regulation, that are at least as demanding, <del>{name of firm} maintains,</del> <u>which requires the firm to design, implement and operate a comprehensive system of quality control management including documented policies and or procedures</u> regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
<b>NZ SRE 2410 (Revised)</b>	<b><i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i></b>
NZ SRE 2410 (Revised), paragraph 9	The auditor shall implement quality <del>control</del> <u>management</u> procedures that are applicable to the individual engagement. (Ref: Para. A6)

Ref.	Amendments to the Standards
NZ SRE 2410 (Revised), paragraph 10	<p>The auditor shall comply with the engagement quality <del>control</del> <u>management</u> requirements of ISA (NZ) 220 (Revised)<sup>1</sup> when performing a review engagement in accordance with this NZ SRE 2410 (Revised).</p> <p><sup>1</sup> ISA (NZ) 220 (Revised), Quality <del>Control</del> <u>Management</u> for an Audit of Financial Statements.</p>
NZ SRE 2410 (Revised), paragraph 14	<p>Understanding the Entity and its Environment, <u>the Applicable Financial Reporting Framework and the Entity's Including its System of Internal Control</u></p> <p>The auditor shall obtain an understanding of the entity and its environment, <u>the applicable financial reporting framework and the entity's system of including its</u> internal control, as it relates to the preparation of both the annual and interim or other financial statements, sufficient to plan and conduct the engagement so as to be able to:</p>
NZ SRE 2410 (Revised), paragraph 15	<p>In order to plan and conduct a review of financial statements, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with International Standards on Auditing (New Zealand), shall obtain an understanding of the entity and its environment, <u>the applicable financial reporting framework and the entity's system of including its</u> internal control, as it relates to the preparation of both the annual and interim or other financial statements. (Ref: Para. A13)</p>
NZ SRE 2410 (Revised), paragraph A4	<p>Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, <u>the applicable financial reporting framework and the entity's system of including its</u> internal control. When the auditor is engaged to review the financial statements, under paragraph 14, the auditor needs to update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. An assurance practitioner who is engaged to perform a review of the financial statements, and who is not the auditor of the entity, does not perform the review in accordance with NZ SRE 2410 (Revised)*, as the assurance practitioner ordinarily does not have the same understanding of the entity and its environment, <u>the applicable financial reporting framework and the entity's system of including its</u> internal control, as the auditor of the entity. Although other International Standards on Auditing (New Zealand) do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this NZ SRE 2410 (Revised).</p>
NZ SRE 2410 (Revised), paragraph A6	<p>The elements of quality <del>control</del> <u>management</u> that are relevant to an individual engagement include leadership responsibilities for <u>managing and achieving</u> quality on the engagement, <u>relevant</u> ethical requirements, acceptance and continuance of client relationships and specific engagements, <del>assignment of engagement teams</del> <u>engagement</u></p>



Ref.	Amendments to the Standards
	<p><del>resources, engagement performance, and monitoring and remediation. The system of quality management, and policies or procedures are the responsibility of the firm. Professional and Ethical Standard 3 (PES 3) <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, or requirements that are at least as demanding, applies to firms in respect of the firm’s engagement to review financial statements.</i></del> (Ref: Para. 9)</p>
<p>NZ SRE 2410 (Revised), paragraph A9</p>	<p><b>Procedures for a Review of the Financial Statements</b></p> <p>Understanding the Entity and its Environment, <del>the Applicable Financial Reporting Framework and the Entity’s Including its System of Internal Control</del></p> <p>Under ISA (NZ) 315 (Revised 2019) <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>, the auditor who has audited the entity’s financial statements for one or more annual periods has obtained an understanding of the entity and its environment, <del>the applicable financial reporting framework and the entity’s system of including its</del> internal control, as it relates to the preparation of the annual financial statements, that was sufficient to conduct the audit. In planning a review of the financial statements, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of <del>the entity’s system of</del> internal control as it relates to the preparation of the financial statements subject to review, as it may differ from internal control as it relates to the preparation of the annual financial statements. (Ref: Para. 14)</p>
<p>NZ SRE 2410 (Revised), paragraph A10</p>	<p>The auditor needs to use the understanding of the entity and its environment, <del>the applicable financial reporting framework and the entity’s system of including its</del> internal control, to determine the enquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which enquiries may be directed or analytical or other review procedures applied. (Ref: Para. 14)</p>
<p>NZ SRE 2410 (Revised), paragraph A11</p>	<p>The procedures performed by the auditor to update the understanding of the entity and its environment, <del>the applicable financial reporting framework and the entity’s system of including its</del> internal control, ordinarily include the following:</p> <p>...</p> <p>(j) enquiring of management <del>and of other appropriate individuals within the entity</del> about the effect of changes in the entity’s business activities;</p>
<p>NZ SRE 2410 (Revised), paragraph A19</p>	<p>A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of the financial statements ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review</p>

