

Board Meeting Agenda

1 June 2022
9:15 am to 5.00 pm

Apologies: None

Est. Time	Item	Topic	Objective		Page
PUBLIC SESSION					
9.20 am	1	<u>Board Management</u>			
	1.1	Action list	Approve	Paper	
	1.2	Chair's report	Note	Verbal	
	1.3	AUASB Update	Note	Verbal	
	1.4	Update from CE	Note	Verbal	
	1.5	NSS Report	Note	Paper	
	1.6	Update from IAASB Chair	Note	Paper	
10.00 am	2	<u>Non-Assurance Services</u>			<i>Misha</i>
	2.1	Board meeting summary paper	Note	Paper	
	2.2	Non-assurance services standard	Approve	Paper	
	2.3	Signing memorandum	Approve	Paper	
	2.4	Explanations for decisions made	Approve	Paper	
10.45 am	<i>Morning tea</i>				
11.00 am	3	<u>Audits of Group Financial Statements</u>			<i>Tracey</i>
	3.1	Board meeting summary paper	Note	Paper	
	3.2	ISA (NZ) 600 (Revised)	Approve	Paper	
	3.3	Conforming Amendments	Approve	Paper	
	3.4	Signing memorandum	Approve	Paper	
11.30 am	4	<u>Capital Fundraising exposure draft</u>			<i>Sharon</i>
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Invitation to comment and exposure draft	Approve	Paper	
	4.3	ED (mark up from April) tabular format	Note	Paper	
12.15 pm	5	<u>Engagement team and groups submission letter</u>			<i>Lisa</i>
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Draft submission to IESBA	Approve	Paper	
	5.3	CA ANZ Submission	Note	Paper	
12: 30pm	<i>Lunch</i>				
1:30 pm	6	<u>Action and implementation plan update</u>			<i>Misha</i>

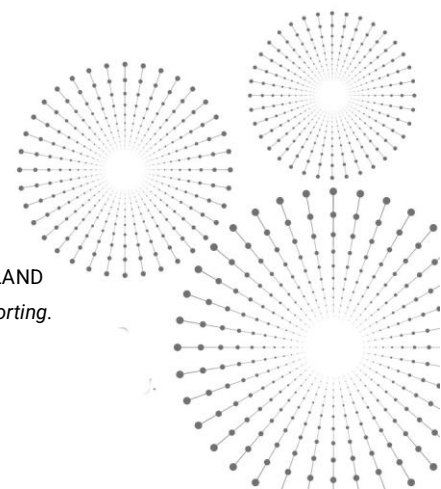
Est. Time	Item	Topic	Objective		Page
	6.1	Board meeting summary paper	Note	Paper	
	6.2	2022-2027 XRB statement of intent	Note	Paper	
	6.3	2022-23 XRB statement of performance expectations	Note	Paper	
	6.4	NZAuASB updated implementation work plan 2021/22	Note	Paper	
	6.5	NZAuASB action plan 2022-2027	Note	Paper	
2.15 pm	7	<u>GHG assurance</u>			<i>Peyman</i>
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Issue paper	Consider	Paper	
	7.3	Outline of consultation paper	Consider	Paper	
	7.4	Outline of bridging document	Consider	Paper	
3.15 pm	<i>Afternoon tea</i>				
3.30 pm	8	<u>IESBA Technology submission letter</u>			<i>Anna</i>
	8.1	Board meeting summary paper	Note	Paper	
	8.2	Polling results	Note	Paper	
	8.3	Draft submission	Approve	Paper	
4.15 pm	9	<u>IESBA Strategy Survey</u>			<i>Sharon</i>
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Draft response	Consider	Paper	
4.40 pm	10	<u>Environmental scanning</u>			<i>Anna</i>
	10.1	International Update	Note	Paper	
	10.2	Domestic Update	Note	Paper	

Next meeting: 10 Aug 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	Ongoing
December 2021	Update on progress on GHG assurance project	Ongoing	Refer to agenda item 7. <i>(suggest remove from action list)</i>
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. <i>(suggest monitor developments in Australia following the June meeting)</i>
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:	April 2022	Refer to correspondence
June 2022	Consider developing guidance to support consistent reporting in light of the Reserve Bank's revised Orders in Council	August 2022	Verbal update



DATE: May 2022

FROM: Robert Buchanan and Misha Pieters

SUBJECT: May 2022 National Standard Setting Meeting Report

Purpose: To update the Board on **key areas of interest to the NZAuASB** as discussed at the National Standard Setters (NSS) meetings in May 2022.

Importance: The key areas of **strategic importance** to the XRB are summarised below.

Action required: To **NOTE** the update.

Introduction

1. The IESBA and IAASB NSS meetings were held virtually on 10th-12th May. The Chair of the NZAuASB and the Director of Assurance Standards participated. The objective of this paper is to provide a summary of the main discussions which included:

IESBA NSS:

- Ethical implications of sustainability reporting and assurance
- Benchmarking report

IAASB NSS:

- Update on feedback received on the exposure draft of ISA for Less Complex Entities (LCEs)
- Jurisdictional developments – “Tour de Table”
- Sustainability assurance

2. The Appendix provides further detail on these topics and discussions, which were very timely in light of the XRB’s climate and assurance projects.

Key areas of strategic importance to the XRB

3. The discussions of key interest to the NZAuASB and of strategic importance to the XRB include:

Topic	Impact/urgency
Ethical implications of sustainability reporting and assurance	Presentations from the European Commission, the SEC, and the ISSB on respective reporting initiatives, followed by discussion of the ethical implications of reporting and assurance, highlighted the importance of an ethical response to both reporting (the “greenwashing” factor) and assurance. The latter raised similar themes as the XRB’s project on GHG assurance: a recognition of a

	<p>need to accommodate a broader type of assurance practitioner, not limited to professional accountants, without compromising on competence, independence and quality and a phased introduction of mandatory assurance, starting with limited assurance before moving to reasonable assurance in due course recognising the need for the reporting to mature, together with internal control processes.</p> <p>The SEC proposals include some climate related disclosures within note to the financial statements. When included in the financial statements, the information is audited by the auditor of the financial statements, whereas the other disclosures including GHG emission information might be assured by a separate assurance firm.</p> <p>The overlap between this information highlights an opportunity for the XRB, given our unique structure, to bring the three standard setting activities: climate, financial reporting and assurance together.</p> <p>The IESBA has formed a working group to explore the “greenwashing” implications, whether the IESBA’s Code should be expanded to apply beyond professional accountants, and whether to amend the independence requirements to reflect the importance of independence across financial statement and climate assurance. Standard setting activity is expected to commence in 2024.</p> <p>XRB to seek opportunities to actively influence the working groups considerations.</p>
Sustainability assurance standard	<p>The IAASB’s sustainability working group Chair, Lyn Provost provided an update on the IAASB’s sustainability assurance project recognising the risk of fragmentation threatening the consistency of quality assurance globally. Lyn provided an overview of priority challenges that the working group intends to focus on, together with options for the architecture of standard setting activity, balancing the need for timeliness, relevance and appropriateness, mindful of the need for immediate action in particular for an overarching standard on sustainability assurance plus a future vision to build standards on discrete matters over time. NSS were asked for views. The consensus view was to start by developing a standalone “sustainability standard” based on ISAE 3000.</p> <p>The director of assurance highlighted the need to be inclusive of all assurance practitioners, not only professional accountants, recognising that a broader subject matter competence is needed, and the need to future proof the architecture of the standards to consider the interface between financial and non-financial reporting and assurance. These points received support from many speakers.</p> <p>The IAASB is establishing an advisory group from other professions. Lyn highlighted that it would be her personal preference to consider the interface between the financial and non-financial information.</p> <p>XRB to seek opportunities to actively influence the working groups considerations</p>

Appendix

IESBA NSS discussions

Sustainability Developments

1. NSS participants received presentations from Sue Lloyd, the International Sustainability Standards Board's vice-Chair; Anita Chan and Mr. Paul Munter, the US Securities Exchange Commission Acting Chief Accountant; and Mr Ugo Bassi, the European Commission Director; on sustainability reporting and assurance.
2. The presentations noted the pace of developments in reporting and, at a high level, reflected the similarities and differences between the developing requirements: based on TCFD, but with important differences highlighting the need for global debate. The presentations touched on how assurance requirements will be built into the system, recognising the importance of this information in decision making.
3. Mr. Bassi reflected on the key differences between the non-financial reporting directive that has been in place in Europe and the proposed Climate Social Responsibility Directive (CSRD), which in summary broadens the scope of the reporting, and how the CSRD will clarify what is required to be reported by way of a EU sustainability reporting standard. This will include built-in assurance requirements recognising the need for a broader base of assurance practitioner, and independence and competence principles. The proposal is that the auditor of the financial statements should not be the same as the assurance provider over sustainability, with a view that this will help to increase competition. The key sticking points at this stage of the CSRD's development are around the increasing scope to include small listed entities and around the oversight of assurance.
4. The SEC presentation highlighted proposals that:
 - a. Impact the financial statements, with a proposal to include information on the climate-related impact on financial information from climate events, with a 1% materiality threshold for each balance sheet item, transition activity and the entity specific impact by way of a note to the financial statements.
 - b. Impact the disclosures outside of the financial statements, including information on governance, risk management and strategy, and metrics and targets and GHG emissions, including all scope 1 and 2 GHG emissions and scope 3 if they are material (or if the goals include scope 3 emissions). There may be some exemptions for smaller entities in respect of scope 3 emissions.
 - c. Have assurance implications, with proposals for a mandatory attestation report, covering at a minimum scope 1 and 2 GHG emissions. The proposals include a phasing in of reporting and then a delayed start to assurance, with limited assurance required initially and reasonable assurance required after 2 years. These scaling proposals were said to be reflective of an immature reporting landscape, with less data reliability. The proposals also recognise the need for a broader range of practitioner, not requiring the assurance to be undertaken by a registered accountant, but with minimum independence and competence principles included. A question was raised about whether the attestation over internal controls in the US would extend to internal controls over the climate information, and whether that would more naturally fit with the auditor of the entity.
5. Sue Lloyd then provided an overview of the ISSB exposure draft, noting that it similarly is based on TCFD, but:

- a. Is focussed on the investor perspective, and builds on the idea of value reporting. The materiality definition is similar to materiality in the context of financial statements.
- b. Leverages off of the SASB standard for more industry specific standards.

She noted that the standards are being developed with assurance in mind, but otherwise declined to comment on assurance related matters.

Sustainability Reporting and Assurance

6. Mark Babington, IESBA member and Sustainability Working Group Chair, then updated NSS participants on the IESBA's new workstream relating to the reporting and assurance of sustainability. The IESBA has held preliminary discussions on the applicability of the Code to sustainability reporting and assurance thereon. A Working Group was established in March 2022. One impetus of establishing the Group was to recognise the involvement of non-professional accountants in sustainability assurance work who may not be subject to the same ethical/independence standards as professional accountants. Another was to investigate the ethics and independence implications of reporting and assurance of ESG information and stakeholder concerns about "greenwashing".
7. Responding to these concerns, the IESBA project will explore whether it is in the public interest for the scope of the Code to be expanded to cover all assurance practitioners, recognising that the IESBA has an important role to be a global champion for ethics, and if so how this might be done.
8. The IESBA is currently seeking views on its strategy survey for 2024-2027, laying the groundwork for anticipated need for standard-setting action. The Working Group also plans to undertake significant outreach of its own, with the aim of developing a fact-finding report in Q2 of 2023. The IESBA is holding a webinar on 18 May and is planning to seek views through a questionnaire targeting specific stakeholder groups, including national standard setters.
9. The Director Assurance Standards provided an overview of the XRB's GHG assurance project, noting the same key themes emerging in New Zealand as were noted in the presentations from the EC, the SEC and the ISSB – i.e. an encouragement to consider these matters with a high degree of urgency, and a need to be inclusive of other competent assurance practitioners who are not necessarily professional accountants. Our NZ project has a key priority of including non-professional accountants within the regime. We reported that we are exploring ways to be more inclusive, and recognise the ethical requirements of other professions, recognising that increasingly this space will include a number of subject matter professionals. We noted that the "at least as demanding" wording in ISAE 3000 is challenging as it is unclear who makes that assessment. Comparing ethical requirements across professions is no easy task, and it is not possible to make a statement that one profession's requirements are better or worse than another. However, it is in the public interest that there is a level playing field, and a clear understanding by users of either what those requirements are or how they differ if there are to be multiple players in this space. We are encouraging an inclusive approach, that recognises and respects other professions' requirements.
10. We expressed support for exploring how to open the Code up, but noted this presupposes that other professions need to move to adopt the IESBA Code.
11. We also encouraged the IESBA to consider the implications of the definition of engagement team and the independence of experts in the context of this evolving landscape, recognising that going forward, there will be an increasing need for a broader range of expertise.