Ref.	Amendments to the Standards
	<p>procedures, rather than corroborating information obtained concerning matters relating to the financial statements. The auditor's understanding of the entity and its environment, <u>the applicable financial reporting framework and the entity's system of</u> <del>including its</del> internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial statements, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 17)</p>
<p>NZ SRE 2410 (Revised), paragraph A20</p>	<p>The auditor ordinarily performs the following procedures:  ...  (xv) knowledge of any actual or suspected non-compliance with laws and regulations that could have a material effect on the financial statements. If the auditor becomes aware of any actual or suspected non-compliance with laws and regulations ISA (NZ) 250 (Revised) <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> provides guidance.</p>
<p>NZ SRE 2410 (Revised), paragraph A21</p>	<p>The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the financial statements. For example, it may be practicable to update the understanding of the entity and its environment, <u>the applicable financial reporting framework and the entity's system of</u> <del>including its</del> internal control, and begin reading applicable minutes before the end of the period. Performing some of the review procedures earlier in the period also permits early identification and consideration of significant accounting matters affecting the financial statements. (Ref: Para. 17)</p>

**C: EFFECTIVE DATE**

This Standard is effective for:

- (a) Assurance engagements beginning on or after December 15, 2022; and
- (b) Reviews of financial statements for periods beginning on or after December 15, 2022.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	10.1
<b>Meeting date:</b>	7 April 2022
<b>Subject:</b>	Post Implementation Review of SAE 3100 Compliance Engagements
<b>Date:</b>	25 March 2022
<b>Prepared By:</b>	Tracey Crookston

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Action Required

For Information Purposes Only

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### Agenda Item Objective

1. The objective of this agenda item is to UPDATE the NZAuASB on the Australian developments relating to the post implementation review (PIR) of ASAE 3100 *Compliance Engagements*.
2. At its June 2021 NZAuASB meeting, the Board agreed that the PIR of SAE 3100 *Compliance Engagements* was not a priority for the 2021/2022 period but that work on this should be prioritised with the AUASB when appropriate to do so.

### Recommendation

3. We recommend, that if resourcing allows, the NZAuASB undertake its PIR of SAE 3100 in the 2022/2023 year.

### Australian developments

4. AUASB staff have developed a project plan and work on the PIR is underway. The PIR will involve consultation with key stakeholders on the implementation and use of ASAE 3100 and will most likely be in the form of a survey and targeted outreach with key stakeholders.
5. Information and issues raised in the PIR will be considered by the AUASB Technical Group (ATG) to determine next steps that may be required by the AUASB.
6. The AUASB will receive a report back on the steps undertaken in the PIR, feedback received and recommendations as to whether standard setting activities are required.
7. Key stakeholders identified include assurance practitioners providing compliance and performance engagements, industry groups, professional bodies, regulatory bodies requiring compliance assurance through regulation, and the public sector.
8. We understand that work is underway to determine which stakeholder groups are the focus of for targeted outreach with plans to invite these stakeholders to participate in smaller targeted outreach sessions as well as undertaking broader public outreach.
9. The project plan notes that ASAE 3100 was developed in collaboration with the NZAuASB and adapted by the NZAuASB as SAE 3100, effective from 1 January 2018, in line with ASAE 3100.

The plan also notes that *“There will need to be further discussions with the NZAuASB about whether we undertake this PIR as a collaboration project or separately in each jurisdiction”*.