12. These comments were well received, and consistent with others made during the discussion. The XRB will be well placed to continue contributing to this work.

Benchmarking

13. The IESBA's benchmarking project is essentially a fact-finding exercise to compare the Code of Ethics against other major ethical standards for accountants. Phase 1 of this project has been to compare the provisions of the International Independence Standards (IIS) that apply to public interest entities (PIEs) with those of the US Securities Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB).
14. The [Phase 1 report](#) is now available. Phase 1 focussed on the following key topics: Overarching principles and approach, key definitions, non-compliance with laws and regulations, fee-related provisions, permissibility of NAS to PIEs (including prohibited services), auditors' communication with those charged with governance, financial relationships, business relationships and gifts and hospitality.
15. The IESBA plans to undertake further comparisons with other major jurisdictions (e.g. EU requirements), to inform the IESBA of specific areas that it should evaluate and address as part of its future strategy. This work is unlikely to be given priority due to the urgency of the work on the implications of sustainability reporting and assurance. We agreed with that approach but the NZAuASB Chair did comment that benchmarking work of this nature could have benefits for jurisdictions such as ours that are "Code-plus", i.e. in providing points of comparison for our application of the compelling reason approach to New Zealand-specific enhancements to the Code.

IAASB discussions

Assurance on Sustainability/Environmental, Social and Governance reporting

16. Lyn Provost, Chair of the IAASB's Sustainability Working Group, presented an update on the latest thinking of the group. Recognising the increasing demand for reliable sustainability reporting and the existence of multiple assurance standards that risk fragmentation and threaten the consistency of quality of assurance, the IAASB sees an urgent need for globally accepted standards. The IAASB is balancing the need for timeliness, responsiveness and appropriateness. In its outreach so far, the IAASB has identified the following priority challenges highlighting a need for international standards for assurance on sustainability: limited versus reasonable assurance, suitable reporting criteria, scope of the engagement, evidence and internal controls, and practitioner's materiality. The IAASB is to discuss and develop the architecture of any new standards at its June meeting, mindful of the need for immediate action in particular for an over-arching standard on sustainability assurance plus a future vision to build standards on discrete matters over time.
17. NSS were asked for views on the most significant challenges in performing assurance engagements on sustainability that the IAASB should prioritise and views on the possible architecture of the standards. The agenda papers included a series of examples to inform development of the architecture of sustainability standard(s), including possibility of a new 5000 series of sustainability standards. However, the Working Group had met in the interim, and the actual presentation showed an updated developing approach with reference to the qualitative characteristics from in the Monitoring Group's Public Interest Framework (in particular, timeliness, relevance, comprehensiveness, implementability, and understandability). The need for timeliness, in particular, is leading the Working Group to an option that would work off what the IAASB already has, and start by developing a standalone "sustainability standard" based on ISAE 3000 (rather than the new 5000 series option). The consensus in the NSS discussion supported that approach. A wide range of countries participated, in particular from Asia and North America.

18. The Director of Assurance provided the following New Zealand perspective:

Key challenges

- a. We agree with the key challenges identified but add the following for consideration. As an independent standard setter, the XRB is not setting the standards for the accounting profession or any other profession. A key issue is who can perform these engagements recognising that a broader subject matter competence is needed. The XRB is focussed on being inclusive to ensure that all competent assurance practitioners (both professional accountants and others) can participate while recognising the need for a level playing field (i.e., including requirements on quality management and independence) and on making the standards accessible to all, noting that the IAASB's assurance standards will be foreign to some practitioners. The "at least as demanding" test in ISAE 3000 for the quality management and ethical requirements is proving a significant challenge, raising questions about who makes the assessment and not presupposing that one profession is better than another.
- b. A need to future proof the architecture, as the scope of non-financial reporting expands and will increasingly sit beside the financial information to enable decision making by investors. Questions arise as to how the reporting and the assurance will fit together (i.e. whether the engagements will be performed together inclusive of the financial and non-financial information (e.g., by large multidisciplinary teams of experts under an engagement partner) or as separate engagements, and possibly by separate firms and if so which types of firms. Independence is paramount to ensuring trust and confidence.
- c. The assurance report is also a key challenge to ensure that users will understand what has been assured, to what level and how it all fits together.

Architecture

- d. Support for having reasonable assurance and limited assurance in one standard as this is a useful way to distinguish the work effort and given that an assurance report may include a mixture of assurance over various metrics (i.e., one engagement may cover multiple levels of assurance and a single standard approach best accommodates that).
 - e. Encourage the IAASB to future proof the architecture for implementation of integrated reporting. The architecture needs to reflect the integrated nature of the reporting (setting up an "artificial wall" between the ISAs and ISAEs is already a challenge, adding a third "artificial wall" for sustainability reporting will be increasingly challenging going forward). The architecture needs to be flexible to recognise that it may be one firm who assures the full integrated report, and how that links together, as well as scenarios where various aspects are done by different assurance firms (so accommodate both a multi-disciplinary team within one firm and a separation of responsibility over various topics if they are separate engagements, recognising that some of those engagements may be done by non-accountant practitioners).
19. This early intervention helped ensure that the need for inclusiveness was upfront in the discussion. Lyn responded immediately by saying the Working Group is establishing an advisory group from other professions, which was good news. But there was support from a range of other speakers for the need for IAASB to involve other professions, including for example from the Chinese delegate who said that a range of professions are already working in this space. Several speakers supported the XRB point about the quality management /ethics equivalence issue and the need to consider the financial/non-financial interface.

Separate Standard for Audits of Financial Statements of Less Complex Entities

20. NSS participants received an update on the 145 responses to the exposure draft and discussed the key themes identified through the analysis:
- a. Clarity is needed in the scope of the standard, it is not clear what a typical less complex entity (LCE) is or who the standard is for.
 - b. Consistent message not to exclude groups from the scope of the standard.
 - c. Issues with standalone standard:
 - i. Differentiation from the ISAs and reference in the audit report
 - ii. Ability to obtain reasonable assurance - a point or a range?
 - iii. Sufficiency of guidance
 - iv. Ability to top up from ISAs in some circumstances
 - v. Transition back to ISAs.

NSS were asked for views on how the scope of the standard could be made clearer.

21. The NZAuASB Chair highlighted that given relatively high statutory audit thresholds in New Zealand we see limited opportunity for use of the standard in our jurisdiction. Supporting the thinking about allowing national jurisdictions more say in the adoption and use of a stand-alone standard, he outlined the process we have just gone through to apply the IESBA's new global criteria on the definition of a public interest entity and encouraged the IAASB to consider a similar approach that could make the standard and its application workable for the context for each jurisdiction.

Jurisdictional Developments of International Relevance

22. The NSS meeting included a very informative round the table overview of jurisdictional developments of international relevance (other than in sustainability reporting and assurance).
23. The NZAuASB Chair reported briefly on our work, including our focus on the implementation of the quality management standards, an update on the work to develop a domestic standard on capital raising, the project to work the public sector to refine the auditing standard on service performance information, and our recent work on the definition of a public interest entity.
24. Common themes emerging from around the table included:
- a. Non-financial reporting developments from multiple countries related to sustainability and climate reporting and efforts to adopt ISAE 3000 (Revised).
 - b. Widespread adoption of the quality management standards and national plans to support implementation.
 - c. Updates from various jurisdictions from reviews into audit reforms (including from the UK) and standard setting (including from Canada) and steps taken in South Africa to rebuild confidence in the audit profession (including an update on joint audits and mandatory firm rotation, and ongoing publication of audit quality indicators reports which were said to be now providing a rich data set).
 - d. Additions to the auditor's reports from a number of jurisdictions, including India (where the report now addresses up to 50 separate matters) and the Netherlands (in particular in relation to going concern and fraud).

Misha Pieters

From: Robert Buchanan <robert@buchananlaw.co.nz>
Sent: Thursday, 19 May 2022 12:57 pm
To: Michele Embling; April Mackenzie; Misha Pieters; Marje Russ; Carolyn Cordery
Subject: FW: IAASB 32/22: IAASB Chair Update

FYI – includes updates on sustainability assurance, LCE standard, and IASB/going concern.

Ngā mihi
Robert

De: Tom Seidenstein <TomSeidenstein@IAASB.org>
Enviado el: miércoles, 18 de mayo de 2022 15:22
Asunto: IAASB Chair Update: Spring cleaning (and allergies!)

Dear IAASB members, technical advisors, staff, observers, and friends,

Spring has sprung in Washington, DC. I can tell, because my allergies are going crazy!!! (Yes, still testing negative on Covid!) Also IAASB travel has also returned for me—Paris a little more than a week ago and London later today.

The key theme is that the pace is gathering in the lead up to our June meetings. Many thanks to all for your efforts in getting us prepared for our June plenary.

Let me give you some updates that are top of mind:

- 1. Sustainability assurance:** Thank you to everyone for their input and efforts from the March meeting onwards. I am really pleased with the path we are on, and our outreach with the national standard-setters, IOSCO, FSB, European Commission and others is showing strong support for a principles-based, separately branded, subject-matter specific standard (or ultimately suite of standards) on sustainability assurance. We have been guided by most to leverage the existing standards and guidance and not to try an entirely greenfield (start from scratch) approach. However, many external stakeholders are also urging a wholly standalone standard (or standards) for sustainability. There are a some options to consider within that broad approach to reach timely conclusions. I look forward to a good discussion set up by Lyn, the Board's consultation group, Natalie, Claire, and Adriana in June.
- 2. LCE and the LCE Conference in Paris:** We had a highly successful 3rd Paris Conference on LCEs. More than 100 participants from 33 countries attended physically and virtually. The team is putting together a list of key takeaways, which they will share shortly. The most powerful argument that I heard in favor of our continuation of this separate standard is how important this work is for economic development in emerging markets and the development and sustainability of the profession throughout the world. We received a number of useful suggestions on how to improve and clarify the standard further, including in the area of the authority, a number of the requirements, and group audits. Conference participants acknowledged the lingering concerns of regulators, and we will need to step up our engagement there in the coming weeks and months.
- 3. Technology efforts:** I am heading to London tonight to host our first session with our newly created Digital Advisory Group. I shared the list of members last time. I am now attaching the bios of members and the agenda for your review. We have also continued our conversations with Board members and TAs on our technology research. Thanks to Danielle and Amy for taking the leadership there. I am pleased with the positive reaction to the Disruptive Technologies Knowledge base –this a resource for everyone to use so I would encourage them to take a little bit of time to do that. Here is a link to the SharePoint in case anyone didn't save it - [Disruptive Technologies Knowledge Base - Homepage \(sharepoint.com\)](#). Board members and TAs asked about how to ensure the right input related to technology feeds into existing workplan activities.

The best way to do that is to engage with Amy and Danielle, so they can ensure we apply the right resources as well as those of the Technology Consultation Group where appropriate.

4. **Strategy update:** The Planning Committee and the senior staff leadership team have begun work on our next strategy cycle. We want this process to be a collaborative effort among the entire board. At our June meeting, we will be setting up time to discuss our preliminary thoughts with IAASB members who aren't on the Planning Committee.
5. **Going concern and the IASB:** You may have seen that the IASB decided not to include going concern as a new project. We always knew that this was a probable outcome—it doesn't change our focus. However, Andreas Barckow and I are discussing alternative ways to help the reporting ecosystem. Please find attached a letter that I sent Andreas.

Finally, Bev's last official week has arrived sadly, but thankfully she will be with us at the June Board meeting. A huge thank you to her. She has left an extraordinary mark on the IAASB and has been a real ally and friend to me during my brief stint with the Board. Please wish her well in her new pursuits.

Have to return to packing! Please feel free to comment on anything and provide feedback. There is a lot more going on too, but I wanted to keep the email brief. Reach out to me if you think I missed anything or failed to cover a topic of interest.

Speak to you soon.

Best,
Tom

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.1
Meeting date:	1 June 2022
Subject:	Non-Assurance Services (NAS)
Date:	20 May 2022
Prepared By:	Misha Pieters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to approve *Amendments to Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code*.

Background

2. At the April 2022 NZAuASB meeting, the Board agreed not to finalise the NAS standard as exposed but to finalise the New Zealand standard by including two NZ paragraphs, as follows:
 - to clarify the ‘confident is likely to prevail’ wording in the New Zealand context;
 - require the firm to document the judgements made in reaching that decision.
3. The NZAuASB agreed to refer this recommendation to the XRB Board and subject to agreement by the XRB Board, and to refinement of wording in the proposed NZ paragraphs, to undertake a limited and targeted consultation with all those who responded to the exposure to enable stakeholders to respond prior to finalising the non-assurance services standard.
4. At the April 2022 meeting, the XRB Board noted the work done to reach an evidenced-based solution and is supportive of the decision not to proceed as exposed and to strengthen the international principles-based approach with the NZ paragraphs.
5. However, the XRB Board unanimously agreed that there is no need to undertake any further limited scope consultation, noting that we have already undertaken extensive outreach over the past months. XRB Board members commented that the evidence collected has reached saturation and that further consultation is unlikely to provide any further useful information.
6. The NZAuASB agreed that no further consultation was needed, via circular resolution.

Matters to Consider

7. Since the April meeting, we have further refined the wording of the two NZ paragraphs with input from APESB staff and New Zealand stakeholder observers to the meeting as follows:

Clarification addition

NZ604.12 A2.1

The firm will need a high level of confidence that the tax advisory and 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 and tax planning services will be likely to prevail.

Offline feedback suggested the deletion of the words “have a basis in tax law that” noting that it may be broader than tax law, i.e., includes IRD guidance or may be described as regulation.

Alternative suggested wording is as follows:

The firm will need a high level of confidence that the tax advisory and tax planning services have a basis in ~~New Zealand~~ tax law that is likely to prevail to satisfy subparagraph 604.12 A2(c). The firm will gain that confidence if there is a high probability, if viewed objectively by applying the reasonable and informed third party test, that the tax advisory and tax planning services will prevail.

- **Do you agree not to delete “have a basis in tax law that”?** Staff consider that the inclusion of the words have a basis in tax law is consistent with the IESBA wording in paragraph 604.12 A2 which specifically refers to tax law, and therefore we do not recommend deleting these words
- **Does the Board consider the cross reference to 604.12 A2(c) is needed?** Staff recommendation is that it is not needed, given the placement of the paragraph.
- **We seek Board members views on the addition of the reasonable and informed third party test (RITP).** Staff reflected on prior Board members comments suggesting confusion as to who and how the RITP test applies, but we do consider that this is consistent with the conceptual framework.
- **Would changing the words “likely to prevail” to “will prevail” change the intent?** Staff consider that this change would result in an inconsistency between 604.12 A2 and A2.1 and therefore recommends aligning with the wording in A2.

Documentation requirement

NZ R604.12

The firm shall document the factors considered and conclusions reached in determining that the tax advisory ~~or and~~ 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 satisfies one or more of the conditions described in paragraph 604.12 A2 has a basis in tax law that is likely to prevail.~~

Given the placement of this paragraph, we seek Board members views as to whether the documentation requirement should also refer to paragraph 604.12 A3.

8. We recommend the placement of these paragraphs within the New Zealand standard (refer to agenda item 2.2 on page 20 of the standard, highlighted in light green).
9. Consistent with prior staff recommendations we do not recommend and have not included the following NZ paragraphs that were proposed in the 2021 exposure draft:

NZ600.14 A1 Additional work performed by the firm will not generally create a self-review threat to independence when such work is related to the audit or review engagement.

Examples of audit or review related engagements include:

- Engagements required by law or regulation to be performed by the auditor or assurance practitioner.
- Engagements that involve the formal expression of an assurance opinion or

conclusion.

- Engagements to perform agreed-upon procedures.

However, providing such additional services might create one or more other threats, as noted in paragraph 120.6 A4. In such circumstances, the firm is required to apply the conceptual framework to identify, evaluate and address the threats to independence.

10. We also recommend reverting to the IESBA's transitional provision

~~{NZ}~~ Transitional Provision

For non-assurance services engagements a firm or network firm has entered into with an audit client, or for non-assurance services engagements a firm has entered into with an assurance client, before 15 December 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Professional and Ethical Standard 1 ~~for up to 12 months~~ until completed in accordance with the original engagement terms.

Material Presented

Agenda item 2.1	Board Meeting Summary Paper
Agenda item 2.2	<i>Amendments to Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code</i>
Agenda item 2.3	Explanation for decisions made
Agenda item 2.4	Signing memorandum

AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: *Revisions to the Non-Assurances Services Provisions of the Code*

This Standard was issued on **date** 2022 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 secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on **date** 2022.

The amendments in this Standard are effective as follows:

- Revised Section 600 and the conforming amendments to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022.
- The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after December 15, 2022; otherwise, these amendments will be effective as of December 15, 2022.

Early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of changes to the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

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AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF THE CODE

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I. Introduction

This Standard includes amendments to Professional and Ethical Standard 1. The amendments to Part 4A section 600 replace extant section 600. No strike throughs or underlines have been used in section II of this amending standard.

For the conforming and consequential amendments in sections III to V of this amending standard underlines and strike throughs are used to indicate changes.

II. Revised Section 600

INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

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.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

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

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

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

Accepting an Engagement to Provide a Non-Assurance Service

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

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 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 judgement. (Ref: Para. R400.13 to R400.14).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.

- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- 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.

Materiality in relation to financial statements

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

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

Providing advice and recommendations

600.11 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.14. Where the audit client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the audit client is a public interest entity, paragraphs R600.16 and R600.17 apply.

Multiple non-assurance services provided to the same audit client

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

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

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.

- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit client.

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 judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgement 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 judgements 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).

Providing advice and recommendations

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

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

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

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

Addressing Threats

All Audit Clients

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

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

600.18 A3 Examples of actions that might be safeguards to address such threats 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.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

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

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

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Audit Clients

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

Audit Clients that are Public Interest Entities

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

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

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R600.21 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

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

- (A) That public interest entity;
- (B) Any entity that controls, directly or indirectly, that public interest entity; or
- (C) Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those

charged with governance:

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

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

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

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

- (a)** The firm's conclusion that the provision of the service will not create a threat to the firm's independence as auditor of the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
- (b)** The provision of that service.

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

- (a)** The firm provides such information as it is able without breaching its legal or professional obligations;
- (b)** The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

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

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

- (a) The firm or the network firm is not permitted to provide any information to those charged with governance of the audit client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or
- (b) Those charged with governance of an audit client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Audit Client that Later Becomes a Public Interest Entity

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

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

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

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

Considerations for Certain Related Entities

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

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or

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

Documentation

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

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the financial statements on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the audit client, including whether the results of the service will be subject to audit procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.21, the steps taken to comply with paragraphs R600.21 to R600.23.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

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

Requirements and Application Material

General

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

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

Description of Service

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

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

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit Clients

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

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 judgements or decisions that might be necessary; and
- (b) Require little or no professional judgement.

601.5 A2 Examples of services 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 R400.14 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A3 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit 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.

Audit Clients that are Public Interest Entities

R601.6 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity.

R601.7 As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- (a) The audit report on the group financial statements of the public interest entity has been issued;
- (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;

- (c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and
- (d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

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

Application Material

Description of Service

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

602.2 A2 Examples of administrative services include:

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

Potential Threats Arising from the Provision of Administrative Services

All Audit Clients

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

SUBSECTION 603 – VALUATION SERVICES

Introduction

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

Requirements and Application Material

Description of Service

603.2 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to

compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity.

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

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

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

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

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

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R603.5 applies.

Audit Clients that are Not Public Interest Entities

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

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

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

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

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

Audit Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the provision of such valuation service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

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

SUBSECTION 604 – TAX SERVICES

Introduction

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

Requirements and Application Material

Description of Service

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

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

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

Potential Threats Arising from the Provision of Tax Services

- 604.3 A1 Providing tax 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 accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.
- 604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an audit client, and evaluating the level of such threats include:
- The particular characteristics of the engagement.
 - The level of tax expertise of the client's employees.
 - The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
 - The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

All Audit Clients

- R604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.
- 604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

- 604.5 A1 Tax return preparation services include:
- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities.
 - Advising on the tax return treatment of past transactions.
 - Responding on behalf of the audit client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit Clients

- 604.6 A1 Providing tax return preparation services does not usually create a threat because:
- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law,

including precedents and established practice; and

- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

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

Potential Threats Arising from the Provision of Tax Calculation Services

All Audit Clients

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

Audit Clients that are Not Public Interest Entities

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

604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the audit client 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.

Audit Clients that are Public Interest Entities

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

C. Tax Advisory and Tax Planning Services

Description of Service

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

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

All Audit Clients

604.12 A1 Providing tax advisory and tax planning 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 accounting records or

the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

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

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

NZ604.12 A2.1 The firm will need a high level of confidence that the tax advisory and tax planning services have a basis in 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 and tax planning services will be likely to prevail.

{Alternative wording for consideration – to be deleted in final standard}

NZ604.12 A2.1 *The firm will need a high level of confidence that the tax advisory and tax planning services have a basis in New Zealand tax law that is likely to prevail to satisfy subparagraph 604.12 A2(c). The firm will gain that confidence if there is a high probability, if viewed objectively by applying the reasonable and informed third party test, that the tax advisory and tax planning services will 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 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 client that is a public interest entity has been identified, paragraph R604.15 applies.

NZ R604.12 The firm shall document the factors considered and conclusions reached in determining that the tax advisory and tax planning service satisfies the conditions described in paragraph 604.12 A2.

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

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

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

Audit Clients that are Not Public Interest Entities

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

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

Audit Clients that are Public Interest Entities

Self-review Threats

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).

Advocacy Threats

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

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

D. Tax Services Involving Valuations

Description of Service

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

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

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit Clients

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

- 604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an audit client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:
- (a) Have no effect on the accounting records or the financial statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
 - (b) Affect the accounting records or the financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.
- 604.17 A3 Performing a valuation for tax purposes for an audit client will not create a self-review threat if:
- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
 - (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Audit Clients that are Not Public Interest Entities

- 604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an audit client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax. This would not usually create threats if the effect on the financial statements is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.
- 604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an audit client that is not a public interest entity, and evaluating the level of such threats:
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
 - The degree of subjectivity inherent in the valuation.
 - The reliability and extent of the underlying data.
- 604.18 A3 Examples of actions that might be safeguards to address such threats for an audit client that is not a public interest entity include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.
 - Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

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

Advocacy Threats

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

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

E. Assistance in the Resolution of Tax Disputes

Description of Service

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

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

All Audit Clients

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

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

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

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.24 applies.