**New Zealand position**

10. Staff are in contact with AUASB staff who have shared the project plan (outlined above).
11. We will continue to work with AUASB staff to be kept informed of developments in Australia relating to this PIR and have asked to be invited to observe outreach events (if possible and appropriate).
12. However, we do not have an active project on the NZ work plan for the June 2022 year end.
13. We recommend, that if resourcing allows, the NZAuASB undertake its PIR of SAE 3100 in the 2022/2023 year.
14. Does the Board agree with the staff recommendation?

**Material Presented**

Agenda item 10.1 Board Meeting Summary Paper

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 11.1  
**Meeting date:** 7 April 2022  
**Subject:** International Update  
**Date:** 23 March 2022  
**Prepared By:** Anna Herlender

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Action Required

For Information Purposes Only

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### **Agenda Item Objectives**

1. This Update summarises the significant developments relevant to accounting and auditing from international organisations published in February and March 2022.

### **Background**

2. The structure of the update has been changed to reflect the nature and structure of the international organisations. Additionally, insights and publications from global practices have been added.
3. Staff welcomes further suggestions from the Board regarding improvements of the Update.

### **Hot topics**

4. The European Commission has adopted a proposal for a Directive on corporate sustainability due diligence. The proposal aims to foster sustainable and responsible corporate behaviour throughout global value chains. Companies will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss.  
[Click here for further details](#)

### **Recommendations**

5. This agenda item is for information purposes of the Board.

## **Contents (with hyperlinks [Click to follow the links](#))**

### **International Standard Setting Bodies**

1. [Monitoring Group](#)
2. [Public Interest Oversight Body \(PIOB\)](#)
3. [International Auditing and Assurance Standards Board \(IAASB\)](#)
4. [International Ethic Board for Accountants \(IESBA\)](#)

### **International Audit and Assurance Regulator Forums**

5. [International Forum of Independent Audit Regulators \(IFIAR\)](#)
6. [International Organisation of Securities Commissions \(IOSCO\)](#)

### **International Professional Bodies**

7. [International Federation of Accountants \(IFAC\)](#)
8. [Accountancy Europe](#)
9. [Association of Chartered Certified Accountants \(ACCA\)](#)

### **Developments in local jurisdictions**

#### *Australia*

10. [Auditing and Assurance Standards Board \(AASB\)](#)

#### *Europe*

11. [European Commission \(EC\)](#)

#### *United Kingdom*

12. [Financial Reporting Council \(FRC\)](#)
13. [Institute of Chartered Accountants in England and Wales \(ICAEW\)](#)

#### *United States of America*

14. [Public Company Accounting Oversight Board \(PCAOB\)](#)
15. [American Institute of Certified Public Accountants \(AICPA\)](#)
16. [Center for Audit Quality \(CAQ\)](#)

#### *Canada*

17. [Canadian Auditing and Assurance Standards Board \(AASB\)](#)
18. [Chartered Professional Accountants Canada \(CPA Canada\)](#)

### **Insights from practitioners**

19. [Insights from practitioners](#)

## Monitoring Group

No significant developments relating to audit and assurance.

## Public Interest Oversight Board (PIOB)

PIOB issued February 2022 Update [PIOB Update February 2022 \(ipiob.org\)](https://www.ipiob.org/2022/02/01/2022-02-01-PIOB-Update-February-2022/)

PIOB Technical Committee Meeting was held on 10,13 and 14 December 2021. During this meeting, PIOB met with IAASB, IESBA, IFAC and Monitoring Group to discuss the most recent developments regarding implementation of the Monitoring Group Recommendations.

### Key focus areas during meeting with IAASB:

- ISA 600 (Revised) – Group Audits – was approved by IAASB in December 2021 and will be submitted for PIOB approval in April. Key aspects include ensuring effective coordination between the group auditor and the component auditor and documentation requirements.
- IAASB 2022-23 Work Plan – IAASB is including ESG reporting as a potential new project and will determine whether an assurance standard or guidance will be developed
- Fraud Project – PIOB holds the view that this project should strengthen, not only clarify, the auditor’s responsibilities on fraud. The project should also narrow the expectation gap through further procedures and emphasis during the execution of the audit.

### Key focus areas during meeting with IESBA:

- Farewell of Stavros Thomadakis as IESBA Chair and welcome of incoming IESBA Chair Gabriela Figueiredo Dias
- PIE definition – the IESBA further committed to carry out targeted research to specifically understand how inclusion of investment vehicles and pension funds can be addressed and to include them as a potential topic to be consulted in its next Strategy and Work Plan.

### IFAC

As the Monitoring Group Recommendations are being implemented, the PIOB newly established Standard-Setting Boards Nomination Committee is taking over the role from IFAC (from 2022 onwards) to make recommendations to the PIOB regarding IAASB and IESBA membership. IFAC, will continue to play an important role to find and nominate candidates to the SSBs.

PIOB has updated its Public Interest Issues lists:

IAASB [PIOB PI Issues on IAASB projects December 2021 010222.docx \(ipiob.org\)](https://www.ipiob.org/2022/02/01/2022-02-01-PIOB-Update-February-2022/)

IESBA [PIOB PI Issues on IESBA projects December 2021 010222.docx \(ipiob.org\)](https://www.ipiob.org/2022/02/01/2022-02-01-PIOB-Update-February-2022/)

## International Auditing and Assurance Standards Board (IAASB)

### Guidance & Support Tools

#### First-time Implementation Guide for ISA 220, Quality Management for and Audit of Financial Statements

The aim of the guide is to help stakeholders understand the standard and properly implement its requirements.

[ISA 220 First-time Implementation Guide | IFAC \(iaasb.org\).](https://www.iaasb.org/2022/02/01/2022-02-01-First-time-Implementation-Guide-ISA-220/)

#### Disruptive Technologies Roundtable

The second disruptive technologies roundtable was held in February 2022 as a part of IAASB ongoing exploration of disruptive technologies that affect the audit and assurance profession. Key takeaways from the discussions:

- The ability to obtain good quality data continues to be a challenge and an area of audit effort.
- Having access to more data sources provides more opportunities for the auditor to identify and assess, and respond to risk; however, relevance and reliability needs appropriate consideration
- Technologies applied by the entity to support internal controls may need to factor into the auditor’s understanding of the entity’s system of internal control
- Technology can enhance but is not a substitute for professional judgement and skepticism

[IAASB-Disruptive-Technologies-Roundtable-summary.pdf \(ifac.org\)](#).

## Articles

### “Q&A: IAASB Head on audit’s role in combating fraud, ESG, New Technologies, more”, Compliance Week

Interview with IAASB Chair Tom Seidenstein

[Q&A: IAASB head on audit's role in combating fraud, ESG, new technologies, more | Article | Compliance Week](#)

### “Corporate sustainability push a \$35 trillion dollar conundrum for auditors”, Reuters

Reliable checks on companies' sustainability credentials will take years to develop, auditors say, meaning investors pouring trillions of dollars into green funds remain at greater risk of being hoodwinked. Given the demand for investments that support environmental, social and governance (ESG) goals, the pressure is on to ensure companies aren't exaggerating or misrepresenting the benefits of their activities, a phenomenon known as "greenwashing".

[Corporate sustainability push a \\$35 trillion dollar conundrum for auditors | Reuters](#)

## Status of IAASB projects:

[IAASB projects \(iaasb.org\)](#)

## International Ethics Standards Board for Accountants(IESBA)

### Guidance & Support Tools

#### IESBA Staff Q&A: Revised fee-related provisions of the Code

This publication is intended to assist national standards setters, IFAC member bodies and professional accountants (PAs) in public practice (including firms) as they adopt and implement the revisions to the fee-related provisions of the Code.

This publication is designed to highlight, illustrate or explain aspects of the revised fee-related provisions in the Code, and thereby assist in their proper application.

[IESBA-Staff-Questions-and-Answers-Revised-Fee-related-Provisions-of-the-Code\\_0.pdf \(ifac.org\)](#).