Audit Clients that are Not Public Interest Entities

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

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

Audit Clients that are Public Interest Entities

Self-review Threats

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

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

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

Audit Clients that are Not Public Interest Entities

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

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

Audit Clients that are Public Interest Entities

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

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

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

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

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

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

Requirements and Application Material

Description of Service

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

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

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

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

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

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;

- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
 - (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
 - (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.
- 605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.
- 605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:
- Setting internal audit policies or the strategic direction of internal audit activities.
 - Directing and taking responsibility for the actions of the entity's internal audit employees.
 - Deciding which recommendations resulting from internal audit activities to implement.
 - Reporting the results of the internal audit activities to those charged with governance on behalf of management.
 - Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
 - Taking responsibility for designing, implementing, monitoring and maintaining internal control.
 - Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

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

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

Audit Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an audit 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

R605.6 A firm or a network firm shall not provide internal audit 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).

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

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

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 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 R400.13 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) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Potential Threats Arising from the Provision of IT Systems Services

All Audit 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 customisation required to meet the client’s needs is not significant.

606.4 A3 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit 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.

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.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

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

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

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

Potential Threats Arising from the Provision of Litigation Support Services

All Audit Clients

607.3 A1 Providing litigation support 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 accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

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

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

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

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

Audit Clients that are Not Public Interest Entities

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

Audit Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm or a network firm shall not provide litigation support services to an audit 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).

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

Advocacy Threats

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

Acting as a Witness

All Audit Clients

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

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

- 607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves an audit client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.
- 607.7 A3 The advocacy threat created when acting as an expert witness on behalf of an audit client is at an acceptable level if a firm or a network firm is:
- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
 - (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
 - (i) The firm's audit clients constitute less than 20% of the members of the class or group (in number and in value);
 - (ii) No audit client is designated to lead the class or group; and
 - (iii) No audit client is authorised by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Audit Clients that are Not Public Interest Entities

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

Audit Clients that are Public Interest Entities

- R607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for an audit client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 607.7 A3 apply.

SUBSECTION 608 – LEGAL SERVICES

Introduction

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

Requirements and Application Material

Description of Service

- 608.2 A1 Legal services are defined as any services for which the individual providing the services must either:
- (a) Have the required legal training to practice law; or
 - (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

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

Potential Threats Arising from Providing Legal Services

All Audit Clients

608.3 A1 Providing legal 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 accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

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

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

Potential Threats Arising from Providing Legal Advice

All Audit Clients

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

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

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R608.7 applies.

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

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

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

Audit Clients that are Not Public Interest Entities

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

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

Audit Clients that are Public Interest Entities

Self-review Threats

R608.7 A firm or a network firm shall not provide legal advice to an audit client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

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

B. Acting as General Counsel

All Audit Clients

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

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

C. Acting in an Advocacy Role

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

Audit Clients that are Not Public Interest Entities

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

608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit 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 the service performed.

Audit Clients that are Public Interest Entities

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

SUBSECTION 609 – RECRUITING SERVICES

Introduction

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

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

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

Risk of Assuming Management Responsibility When Providing a Recruiting Service

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

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

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

- 609.4 A1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.
- 609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:
- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
 - Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.
- 609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client, and evaluating the level of such threats include:
- The nature of the requested assistance.
 - The role of the individual to be recruited.
 - Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.
- 609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

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

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

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

with respect to the following positions:

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

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

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

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

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

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit Clients

610.3 A1 Providing corporate finance 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 accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

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

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
 - The outcome of the corporate finance service might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R610.8 applies.

Corporate Finance Services that are Prohibited

- R610.5** A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.
- R610.6** A firm or a network firm shall not provide advice in relation to corporate finance services to an audit client where:
- (a)** The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and
 - (b)** The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

- 610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to an audit client that is not a public interest entity include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

- R610.8** A firm or a network firm shall not provide corporate finance services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

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

II. Conforming Amendments to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

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General

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Requirements and Application Material

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General

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Prohibition on Assuming Management Responsibilities

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

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

400.13 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.

400.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. 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.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.

- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

400.13 A4 Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit 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.

R400.14 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgements 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.

[Paragraphs 400.15 to 400.19 are intentionally left blank]

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Period During which Independence is Required

All Audit or Review Clients

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

(a) The engagement period; and

(b) The period covered by the financial statements.

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

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

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

engagement; or

- (b) Previous ~~S~~services provided to the audit or review client by the firm or a network firm in prior financial statement periods.

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

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

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

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

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

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements on which the firm will express an opinion unless:

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

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

include:

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

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Consequential Amendments to Section 950

INTERNATIONAL INDEPENDENCE STANDARDS

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

...

SECTION 950

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

Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. ~~This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.~~
- 950.3 ~~The requirements and application material in this section assist firms in analysing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.~~ 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 information technology are ~~some~~ among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms might provide to an assurance client. ~~As a result the Code does not include an exhaustive listing of all non-assurance services that might be provided 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.

Requirements and Application Material

General

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

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

Accepting an Engagement to Provide a Non-Assurance Service

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

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

Materiality in Relation to an Assurance Client's Information

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

Multiple Non-assurance Services Provided to the Same Assurance Client

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

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.

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 organisation 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 organisation 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.

Addressing Threats

950.12 A1 Paragraphs 120.10 to 120.10 A2 includes ~~a description of safeguards~~ a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards. ~~In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.~~

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

adjusting the scope of the proposed service.

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

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

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

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

IV. Conforming Amendments to Section 900

INTERNATIONAL INDEPENDENCE STANDARDS

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

Section 900

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

...

Requirements and Application Material

General

R900.11 A firm performing an assurance engagement shall be independent of the assurance client.

900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.

900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the ~~professional accountant~~ assurance practitioner to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

R900.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

NZR900.12.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

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 ~~Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.~~ 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 judgement. 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.
 - Authorising transactions.
 - Controlling or managing bank accounts or investments.
 - Deciding which recommendations of the firm or other third parties to implement.
 - Reporting to those charged with governance on behalf of management.
 - Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- 900.13 A4 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.
- R900.14** ~~To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are~~ 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 judgements 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.

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

900.14 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

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

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

Network Firms

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

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

Related Entities

R900.16 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's

independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 900.17 to 900.29 are intentionally left blank]

Period During which Independence is Required

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

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

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

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

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

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

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

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

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

- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;

- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with the party engaging the firm or those charged with governance of the assurance client.

Communication with Those Charged With Governance

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

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

[Paragraphs 900.35 to 900.39 are intentionally left blank]

V. Conforming Amendment to Section 525

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 525

TEMPORARY PERSONNEL ASSIGNMENTS

...

Requirements and Application Material

- R525.4** A firm or a network firm shall not loan personnel to an audit or review client unless the firm or network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
 - (b) ~~The~~Such personnel ~~do~~ will not assume management responsibilities and the audit or review client will be responsible for directing and supervising the activities of such personnel;
 - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
 - (d) ~~The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections;~~Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

EFFECTIVE DATE

- Revised Section 600 and the conforming amendments to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.
- The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after 15 December 2022; otherwise, these amendments will be effective as of 15 December 2022.

Early adoption will be permitted.

Transitional Provision

For non-assurance services engagements a firm or network firm has entered into with an audit client, or for non-assurance services engagements a firm has entered into with an assurance client, before 15 December 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Professional and Ethical Standard 1 until completed in accordance with the original engagement terms.

Date: 1 June 2022

To: External Reporting Board

From: Robert Buchanan, Chairman NZAuASB

Subject: Certificate Signing Memorandum:
Amendments to Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Amendments to Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code*.

Background

International process

2. The International Ethics Standards Board for Accountants (IESBA) issued its Exposure Draft of revisions to the non-assurance service (NAS) provisions of the Code in January 2020 concurrent with its exposure draft of revisions to the fee-related provisions of the Code. Together the revisions strengthen the international independence standards.
3. The IESBA received 66 submissions in response to the NAS exposure draft. Respondents expressed support for the NAS proposals, but suggested improvements and shared a number of concerns. The NZAuASB supported the proposals to obtain concurrence with those charged with governance for the provision of NAS but encouraged the IESBA to go further, and that to effect the necessary change in perception and ensure independence in appearance, as well as in fact, that all NAS to audit clients that are public interest entities should be prohibited.
4. The IESBA revised its proposals to address matters raised by respondents, strengthening the self-review threat prohibition for PIEs, but not prohibiting NAS to PIEs in all instances. In December 2020, the IESBA unanimously approved the revisions to the NAS provisions of the Code with 15 affirmative votes out of the 15 IESBA members present. The final standard was released in April 2021.

Domestic process

5. In February 2021, the NZAuASB considered how the IESBA had dealt with the significant issues raised in finalising the NAS provisions and discussed whether there was a need to strengthen the New Zealand provisions, citing concerns that

independence in appearance may be an issue and that further research was needed about how the provision of NAS impacts users' perceptions of independence in appearance in New Zealand.

6. Following the February meeting, the XRB undertook a survey of users (and others). Over one hundred responses were received. In April 2021, the NZAuASB recognised that while the results of the survey undertaken would not stand up to rigorous academic scrutiny, they did present useful evidence to confirm that there is a perception that performing NAS creates threats to independence, with at least some negative effect on trust in the financial statements for nearly all types of NAS.
7. The NZAuASB agreed that prohibiting all NAS to PIEs would not be an appropriate response for New Zealand and was supportive of the revised IESBA NAS provisions. However, of particular concern was the relatively low bar, "confident is likely to prevail" that the firm would need to overcome in relation to tax advisory and tax planning services.
8. In June 2021, having sought strategic direction from the XRB board, the NZAuASB discussed developing an IESBA plus approach and in July 2021, the NZAuASB approved the invitation to comment and exposure draft proposing to:
 - Prohibit tax advisory and tax planning services to an audit client that is a Public Interest Entity (PIE), including advising an audit client in its tax return preparation or any adjustments arising therefrom.
 - Outline additional factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services.
 - Acknowledge that there may be benefits to the auditor performing certain audit-related services, the provision of which will generally not create a self-review threat to independence, and provide examples of such services. The firm is still required to apply the conceptual framework to identify, evaluate and address threats (both for self-review threats and other threats) to independence.
 - Limit the timeframe for the application of the transitional provision to 12 months from the effective date of the standard.

Submissions were sought by 31 October 2021.

9. To socialise the proposals, staff undertook a briefing webinar, a panel discussion, targeting a wide range of perspectives from investors, governance and practitioners and a virtual feedback forum. We received 9 written submissions in response to the invitation to comment, including submissions from the regulators, the firms, and a professional body.
10. At the December 2021 meeting, the NZAuASB noted an analysis of submissions and feedback received that identified strongly opposing views. Given the wide range of views, the NZAuASB undertook further outreach to ensure it understood the points raised in the submissions correctly before agreeing the way forward, noting the

importance of working closely together with the Accounting Professional & Ethical Standards Board (APESB) given the clear benefits to a harmonised trans-Tasman approach.

11. Staff sought additional input from representatives from Inland Revenue, the Financial Markets Authority, the audit firms in respect of documentation, and together with staff from the APESB met with IESBA staff to explore in more depth concerns from both New Zealand and Australia and the intent of the IESBA changes. John Ryan, Auditor-General attended the April XRB meeting and expressed his views on independence.
12. Given the wide range of views received both in response to the exposure draft, and through ongoing consultation, it became 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 public interest entities (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.
13. In April 2022 the NZAuASB agreed that based on the evidence, the intent of the IESBA Code is appropriate for adoption in New Zealand, but determined that there is a compelling reason to amend the global standard to address the need for clarity, together with the ability for consistent application and enforcement, through two NZ paragraphs, as follows:
 - to clarify that the ‘confident is likely to prevail’ judgement is an objective test, and that the audit firms are expected to have a high level of confidence that the advice will not be challenged by the tax authority;
 - a documentation requirement, for the firm to document the judgements made in reaching that decision.