## News

### MS Gabriela Figueiredo Dias – the new Chairwoman of the IESBA

On January 1, 2022, Ms. Gabriela Figueiredo Dias of Portugal became the first Chairwoman of the IESBA. On January 25, 2022, Ms. Dias offered insights into her background, why she is excited to lead the Board, and what she sees ahead for the IESBA and the accountancy profession.

[Getting to Know Ms. Gabriela Figueiredo Dias | IFAC \(ethicsboard.org\)](#).

## Status of IESBA projects:

[IESBA projects \(ethicsboard.org\)](#)



## International Forum of Independent Audit Regulators (IFIAR)

No significant developments relating to audit and assurance.

## International Organisation of Securities Commissions (IOSCO)

### **IOSCO has adopted 2022 work plan to develop sustainable finance**

IOSCO stresses the importance of mitigating greenwashing and doing what is necessary to create reliable information on sustainability impacts for investors. The plan includes

- review of soon-to-be-published IFRS International Sustainability Standards Board Exposure Drafts and final standards

- push forward work to develop assurance standards

- in-depth review of carbon markets to identify the vulnerabilities in nascent voluntary carbon markets, as well as the transparency and integrity in the functioning of carbon markets from the perspective of financial regulation

- engagement with both national regulators and market participants to push for the implementation of IOSCO's recommendations addressed to asset management and ESG ratings and data providers.

[IOSCO's 2022 Sustainable Finance work plan strengthens the organization's commitment to increasing transparency and mitigating greenwashing](#)

## International Federation of Accountants (IFAC)

### **Time for Action on Sustainability: Next Steps for the Accountancy Profession**

IFAC developed a two-page paper explaining that “the accountancy profession must lead on climate reporting and other material environmental, social and governance disclosures and their assurance—contributing to strong and sustainable financial markets and economies and enabling the UN’s Sustainable Development Goals).”

[IFAC-Time-for-Action-on-Sustainability.pdf](#)

### **New IFAC Digital Platform Assists Public Sector Transition from Cash to Accrual Accounting: Pathways to Accrual**

“To contribute to and promote the development, adoption, and implementation of high-quality international standards, the International Federation of Accountants (IFAC) launched a new digital platform, Pathways to Accrual, providing a central access point to resources helpful for governments and other public sector entities planning and undertaking a transition from cash to accrual accounting including adopting and implementing International Public Sector Accounting Standards (IPSAS).”

[New IFAC Digital Platform Assists Public Sector Transition from Cash to Accrual Accounting: Pathways to Accrual | IFAC](#)

## Accountancy Europe

### **Supply Chain Sustainability Assessment Current Market Practice Insights**

The paper, written in collaboration with European Group Of International Accounting Networks and Associations (EGIAN), explains what supply chain due diligence is and how supply chain assurance works. Interviews carried with members show that accountancy firms, including small and medium-sized accountancy networks and associations, are increasingly prepared to review the sustainability of supply chains.

[Supply chain sustainability assessment - Accountancy Europe](#)

### **War in Ukraine – What European Accountants Need to Know**

While the EU and individual countries impose sanctions, European accountants need to step up and address how these, and other consequences of the war, affect their activities. As the situation evolves, professional accountants must continue applying their ethical values and social responsibility. The article draws attention to points of alert on anti-money laundering (AML), cybersecurity, accounting, audit, and reporting to help them ask the right questions.

[War in Ukraine – what European accountants need to know - Accountancy Europe](#)

### **Association of Chartered Certified Accountants (ACCA)**

#### **Strengthening the wider corporate reporting ecosystem: are we entering a new audit era?**

Reform reviews, both in the EU and globally, are currently proposing radical changes of the wider financial reporting ecosystem. This report provides a brief summary of some of the key recent developments by reference to the Business Energy and Industrial Strategy (BEIS) consultation white paper Restoring Trust in Audit and Corporate Governance: Proposals on Reforms in the UK (BEIS 2021), the European Commission's consultation paper Strengthening of the Quality of Corporate Reporting and Enforcement in the EU (EC 2021) and the newly developed proposed International Standard on Auditing (ISA) for Less Complex Entities issued by the International Auditing and Assurance Standards Board (IAASB) (IAASB 2021), aiming to raise awareness of their implications for the audit profession.