The NZAuASB agreed to refer this recommendation together with intent to undertake limited scope consultation to the XRB Board.

14. At its April 2022 meeting, the XRB Board noted the work done to reach an evidenced-based solution and expressed support for the decision not to proceed as exposed, rather to strengthen the international principles-based approach with the two NZ paragraphs. However, the XRB board unanimously agreed that there was no need to undertake any further limited scope consultation, noting the extensive outreach over the past months and that further consultation would be unlikely to provide any further useful information.
15. The NZAuASB members agreed not to undertake further consultation by circular resolution.
16. In June 2022, the NZAuASB unanimously approved, subject to XRB signoff, the issue of *Amendments to Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code*.

Australian process and harmonisation with Australia

17. The Accounting Professional & Ethical Standards Board (APESB) has not yet exposed an Australian exposure draft. It is expected to approve an exposure draft at its June 2022 meeting.
18. Over the course of the project, staff and the NZAuASB Chair have worked closely with, and attended or observed meetings of the APESB when discussing the topic of NAS. Channa Wijesinghe, Chief Executive of the APESB, has attended the NAS discussions of the NZAuASB in April and February 2022, and assisted in arranging the meeting with the IESBA staff.
19. Staff continue to monitor developments, and to the extent practical seek a harmonised approach, however the APESB's timeline for adoption differs to that of the XRB.

Privacy

20. 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

21. 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

22. The adoption of Amendments to Professional and Ethical Standard 1: *Revisions to the Non-assurance Services Provisions of the Code* 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

23. 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

24. The NZAuASB recommends that the XRB Board Chair sign the attached certificate of determination on behalf of the XRB Board.

Attachments

- Amendments to Professional and Ethical Standard 1: *Revisions to the Non-assurance Service Provisions of the Code*
- Explanations for Decisions Made
- Certificate of determination
- Approval certificate

Robert Buchanan

Chair NZAuASB



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Explanation for decisions

Amendments to *PES 1*:

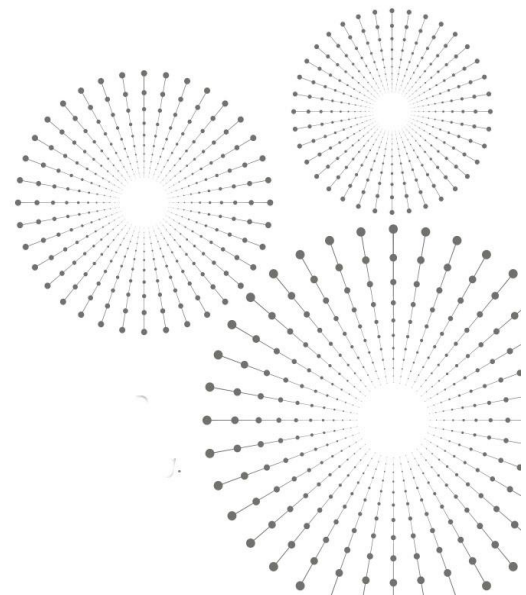
Revisions to the Non-assurance Service Provisions of the Code

June 2022

This document relates to, but does not form part of, Amendments to *Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code*, which was approved by the NZAuASB in June 2022.

It summarises the changes made by the NZAuASB to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants of the International Federation of Accountants. It also summarises the major issues raised by respondents to Exposure Draft 2021/4 *Amendments to Professional and Ethical Standard 1: Non-Assurance Services* and how the NZAuASB has addressed them.

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ISBN xxx

Explanation for Decisions

Amendments to *Professional and Ethical Standard 1: Revisions to the Non-assurance Service Provisions of the Code*

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1. Decision on non-assurance services

1. [NZAuASB ED 2021/4 Amendments to Professional and Ethical Standard 1: Non-Assurance Services](#) issued in July 2021 proposed to adopt the International Ethics Standards Board for Accountants' (IESBA) amendments to the Code of Ethics relating to non-assurance services.
2. ED 2021/4 proposed to strengthen the New Zealand standard as follows:
 - For an audit client that is a public interest entity, prohibit tax advisory and tax planning services, including advising on its tax return preparation or any adjustments arising therefrom.
 - Outline additional factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services.
 - Acknowledge there may be benefits to the auditor performing certain audit-related services, that generally do not create a self-review threat to independence, and provide examples of such services. The firm would still have been required to apply the conceptual framework to identify, evaluate and address threats (both for self-review threats and other threats) to independence.
 - Limit the timeframe for the application of the transitional provision to 12 months from the effective date of the standard.
3. This document explains the rationale for the changes made by the NZAuASB in finalising *Amendments to Professional and Ethical Standard 1: Non-Assurance Services*.

2. Non-assurance services – tax planning and tax advisory services

4. In relation to tax advisory and tax planning services, the NZAuASB was particularly concerned that the IESBA's wording "confident is likely to prevail" is subjective and may be interpreted in New Zealand as setting the bar for permissible services too low. As a result, the NZAuASB proposed in its ED to prohibit tax advisory and tax planning services to an audit client that is a public interest entity, including advising an audit client in its tax return preparation or any adjustments arising therefrom.

2.1 What we heard

5. The submissions identified strongly opposing views. Those who supported the NZ ED indicated that in their view the provision of tax advisory and tax planning services is in direct conflict with the audit and presents both a self-review threat and an advocacy threat to independence that cannot adequately be managed by safeguards. Those that opposed the proposal questioned the rationale for going

beyond the international standard; stressed the importance of harmonisation with Australia; noted low levels of non-assurance services in New Zealand; and highlighted possible unintended consequences of prohibiting such services in all instances (arguing that tax planning and tax advisory services include factual representations of tax law and that not all advice creates a self-review threat).

6. Given the wide range of views received, both in response to the NZ ED and through ongoing consultation, it became apparent to the NZAuASB that there is a lack of clarity around how and why the international standard had adopted a different approach to the “self-review threat prohibition” for public interest entities, with reference to the exception where tax planning and advisory services “will not create a self-review threat” using a “confident is likely to prevail” threshold in the application material.

2.2 The IESBA position

7. Under the revised non-assurance services standard, the “might create” prohibition in relation to the self-review threat creates a robust standard, where the possibility of a self-review threat results in a prohibition for public interest entities. The IESBA intentionally revised the Code to include a definitive statement that providing tax advisory and tax planning services will not create a self-review threat in certain circumstances. The effect of the principled self-review threat prohibition would otherwise have prohibited these services.
8. The permitted circumstances are limited and specific. They relate first to where the advice is (a) supported by a tax authority or precedent or (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 and the intent was not to prohibit such services. Globally the IESBA did not receive significant concern on these two points.
9. The IESBA accepted 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. It considered there may be unintended consequences, that are not in the public interest, of prohibiting firms from advising on tax matters which are a replication of the tax law or have been effectively signed off in law or by the tax authority.
10. The third circumstance (c), that the services have 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.
11. The IESBA’s [Basis for conclusions](#) explores this matter. Given global concerns that the term “more likely than not” would be perceived as being too low a threshold, the IESBA responded by adding the words “is confident”. Minutes from the IESBA September 2021 meeting highlight that IESBA members agreed that the audit firm should have a high level of confidence in the tax advice.

12. The NZAuASB understands that in instances where the firm is confident that its advice is likely to prevail, the IESBA did not wish to impose a prohibition for the same reasons for (a) and (b). In other words, if in the professional judgement of the firm, the firm is so confident that its advice will prevail, it is not in the public interest to prohibit firms from advising on these tax matters.

2.3 Explanation for decision not to prohibit all tax planning and advisory services

13. The NZAuASB carefully considered the various views received in response to the exposure draft and evidence gathered through ongoing outreach and determined in the public interest not to proceed as exposed.
14. Through its outreach, the NZAuASB did not identify robust evidence in New Zealand that supported the prohibition as exposed. The outreach provided 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 to their tax planning. Good practice governance, and increasing expectations around accountability, have seen those charged with governance of many entities seeking a more risk adverse position and taking more control of the entity's tax positions.

2.4 Explanation for decision to clarify the international standard

15. Based on all feedback received, on balance the NZAuASB agreed that the intent of the IESBA Code, as set out above, is appropriate for adoption in New Zealand. However, the NZAuASB considered there is a compelling reason to amend the international standard to address the need for clarity in relation to the meaning of the "confident is likely to prevail" test, together with the ability for consistent application and enforcement. It decided to do so through clearly stated responsibilities¹ in two parts: (1) clarification of the intent; and (2) the need for appropriate documentation of the judgements involved. The NZAuASB considered that approach to have the benefit of harmonisation with the global standard, adopting a principles-based, rather than a rules-based, approach.

Clarification of intent

16. The NZAuASB considers the "confident is likely to prevail" would be interpreted as being subjective. Similar concerns were raised by many stakeholders globally. Although the IESBA added the words "the firm is confident", the NZAuASB continued to hear concerns that the test is subjective and would not be clear in the New Zealand context because, for example, no firm will advise a tax treatment that it is not "confident" is likely to prevail.

¹ 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](#)

17. The statutory test under New Zealand law to determine whether an unacceptable tax position has been taken is set out in the Tax Administration Act 1994. The test is:

“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”.²
18. The “about as likely as not” test 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. The test is also stated as being objective (i.e., not subjective).
19. The NZAuASB interpreted the intent of the IESBA’s words “is confident is likely to prevail” as setting a very high threshold, a bar significantly higher than close to or around 50%. This is different from what the New Zealand tax legislation says (“about as likely as not”). It also differs from how the term “likely” is applied in other legal contexts in New Zealand.³
20. Given that PES 1⁴ is secondary legislation, the NZAuASB considered there is a compelling reason for the standard to be clear as to the meaning of the term “confident is likely to prevail” in this context. The NZAuASB considered there is a compelling reason to ensure that the New Zealand standard is applied so that that the high threshold intended by IESBA, which is neither the percentage-based approach of the tax legislation nor the lower test applied by the courts in other contexts, is consistently understood and applied.
21. To address the apparent subjective nature of the test, the NZAuASB agreed to add a NZ paragraph NZ 604.12 A2.1 inserting a reference to the test being objective (in similar terms to the statutory test).

Add a documentation requirement

22. Many respondents to the NZ ED noted the robust processes that firms undertake to identify and evaluate all the threats that providing a service might create to determine whether a non-assurance service is permissible.
23. The firm’s level of confidence in its own tax advice is a key part of whether the self-review threat prohibition applies or not.

² s141B Tax Administration Act 1994.

³ 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.

⁴ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

24. Given all of the feedback received, the NZAuASB agreed to add a documentation requirement, in the instances where the firm determines that providing tax planning and tax advisory services is permissible.
25. Paragraph 600.27 A1 of the revised IESBA standard sets out what documentation the firm *might* prepare, including key elements of the firm's understanding of the nature of the non-assurance service, 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.
26. In its Basis for Conclusions the IESBA stated that it envisaged 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.
27. The NZAuASB considered 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 self-review threat prohibition related to tax planning and advice. This would strengthen the Code; address any concerns about documentation of evidence of decision making; and promote effective regulation. The NZAuASB doubts this requirement would be onerous, as throughout its ongoing outreach firms noted that such documentation is consistent with current best practice in New Zealand in determining whether a service is permissible or not.
28. The NZAuASB considered that requiring documentation of the factors and the rationale will also drive consistency in practice. Taken together with the recommended changes to improve clarity of application, this met the public interest factors in the compelling reason test.