[Strengthening the wider corporate reporting ecosystem: are we entering a new audit era? | ACCA Global](#)

### **Auditing and Assurance Standards Board in Australia (AUASB)**

#### **Highlights from March 2022 Meeting**

1. The AUASB received an update on Domestic and International Sustainability reporting and assurance developments. The AUASB considered the possible direction the IAASB may take on Sustainability assurance standards and broader implications on this topic going forward.
2. The AUASB was taken through presentations on, and provided input into, the following topics that are subject to deliberation at the upcoming March 2022 IAASB meeting: going concern, fraud, audit evidence, listed entity and PIE definition.
3. The AUASB received an update on and provided input into the outcome of the stakeholder outreach sessions conducted in Q4 2021 with reference to Part B of the AUASB's LCE Consultation Paper. As the IAASB now deliberates over the possible global LCE standard the AUASB discussed other potential initiatives to pursue in the LCE space.
4. The AUASB received an update on current and planned initiatives to enhance audit quality, including those being carried out by the AUASB staff in conjunction with the Financial Reporting Council including additional guidance and implementation support for ASA 315 (including General IT Controls) and the Quality Management Standards targeted at auditors of less complex entities. The AUASB also supported plans to perform another Audit Committee Chair survey and exploring other methods to gather feedback on audit quality.

[Highlights of March 2022 Meeting now available \(auasb.gov.au\)](#)

## European Commission (EC)

### **Just and sustainable economy: European Commission lays down rules for companies to respect human rights and environment in global value chains**

“Today, the European Commission has adopted a proposal for a Directive on corporate sustainability due diligence. The proposal aims to foster sustainable and responsible corporate behaviour throughout global value chains. Companies play a key role in building a sustainable economy and society. They will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss. For businesses these new rules will bring legal certainty and a level playing field. For consumers and investors they will provide more transparency. The new EU rules will advance the green transition and protect human rights in Europe and beyond.”

[Corporate sustainability due diligence \(europa.eu\)](https://europa.eu)

## Financial Reporting Council (FRC)

### **FRC: Guidance – auditor climate related reporting responsibilities under ISA (UK) 720**

The Financial Reporting Council (FRC) published a new FRC Staff Guidance, Auditor responsibilities under ISA (UK) 720 in respect of climate related reporting by companies required by the Financial Conduct Authority. This staff guidance also includes a brief reminder of an auditor’s responsibilities in respect of the company’s Streamlined Energy and Carbon Reporting disclosures.

[News | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk)

### **FRC: New research with audit committee chairs published**

The FRC published new research that reinforces the case for developing standards for audit committees to help promote a more consistent approach to audit quality. The research, conducted by YouGov, was based on in-depth interviews with audit committee chairs discussing how they carry out their role. The research shows that some audit committee chairs find it difficult to differentiate audit quality from the quality of service provided by their audit firm. The research also found that auditors have adapted quickly to the challenges posed by the pandemic.

[News | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk)

### **Consultation on revised guidance for recognizing key audit partners for local audit**

The FRC issued a consultation on proposed changes to its statutory Guidance to the Recognized Supervisory Bodies on the recognition of Key Audit Partners for local audit. The changes have been proposed to address a recommendation made by Sir Tony Redmond in his review of local audit, published in November 2020, to address the issue of capacity in this market. Comments on the consultation are invited by March 28.

[Consultations | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk)

## Institute of Chartered Accountants in England and Wales (ICAEW)

### **Implications of the war in Ukraine**

ICAEW issued two guidance materials in relation to the war in Ukraine:

- **Audit guidance in response to Ukraine crisis**

An alert for audit firms to use their judgement to deal with the circumstance caused by Ukraine Crisis and working through the consequences in their audit and accountancy work. The alert focuses on audit acceptance and continuance and key audit judgements.

[Audit guidance in response to Ukraine crisis | ICAEW](https://www.icaew.com)

- **Guide to the auditing implications of the war in Ukraine**

This resource includes key areas of auditors to consider including risk assessment, knowing your client and anti-money laundering checks, non-compliance with laws and regulations, post-balance sheets events, impairment of Russian and Belarusian assets, going concern, group audits, changes to auditor's report.

[Guide to the auditing implications of the war in Ukraine | ICAEW](#)

### **Climate reporting: current and future requirements**

The article summarises the current requirements for preparers in UK and looks further down the line at what will be required in future reporting seasons

[Climate reporting: current and future requirements | ICAEW](#)

## Public Company Accounting Oversight Board (PCAOB)

### **News**

#### **Two new advisory groups**

PCAOB announced the creation of two new advisory groups — the Investor Advisory Group (IAG) and the Standards and Emerging Issues Advisory Group (SEIAG). The advisory groups will enable the PCAOB to obtain essential input and insights from investors and other stakeholders on a wide variety of matters related to improving audit quality.

[Public Company Accounting Oversight Board to Form Two New Advisory Groups to Enhance Engagement With Investors and Other Stakeholders | PCAOB \(pcaobus.org\)](#)

### **Resources**

#### **Staff Publications Spotlight: Observations and Reminders on the Use of Service Provider in the Confirmation Process**

Many audit firms use a service provider to send and receive electronic audit confirmations to and from third parties to independently verify or validate balances, terms of arrangements, or other information under audit. These audit firms rely on the service provider, including its related processes and technologies, to initiate the third-party request, establish a direct communication with the confirming party, and ultimately obtain the information from the confirming party. It is necessary for auditors to determine that they can rely on the service provider's processes and controls when establishing direct communication between the auditor and the confirming party. The information in this Spotlight provides observations and suggested procedures for auditors who may find this information valuable as they plan and perform audits.

[observations-reminders-confirmation-process-spotlight.pdf \(azureedge.net\)](#)

## American Institute of Certified Public Accountants (AICPA)

#### **Audit quality stable amid pandemic, audit committee members say, by Ken Tysiac, Journal of Accountancy**

Despite pandemic-related concerns about the ability of auditors to work effectively, 98% of audit committee members said in a new survey that audit quality either increased (32%) or stayed the same (66%) over the past year.

[Audit quality stable amid pandemic, audit committee members say - Journal of Accountancy](#)

## Center for Audit Quality (CAQ)

No significant developments relating to audit and assurance.

## Canadian Auditing and Assurance Standards Board (AASB)

No significant developments relating to audit and assurance.

## Chartered Professional Accountants Canada (CPA Canada)

No significant developments relating to audit and assurance.

## Insights from assurance practitioners

### **2022 proxy season preview What investors expect from the 2022 proxy season, by EY Center for Board Matters**

Key insights:

- Board ESG competence and oversight are under growing scrutiny
- Investors want companies to walk the talk on climate and diversity.
- On engagement, investors seek more candor and active listening

[cbm-2022-proxy-season-preview-final-us-score-no-15036-221us.pdf \(ey.com\)](#)

### **EY Global Integrity Report 2022**

Key insights from the report:

- More companies than ever value corporate integrity, but many professionals say the pandemic has made it difficult to carry out business with integrity.
- The EY Global Integrity Report 2022 reveals a growing gap between what senior leaders assert is important and what they are prepared to do for individual gain.
- Businesses are adopting new reporting methods that improve rigor and transparency and bring opportunities to leverage advanced analytics for risk mitigation.

[EY Global Integrity Report 2022 | EY - Global](#)

### **Navigating the ESG journey in 2022 and beyond, by Deloitte**

“ESG’s integration into reporting and disclosure continues to proceed rapidly, and having a defined ESG plan and governance structure is increasingly an expectation rather than an exception, particularly for large public companies. Accordingly, boards will likely need to recalibrate their oversight to accommodate these changes and meet the requirements of regulators, investors, and other stakeholders. Given growing scrutiny and market expectations, companies are realizing value and identifying opportunities more quickly and confidently through a more rigorous ESG governance and data measurement and reporting process. Audit committees should consider adding ESG matters as a standing agenda item in 2022, understand the company’s disclosure process, and regularly assess the company’s progress, risk oversight, financial statement implications, and the integration of ESG considerations into the core business strategy.”