3. Audit-related services

29. The NZAuASB had proposed to add application material to acknowledge that there may be benefits to the auditor performing certain audit-related services, the provision of which will generally not create a self-review threat to independence, and to provide examples of such services. The firm would still have been required to apply the conceptual framework to identify, evaluate and address threats (both for self-review threats and other threats) to independence.
30. Respondents to the NZ ED agreed that additional services performed by the audit firm will generally not create a self-review threat where the services are related to the audit engagement. However, many submitters noted that it is the nature of the service that determines whether a threat to independence arises; and that firms therefore apply the conceptual framework to identify, evaluate and address threats that might be created. Some respondents sought more clarity around the term "audit related services". Overall, respondents did not consider it necessary

to add this additional material, and one respondent highlighted the risks of unintended consequences and a risk that the NZ-specific content would not be consistent with other parts of the standard.

31. The NZAuASB agreed that there is not a compelling reason to include this additional NZ paragraph. Examples could be included by way of a FAQ or other implementation guidance, possibly in conjunction with the NZASB fee disclosure project to enhance disclosure of fees paid to audit firms in the financial statements.

4. Transitional provisions

32. The NZAuASB considered that an open-ended transitional provision which could permit a firm to continue the engagement under the extant provision for an indefinite period would be too broad for New Zealand purposes. The NZ ED therefore proposed to limit the timeframe for the application of the transitional provision to 12 months from the effective date of the standard.
33. The majority of respondents supported the proposal. However, one respondent expressed concern that modifying the effective date would introduce complexity and inconsistency for network firms.
34. On reflection, the NZAuASB decided that there is not a compelling reason to depart from the international standard, and reverted to the IESBA's transitional provisions.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	1 June 2022
Subject:	ISA 600 (Revised) <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>
Date:	20 May 2022
Prepared By:	Tracey Crookston

Action Required

For Information Purposes Only

Agenda Item Objective

1. The objective of this agenda item is for the Board to APPROVE:
 - International Standard on Auditing (New Zealand) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*; and *Conforming Amendments to ISAs (NZ) and Other Pronouncements*; and
 - the signing memorandum.

Background

IAASB

2. The IAASB issued ISA 600 (Revised) on 7 April 2022. The standard deals with special considerations that apply to group audits, including those circumstances when component auditors are involved.
3. ISA 600 (Revised) includes new and revised requirements and application material that better aligns the standard with recently revised standards such as ISQM 1 *Quality Management at firm level*, ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* and ISA 315 (Revised 2019) *Identifying and Assessing the risks of Material Misstatement*.
4. The new and revised requirements also strengthen the auditor's responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and documentation.
5. Following the approval of ISA 600 (Revised) at its December 2021 meeting, the IAASB voted not to re-expose the standard noting that while there have been many changes to ISA 600 (Revised) since its exposure, the key elements of ED-ISA 600 were retained, with further clarifications and modifications in response to comments received on exposure.

NZAuASB

6. In its October 2020 submission to the IAASB the NZAuASB was supportive of the proposals to revise ISA 600. The NZAuASB acknowledged the importance of some of the other recent IAASB activities (outlined above) to improve the quality of audits of group financial statements.
7. The NZAuASB noted that it was important for the IAASB and its task force to continue the conversation on audit quality with respect to group audits, so that the final standard can address the practical challenges, as far as it is possible to do so, with an eye also on implementation guidance once the standard has been issued.
8. In its submission to the IAASB, the NZAuASB expressed concern that:
 - the linkages between ISA 600 and other standards, e.g., ISA 315 (Revised) and ISA 330 could be improved;
 - further clarity is needed with regard to entities that are scoped into the group standard, e.g., branches or divisions that are not formal separate structures; and
 - there may be practical issues with implementing a risk-based approach. This is because while a significant portion of the risk assessment and response is assigned to component auditors, the engagement team is responsible for the assigned work, for example, demonstrating an adequate level of direction, supervision, and review of the component auditor's work.
9. We believe that the concerns expressed by the NZAuASB have been addressed by the IAASB when finalising ISA 600 (Revised). Refer to the [Basis for Conclusions](#) for further details about the IAASB's decisions in finalising the standard.

AUASB

10. The AUASB approved the issue of *ASA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and related conforming amendments at its 19 April 2022 meeting.
11. The AUASB considered the compelling reason test for Australian purposes and agreed to the following changes informed by Australian law:
 - the deletion of paragraph A25 which relates to joint audits given joint audits are not allowable in Australia.
 - carrying forward (slightly amended) from extant ASA 600 an application material paragraph (Aus A34.1), that reminds the auditors of the *Corporations Act 2001* requirement for the officer or auditor of a controlled entity to give the principal auditor access to the controlled entity's books.
 - in Appendix 1, deletion of the international illustrative Auditor's Report and the inclusion of a *Corporations Act 2001* example as its replacement. This change is for consistency with example audit reports in *ASA 700 Forming an Opinion and Reporting on a Financial Report* and within extant ASA 600.
12. The changes made in Australia in the application of the compelling reason test are not the same in the New Zealand context.

Matters for consideration

13. The Board is asked to CONSIDER and APPROVE:
- (a) ISA (NZ) 600 (Revised) (agenda item 3.2);
 - (b) Conforming Amendments to ISAs (NZ) and Other Pronouncements (agenda item 3.3); and
 - (c) the signing memorandum (agenda item 3.4).
- (d) Extant ISA (NZ) 600 contains no compelling reason amendments. No compelling reason amendments have been identified for ISA (NZ) 600 (Revised). The only changes made are the usual spelling and naming changes.

Next steps

- (e) The draft ISA (NZ) 600 (Revised), agenda item 3.2, and Conforming Amendments to ISAs (NZ) and Other Pronouncements, agenda item 3.3, will be gazetted once approved by the Board.
- (f) 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.

Material Presented

- Agenda item 3.1 Board meeting summary paper
- Agenda item 3.2 Draft ISA (NZ) 600 (Revised) (for approval)
- Agenda item 3.3 Draft Conforming Amendments to ISAs (NZ) and Other Pronouncements (for approval)
- Agenda item 3.4 Draft signing memorandum (for approval)



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 600 (REVISED)

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

This Standard was issued on [Date] June 2022 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 secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Day, Month] 2022. [28 days from issue date/gazette date]

An auditor that is required to apply this Standard is required to apply it for audits of group financial statements for periods beginning on or after 15 December 2023. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of International Standard on Auditing (ISA) 600 being revised.

This Standard, when applied, supersedes International Standard on Auditing (ISA) (New Zealand) 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

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INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 600 (REVISED)

**SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS
(INCLUDING THE WORK OF COMPONENT AUDITORS)***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

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International Standard on Auditing (New Zealand) (ISA (NZ)) 600 (Revised), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” should be read in conjunction with ISA (NZ) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”

History of Amendments

Table of pronouncements – ISA (NZ) 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

This table lists the pronouncements establishing and amending ISA (NZ) 600 (Revised).

Pronouncements	Date approved	Effective date
International Standard on Auditing (New Zealand) 600 (Revised)	June 2022	This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 15 December 2023.

Introduction

Scope of this ISA (NZ)

1. The International Standards on Auditing (New Zealand) (ISAs (NZ)) apply to an audit of group financial statements (a group audit). This ISA (NZ) deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA (NZ) refer to, or expand on, the application of other relevant ISAs (NZ) to a group audit, in particular ISA (NZ) 220 (Revised),¹ ISA (NZ) 230,² ISA (NZ) 300,³ ISA (NZ) 315 (Revised 2019),⁴ and ISA (NZ) 330.⁵ (Ref: Para. A1–A2)
2. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in paragraph 14(k). The term consolidation process as used in this ISA (NZ) refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions. (Ref: Para. A3–A5, A27)
3. As explained in ISA (NZ) 220 (Revised),⁶ this ISA (NZ), adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this ISA (NZ) may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

Groups and Components

4. A group may be organised in various ways. For example, a group may be organised by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organised by geography, by other economic units (including branches or divisions), or by functions or business activities. In this ISA (NZ), these different forms of organisation are collectively referred to as “entities or business units.” (Ref: Para. A6)
5. The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgement in determining the components at which audit work will be performed. This determination is based on the group auditor’s understanding of the group and its environment, and other factors such as

¹ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*

² ISA (NZ) 230, *Audit Documentation*

³ ISA (NZ) 300, *Planning an Audit of Financial Statements*

⁴ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁵ ISA (NZ) 330, *The Auditor’s Responses to Assessed Risks*

⁶ ISA (NZ) 220 (Revised), paragraph A1

the ability to perform audit procedures centrally, the presence of shared service centres, or the existence of common information systems and internal control. (Ref: Para. A7–A9)

Involvement of Component Auditors

6. ISA (NZ) 220 (Revised)⁷ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. In a group audit, such resources may include component auditors. Therefore, this ISA (NZ) requires the group auditor to determine the nature, timing and extent of involvement of component auditors.
7. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this ISA (NZ). Component auditors may have greater experience with, and a more in-depth knowledge of, the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit. (Ref: Para. A10–A11)
8. Audit risk is a function of the risks of material misstatement and detection risk.⁸ Detection risk in a group audit includes the risk that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this ISA (NZ) requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasises the importance of two-way communication between the group auditor and component auditors. In addition, this ISA (NZ) explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A12–A13)

Professional Scepticism

9. In accordance with ISA (NZ) 200,⁹ the engagement team is required to plan and perform the group audit with professional scepticism and to exercise professional judgement. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional scepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional scepticism. (Ref: Para. A14–A18)

Scalability

10. This ISA (NZ) is intended for all group audits, regardless of size or complexity. However, the requirements of this ISA (NZ) are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely

⁷ ISA (NZ) 220 (Revised), paragraph 25

⁸ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A34

⁹ ISA (NZ) 200, paragraphs 15–16

by the group auditor, some requirements in this ISA (NZ) are not relevant because they are conditional on the involvement of component auditors. This may be the case when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A119 and A120 also may be helpful in applying this ISA (NZ) in these circumstances.

Responsibilities of the Group Engagement Partner and Group Auditor

11. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA (NZ). The term “the group engagement partner shall take responsibility for...” or “the group auditor shall take responsibility for...” is used for those requirements when the group engagement partner or group auditor, respectively, is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors. For other requirements, this ISA (NZ) expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable, and the group engagement partner or group auditor may obtain information from the firm or other members of the engagement team. (Ref: Para. A29)

Effective Date

12. This ISA (NZ) is effective for audits of group financial statements for periods beginning on or after 15 December 2023. [*Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments*]

Objectives

13. The objectives of the auditor are to:
 - (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;
 - (b) Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks;
 - (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work; and
 - (d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements.

Definitions

14. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A19)
 - (b) 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. (Ref: Para. A20)
 - (c) Component auditor – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team¹⁰ for a group audit. (Ref: Para. A21–A23)
 - (d) Component management – Management responsible for a component. (Ref: Para. A24)
 - (e) Component performance materiality – An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
 - (f) Group – A reporting entity for which group financial statements are prepared.
 - (g) Group audit – The audit of group financial statements.
 - (h) Group auditor – The group engagement partner and members of the engagement team other than component auditors. The group auditor is responsible for:
 - (i) Establishing the overall group audit strategy and group audit plan;
 - (ii) Directing and supervising component auditors and reviewing their work;
 - (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
 - (i) Group audit opinion – The audit opinion on the group financial statements.
 - (j) Group engagement partner – The engagement partner¹¹ who is responsible for the group audit. (Ref: Para. A25)
 - (k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this ISA (NZ), a consolidation process includes: (Ref: Para. A26–A28)
 - (i) Consolidation, proportionate consolidation, or an equity method of accounting;
 - (ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or
 - (iii) The aggregation of the financial information of entities or business units such as branches or divisions.

¹⁰ ISA (NZ) 220 (Revised), paragraph 12(d)

¹¹ ISA (NZ) 220 (Revised), paragraph 12(a)

- (l) Group management – Management responsible for the preparation of the group financial statements.
 - (m) Group performance materiality – Performance materiality¹² in relation to the group financial statements as a whole, as determined by the group auditor.
15. Reference in this ISA (NZ) to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

16. In applying ISA (NZ) 220 (Revised),¹³ the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner shall: (Ref: Para. A29–A30)
- (a) Take responsibility for creating an environment for the group audit engagement that emphasizes the expected behaviour of engagement team members. (Ref: Para. A31)
 - (b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.