[Navigating The ESG Journey In 2022 And Beyond | Deloitte US](#)

### **Deloitte 2022 Cx0 Sustainability Report**

“During September and October 2021, Deloitte polled over 2,000 C-suite executives across 21 countries to examine business leaders’ and companies’ concerns and actions when it comes to climate change and environmental sustainability.

Climate weighs heavily on the minds of the world’s executives. However, there is also a disconnect between ambition and impact. Organizations are struggling to implement actions that demonstrate they have embedded climate considerations into their culture and have the senior leader buy-in and influence to effect meaningful transformation.

The report further explores the disconnect between ambition and impact as well as steps CxOs can take to start to bridge the gap.”

[2022-deloitte-global-cxo-sustainability-report.pdf](#)

**A triple threat across the Americas 2022 KPMG Fraud Outlook, by KPMG**

“Companies across the Americas are experiencing increasing losses from fraud, compliance breaches and cyber attacks, with the situation expected to worsen in the next 12 months. The reality of this triple threat is grim with respondents indicating they were impacted by a cyber attack in the last 12 months (83%), experienced internal or external fraud (71%), or suffered losses due to regulatory fine or compliance breach (55%). The report details how the pandemic negatively impacted the risk of fraud due to the shift to remote working. 59% of respondents agree that the anti-fraud controls they had in place pre-pandemic have not been effectively updated to reflect the new working reality”

[A triple threat across the Americas: 2022 KPMG Fraud Outlook](#)

**NZAuASB Board Meeting Summary Paper**

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**AGENDA ITEM NO.** 11.2  
**Meeting date:** 7 April 2022  
**Subject:** Domestic Update  
**Date:** 23 March 2022  
**Prepared By:** Anna Herlender

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**Action Required**

**For Information Purposes Only**

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**Agenda Item Objectives**

1. This update summarises the significant developments relevant to accounting and auditing from New Zealand organisations published in February and March 2022.

**Hot topics**

2. No hot topics in the period.

**Recommendations**

3. This agenda item is for information purposes of the Board.

## Content of Environmental Scan – Domestic

1. [The Financial Market Authority \(FMA\)](#)
2. [The Chartered Accountants Australia and New Zealand \(CA ANZ\)](#)
3. [The Institute of Directors \(IoD\)](#)

### The Financial Market Authority (FMA)

No updates

### The Chartered Accountants Australia and New Zealand (CA ANZ)

#### **Calculation of carbon captured by trees as they grow to help accountants in sustainability reporting**

Researchers created an empirical equation that can be used by accountants to more accurately calculate carbon captured as trees grow. This empirical equation is available for any accountant to use and could form the basis of future carbon reporting, providing greater opportunities for higher levels of assurance to emerge in the future.

[Another step towards more accurate sustainability reporting | CA ANZ \(charteredaccountantsanz.com\)](#)

#### **CA ANZ signs the call to action “Nature is Everyone’s Business”**

The chief executives of 10 of the world’s leading accounting institutes have joined together to support a new call to action in response to the nature crisis, ahead of the upcoming UN Convention of Biological Diversity (CBD) COP 15. The joint statement calls upon professional accountants to act now to reverse the process of nature loss by helping the organisations they work for or with to protect, restore and promote the sustainability of natural resources. The statement summarises six key actions for professional accountants, including understanding how their organisations and clients impact and rely on nature. Professional accountants can also provide sound advice and services that contribute to an organisation’s positive effect on nature.

[Global accounting bodies urge profession-wide commitment to reverse nature loss | CA ANZ \(charteredaccountantsanz.com\)](#)

### The Institute of Directors (IoD)

#### **IoD joined Climate Governance Initiative as the host of Chapter Zero New Zealand**

This initiative will connect directors with a global network to share knowledge and promote the adoption of effective climate governance on their boards. The Climate Governance Initiative is founded on the World Economic Forum’s Principles of Effective Climate Governance. The principles are designed to increase directors’ climate awareness, embed climate issues into board structures and processes and improve navigation of the risks and opportunities that climate change poses to business.

[Chapter Zero New Zealand launch | IoD NZ](#)