Acceptance and Continuance

17. Before accepting or continuing the group audit engagement, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. (Ref: Para. A32–A35)
18. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A36)

Terms of the Engagement

19. In applying ISA (NZ) 210,¹⁴ the group auditor shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A37)
- (a) Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
 - (b) Additional information that the engagement team may request from group management

¹² ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraphs 9 and 11

¹³ ISA (NZ) 220 (Revised), paragraph 13

¹⁴ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(b) and 8(b)

or component management for the purpose of the group audit; and

- (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

Restrictions on Access to Information or People Outside the Control of Group Management

- 20. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A38–A46)

Restrictions on Access to Information or People Imposed by Group Management

- 21. If the group engagement partner concludes that: (Ref: Para. A43–A46)
 - (a) It will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
 - (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,
 the group engagement partner shall either:
 - (i) In the case of an initial engagement, not accept the engagement, or, in the case of a recurring engagement, withdraw from the engagement, when withdrawal is possible under applicable law or regulation; or
 - (ii) When law or regulation prohibit an auditor from declining an engagement or when withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements.

Overall Group Audit Strategy and Group Audit Plan

- 22. In applying ISA (NZ) 300,¹⁵ the group auditor shall establish, and update as necessary, an overall group audit strategy and group audit plan. In doing so, the group auditor shall determine: (Ref: Para. A47–A50)
 - (a) The components at which audit work will be performed; and (Ref: Para. A51)
 - (b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved. (Ref: Para. A52–A56)

Considerations When Component Auditors Are Involved

- 23. In establishing the overall group audit strategy and group audit plan, the group engagement partner shall evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor. (Ref: Para. A57)

¹⁵ ISA (NZ) 300, paragraphs 7–10A

24. As part of the evaluation in paragraph 23, the group auditor shall request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. (Ref: Para. A58)

Relevant Ethical Requirements, Including Those Related to Independence

25. In applying ISA (NZ) 220 (Revised),¹⁶ the group engagement partner shall take responsibility for: (Ref: Para. A59–A60, A87)
- (a) Component auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; and
 - (b) 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.

Engagement Resources

26. In applying ISA (NZ) 220 (Revised),¹⁷ the group engagement partner shall: (Ref: Para. A61–A68)
- (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component; and
 - (b) If information about the results of the monitoring and remediation process or external inspections related to the component auditor has been provided by the group auditor’s firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor’s determination in paragraph 26(a).
27. The group auditor shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor if:
- (a) The component auditor does not comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;¹⁸ or (Ref: Para. A69–A70)
 - (b) The group engagement partner has serious concerns about the matters in paragraphs 23–26. (Ref: Para. A71)

Engagement Performance

28. In applying ISA (NZ) 220 (Revised),¹⁹ the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account: (Ref: Para. A72–A77)

¹⁶ ISA (NZ) 220 (Revised), paragraph 17

¹⁷ ISA (NZ) 220 (Revised), paragraphs 25–26

¹⁸ ISA (NZ) 200, paragraph 14

¹⁹ ISA (NZ) 220 (Revised), paragraph 29

- (a) Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA (NZ) 315 (Revised 2019); and
- (b) Areas in the audit of the group financial statements that involve significant judgement.

Communications with Component Auditors

29. The group auditor shall communicate with component auditors about their respective responsibilities and the group auditor's expectations, including an expectation that communications between the group auditor and component auditors take place at appropriate times throughout the group audit. (Ref: Para. A78–A87)

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

30. In applying ISA (NZ) 315 (Revised 2019),²⁰ the group auditor shall take responsibility for obtaining an understanding of the following: (Ref: Para. A88–A92)

- (a) The group and its environment, including: (Ref: Para. A93–A95)
 - (i) The group's organisational structure and its business model, including:
 - a. The locations in which the group has its operations or activities;
 - b. The nature of the group's operations or activities and the extent to which they are similar across the group; and
 - c. The extent to which the group's business model integrates the use of information technology (IT);
 - (ii) Regulatory factors impacting the entities and business units in the group; and
 - (iii) The measures used internally and externally to assess the financial performance of the entities or business units;
- (b) The applicable financial reporting framework and the consistency of accounting policies and practices across the group; and
- (c) The group's system of internal control, including:
 - (i) The nature and extent of commonality of controls; (Ref: Para. A96–A99, A102)
 - (ii) Whether, and if so, how, the group centralises activities relevant to financial reporting; (Ref: Para. A100–A102)
 - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - (iv) How group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the group's

²⁰ ISA (NZ) 315 (Revised 2019), paragraphs 19–27

system of internal control to management of entities or business units. (Ref: Para. A103–A105)

Considerations When Component Auditors Are Involved

31. The group auditor shall communicate to component auditors on a timely basis: (Ref: Para. A106)
 - (a) Matters that the group auditor determines to be relevant to the component auditor’s design or performance of risk assessment procedures for purposes of the group audit;
 - (b) In applying ISA (NZ) 550,²¹ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor; and (Ref: Para. A107)
 - (c) In applying ISA (NZ) 570 (Revised),²² events or conditions identified by group management or the group auditor that may cast significant doubt on the group’s ability to continue as a going concern that are relevant to the work of the component auditor.
32. The group auditor shall request component auditors to communicate on a timely basis:
 - (a) Matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error;
 - (b) Related party relationships not previously identified by group management or the group auditor; and (Ref: Para. A107)
 - (c) Any events or conditions identified by the component auditor that may cast significant doubt on the group’s ability to continue as a going concern.

Identifying and Assessing the Risks of Material Misstatement

33. In applying ISA (NZ) 315 (Revised 2019),²³ based on the understanding obtained in paragraph 30, the group auditor shall take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process. (Ref: Para. A108–A113)

Considerations When Component Auditors Are Involved

34. In applying ISA (NZ) 315 (Revised 2019),²⁴ the group auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A114–A115)

²¹ ISA (NZ) 550, *Related Parties*, paragraph 17

²² ISA (NZ) 570 (Revised), *Going Concern*

²³ ISA (NZ) 315 (Revised 2019), paragraphs 28–34

²⁴ ISA (NZ) 315 (Revised 2019), paragraph 35

Materiality

35. In applying ISA (NZ) 320²⁵ and ISA (NZ) 450,²⁶ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group auditor shall determine:
- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A116–A120)
 - (b) The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A121)

Considerations When Component Auditors Are Involved

36. The group auditor shall communicate to the component auditor the amounts determined in accordance with paragraph 35. (Ref: Para: A122–A123)

Responding to the Assessed Risks of Material Misstatement

37. In applying ISA (NZ) 330,²⁷ the group auditor shall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components. (Ref: Para. A124–A139)

Consolidation Process

38. The group auditor shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include: (Ref: Para. A140)
- (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations;
 - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications; (Ref: Para. A141)
 - (c) Evaluating whether management’s judgements made in the consolidation process give rise to indicators of possible management bias; and
 - (d) Responding to assessed risks of material misstatement due to fraud arising from the consolidation process.
39. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor

²⁵ ISA (NZ) 320, paragraph 11

²⁶ ISA (NZ) 450, *Evaluation of Misstatements Identified During the Audit*, paragraph 5

²⁷ ISA (NZ) 330, paragraphs 6–7

shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

40. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor shall take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.

Considerations When Component Auditors Are Involved

41. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with the component auditor about matters that the group auditor or component auditor determine to be relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.
42. For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA (NZ) 315 (Revised 2019), on which a component auditor is determining the further audit procedures to be performed, the group auditor shall evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: Para. A142)
43. When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group auditor shall determine the nature and extent of direction and supervision of component auditors and the review of their work. (Ref: Para. A143)
44. The group auditor shall determine whether the financial information identified in the component auditor's communication (see paragraph 45(a)) is the financial information that is incorporated in the group financial statements.

Evaluating the Component Auditor's Communications and the Adequacy of Their Work

45. The group auditor shall request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A144)
 - (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures;
 - (b) Whether the component auditor has performed the work requested by the group auditor;
 - (c) Whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;
 - (d) Information about instances of non-compliance with laws or regulations;
 - (e) Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 36; (Ref: Para. A145)
 - (f) Indicators of possible management bias;

- (g) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
 - (h) Fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component or others where the fraud resulted in a material misstatement of the component financial information;
 - (i) Other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component;
 - (j) Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in the written representations that the component auditor requested from component management; and
 - (k) The component auditor's overall findings or conclusions. (Ref: Para. A146)
46. The group auditor shall:
- (a) Discuss significant matters arising from communications with the component auditor, including those in accordance with paragraph 45, with the component auditor, component management or group management, as appropriate; and
 - (b) Evaluate whether communications with the component auditor are adequate for the group auditor's purposes. If such communications are not adequate for the group auditor's purposes, the group auditor shall consider the implications for the group audit. (Ref: Para. A147)
47. The group auditor shall determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation. In making this determination, the group auditor shall consider: (Ref: Para. A148–A149)
- (a) The nature, timing and extent of the work performed by the component auditor;
 - (b) The competence and capabilities of the component auditor as determined in accordance with paragraph 26(a); and
 - (c) The direction and supervision of the component auditor and review of their work.
48. If the group auditor concludes that the work of the component auditor is not adequate for the group auditor's purposes, the group auditor shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.

Subsequent Events

49. In applying ISA (NZ) 560,²⁸ the group auditor shall take responsibility for performing procedures, including, as appropriate, requesting component auditors to perform procedures, designed to identify events that may require adjustment of, or disclosure in, the group

²⁸ ISA (NZ) 560, *Subsequent Events*, paragraphs 6–7

financial statements. (Ref: Para. A150)

Considerations When Component Auditors Are Involved

50. The group auditor shall request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A150)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

51. In applying ISA (NZ) 330,²⁹ the group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A151–A155)
52. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances when there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A156)

Auditor's Report

53. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A157–A158)

Communication with Group Management and Those Charged with Governance of the Group

Communication with Group Management

54. The group auditor shall communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group. (Ref: Para. A159)
55. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 45(h)), or information indicates that a fraud may exist, the group auditor shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A160)
56. A component auditor may be required by statute, regulation or other reasons to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group auditor shall request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to

²⁹ ISA (NZ) 330, paragraph 26

communicate the matter to management of the entity or business unit, the group auditor shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A161–A162)

Communication with Those Charged with Governance of the Group

57. The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA (NZ) 260 (Revised)³⁰ and other ISAs (NZ): (Ref: Para. A163)
- (a) An overview of the work to be performed at the components of the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A164)
 - (b) Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.
 - (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
 - (d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.

Communication of Identified Deficiencies in Internal Control

58. In applying ISA (NZ) 265,³¹ the group auditor shall determine whether any identified deficiencies in the group's system of internal control are required to be communicated to those charged with governance of the group or group management. In making this determination, the group auditor shall consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 45(g). (Ref: Para. A165)

Documentation

59. In accordance with ISA (NZ) 230,³² the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising

³⁰ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

³¹ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

³² ISA (NZ) 230, paragraph 8

during the group audit. In applying ISA (NZ) 230,³³ the group auditor shall include in the audit documentation: (Ref: Para. A166–A169, A179–A182)

- (a) Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
- (b) The basis for the group auditor’s determination of components for purposes of planning and performing the group audit. (Ref: Para. A170)
- (c) The basis for the determination of component performance materiality, and the threshold for communicating misstatements in the component financial information to the group auditor.
- (d) The basis for the group auditor’s determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components. (Ref: Para. A171)
- (e) Key elements of the understanding of the group’s system of internal control in accordance with paragraph 30(c);
- (f) The nature, timing and extent of the group auditor’s direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor’s review of additional component auditor audit documentation in accordance with paragraph 47. (Ref: Para. A172–A178)
- (g) Matters related to communications with component auditors, including:
 - (i) Matters, if any, related to fraud, related parties or going concern communicated in accordance with paragraph 32.
 - (ii) Matters relevant to the group auditor’s conclusion with regard to the group audit, in accordance with paragraph 45, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.
- (h) The group auditor’s evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements.

Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1–2)

A1. This ISA (NZ) also deals with the special considerations for the group engagement partner or group auditor, as applicable, in applying the requirements and guidance in

³³ ISA (NZ) 230, paragraphs 1–3, 9–11, A6–A7 and Appendix

ISA (NZ) 220 (Revised), including for the direction and supervision of component auditors and the review of their work.

- A2. PES 3³⁴ addresses the engagements for which an engagement quality review is required to be performed. PES 4³⁵ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.
- A3. An entity or business unit of a group may also prepare its own group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a sub-group). This ISA (NZ) applies to an audit of the group financial statements of such sub-groups performed for statutory, regulatory or other reasons.
- A4. A single legal entity may be organised with more than one business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.
- A5. In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA (NZ).

Groups and Components (Ref: Para. 4–5)

- A6. The group's information system, including its financial reporting process, may or may not be aligned with the group's organisational structure. For example, a group may be organised according to its legal structure, but its information system may be organised by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes.
- A7. Based on the understanding of the group's organisational structure and information system, the group auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these

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

³⁵ PES 4, *Engagement Quality Reviews*

circumstances, the group auditor may decide to treat these three legal entities as one component.

- A8. A group may also centralise activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service centre. When such centralised activities are relevant to the group's financial reporting process, the group auditor may determine that the shared service centre is a component.
- A9. Another consideration that may be relevant to the group auditor's determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework.³⁶

Involvement of Component Auditors (Ref: Para. 7–8)

- A10. Component auditors may perform an audit of the financial statements of a component, whether for statutory, regulatory or other reasons, particularly when a component is a legal entity. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit. In addition, component auditors may adapt the work performed on the audit of the component financial statements to also meet the needs of the group auditor. In any event, the requirements of this ISA (NZ) apply, including those relating to the direction and supervision of component auditors and the review of their work.
- A11. In accordance with ISA (NZ) 220 (Revised),³⁷ the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. Paragraph A76 provides examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work, and may be helpful in circumstances when the group auditor plans to use the audit work from an audit of component financial statements that has already been completed.
- A12. As explained in ISA (NZ) 200,³⁸ detection risk relates to the nature, timing and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. Detection risk is a function not only of the effectiveness of an audit procedure but also the application of that procedure by the auditor. Therefore, detection risk is influenced by matters such as adequate planning, the assignment of appropriate resources to the engagement, the exercise of professional scepticism, and the supervision and review of the audit work performed.
- A13. Detection risk is a broader concept than aggregation risk as described in paragraphs 14(a) and A19. In a group audit, there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole because audit procedures may be performed separately on the financial information

³⁶ See, for example, New Zealand Equivalent to International Financial Reporting Standard (NZ IFRS) 8, *Operating Segments*

³⁷ ISA (NZ) 220 (Revised), paragraph 30(b)

³⁸ ISA (NZ) 200, paragraph A45

of components across the group. Accordingly, component performance materiality is set by the group auditor to reduce aggregation risk to an appropriately low level.

Professional Scepticism (Ref: Para. 9)

- A14. ISA (NZ) 220 (Revised)³⁹ provides examples of the impediments to the exercise of professional scepticism at the engagement level, including unconscious auditor biases that may impede the exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. ISA (NZ) 220 (Revised) also provides possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level.
- A15. Requirements and relevant application material in ISA (NZ) 315 (Revised 2019),⁴⁰ ISA (NZ) 540 (Revised)⁴¹ and other ISAs (NZ) address the exercise of professional scepticism, and include examples of how documentation may help provide evidence of the auditor's exercise of professional scepticism.
- A16. All members of the engagement team are required to exercise professional scepticism throughout the group audit. The group auditor's direction and supervision of engagement team members, including component auditors, and the review of their work, may inform the group auditor about whether the engagement team has appropriately exercised professional scepticism.
- A17. The exercise of professional scepticism in a group audit may be affected by matters such as the following:
- Component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.
 - The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex organisational structure may be a fraud risk factor in accordance with ISA (NZ) 240⁴² and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units.
 - The nature and extent of intra-group transactions (e.g., transactions that involve multiple entities and business units within the group or multiple related parties), cash flows or transfer pricing agreements may give rise to additional complexities. In some cases, such matters may also give rise to fraud risk factors.
 - When the group audit is subject to tight reporting deadlines imposed by group management, this may put pressure on engagement team members when completing the work assigned. In these circumstances, the engagement team may need to take additional time to appropriately question management's assertions, make appropriate judgements, or appropriately review the audit work performed.

³⁹ ISA (NZ) 220 (Revised), paragraphs A34–A36

⁴⁰ ISA (NZ) 315 (Revised 2019), paragraph A238

⁴¹ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

⁴² ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, Appendix 1

A18. The exercise of professional scepticism by the group auditor includes remaining alert for inconsistent information from component auditors, component management and group management about matters that may be significant to the group financial statements.

Definitions

Aggregation Risk (Ref: Para. 14(a))

A19. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team.

Component (Ref: Para. 14(b))

A20. The group auditor uses professional judgement in determining components at which audit work will be performed. Paragraph A7 explains that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. However, the group auditor's responsibility for the identification and assessment of the risks of material misstatement of the group financial statements encompasses all of the entities and business units whose financial information is included in the group financial statements.

Component Auditor (Ref: Para. 14(c))

A21. References in this ISA (NZ) to the engagement team include the group auditor and component auditors. Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor's firm (e.g., another office within the group auditor's firm).

A22. In some circumstances, the group auditor may perform centralised testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

A23. Paragraph 24 requires the group auditor to request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. Paragraph A58 provides guidance for circumstances in which the component auditor is unable to provide such a confirmation.

Component Management (Ref: Para. 14(d))

A24. Component management refers to management responsible for the financial information or other activity (e.g., processing of transactions at a shared service centre) at an entity or business unit that is part of the group. When the group auditor considers the financial information of certain entities or business units together as a component or determines that a shared service centre is a component (see paragraphs A7–A8), component management refers to the management that is responsible for the financial information or transaction

processing that is subject to the audit procedures being performed in relation to that component. In some circumstances, there may not be separate component management and group management may be directly responsible for the financial information or other activities of the component.

Group Engagement Partner (Ref: Para. 14(j))

A25. When joint auditors conduct a group audit, the joint engagement partners and their engagement teams collectively constitute the “group engagement partner” and “engagement team” for the purposes of the ISAs (NZ). This ISA (NZ) does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor for purposes of the group audit.

Group Financial Statements (Ref: Para. 2, 14(k))

A26. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that have no parent but are under common control or entities under common management.

A27. The term “consolidation process” as used in this ISA (NZ) is not intended to have the same meaning as “consolidation” or “consolidated financial statements” as defined or described in financial reporting frameworks. Rather, the term “consolidation process” refers more broadly to the process used to prepare group financial statements.

A28. The detailed aspects of the consolidation process vary from one group to another, depending on the group’s structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intra-group transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 11, 16)

A29. It may not be possible or practical for the group engagement partner to solely deal with all requirements in ISA (NZ) 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, ISA (NZ) 220 (Revised)⁴³ permits the engagement partner to assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may

⁴³ ISA (NZ) 220 (Revised), paragraph 15

assign procedures, tasks or actions to other members of the engagement team and these members may assign procedures, tasks or actions further. In such circumstances, ISA (NZ) 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement.

- A30. Policies or procedures established by the firm, or that are common network requirements or network services,⁴⁴ may support the group engagement partner by facilitating communication between the group auditor and component auditors and supporting the group auditor's direction and supervision of those component auditors and the review of their work.
- A31. ISA (NZ) 220 (Revised)⁴⁵ explains that a culture that demonstrates a commitment to quality is shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement. In addressing the requirement in paragraph 16(a), the group engagement partner may communicate directly to other members of the engagement team (including component auditors) and reinforce this communication through personal conduct and actions (e.g., leading by example).

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained (Ref: Para. 17–18)

- A32. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:
- The group structure, including both the legal and organisational structure.
 - Activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
 - The use of service organisations.
 - The use of shared service centres.
 - The consolidation process.
 - Whether the group auditor:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management and component information, including of those components that are accounted for by the equity method; and
 - Will be able to perform necessary work on the financial information of the components when applicable.
 - Whether sufficient and appropriate resources are assigned or will be made available.
- A33. In the case of an initial group audit engagement, the group auditor's understanding of the matters in paragraph A32 may be obtained from:

⁴⁴ PES 3, paragraphs 48–52

⁴⁵ ISA (NZ) 220 (Revised), paragraph A28

- Information provided by group management;
- Communication with group management;
- Communication with those charged with governance of the group; and
- When applicable, communication with component management or the predecessor auditor.

A34. For a recurring engagement, the ability to obtain sufficient appropriate audit evidence may be affected by significant changes in, for example:

- The group structure (e.g., acquisitions, disposals, joint ventures, reorganisations, or changes in how the group financial reporting system is organised).
- Components' activities that are significant to the group.
- The composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
- The group auditor's understanding of the integrity and competence of group or component management.
- The applicable financial reporting framework.

A35. There may be additional complexities with obtaining sufficient appropriate audit evidence in a group audit when components are located in jurisdictions other than the group auditor's jurisdiction because of cultural and language differences, and different laws or regulations. For example, law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction, or war, civil unrest or outbreaks of disease may restrict the group auditor's access to relevant component auditor audit documentation. Paragraph A180 includes possible ways to address these situations.

A36. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

- The group auditor's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group auditor) (see paragraphs 20 and 21); or
- The work to be performed on the financial information of components.

Paragraphs A45–A46 explain the possible effect of such restrictions on the auditor's report on the group financial statements.

Agreeing the Terms of Audit Engagements (Ref: Para. 19)

A37. ISA (NZ) 210⁴⁶ requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate. The terms of engagement

⁴⁶ ISA (NZ) 210, paragraph 9 and 10(d)

identify the applicable financial reporting framework. Additional matters that may be included in the terms of a group audit engagement include:

- Communications between the group auditor and component auditors should be unrestricted to the extent possible under laws or regulations;
- Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group auditor;
- Communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit should be communicated to the group auditor; and
- The group auditor should be permitted to perform work, or request a component auditor to perform work, at the component.

Restrictions on Access to Information or People (Ref: Para. 20–21)

A38. Restrictions on access to information or people do not eliminate the requirement for the group auditor to obtain sufficient appropriate audit evidence.

A39. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease. Paragraph A180 describes how the group auditor may be able to overcome restrictions on access to component auditor audit documentation.

A40. In some circumstances, the group auditor may be able to overcome restrictions on access to information or people, for example:

- If access to component management or those charged with governance of the component is restricted, the group auditor may request group management or those charged with governance of the group to assist with removing the restriction or otherwise request information directly from group management or those charged with governance of the group.
- If the group has a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may determine whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity and request group management to exercise such rights.
- If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, the group auditor may enquire whether they can provide financial and other information available to them in these roles.

A41. If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may be able to obtain information to be used as audit evidence regarding the

entity's financial information, for example:

- Financial information that is available from group management, as group management also needs to obtain the non-controlled entity's financial information in order to prepare the group financial statements.
- Publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity.

It is a matter of professional judgement, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.⁴⁷

A42. If the group has a non-controlling interest in an entity that is accounted for by the equity method and access to information or people at the entity is restricted, the group auditor may consider whether such restrictions are inconsistent with group management's assertions regarding the appropriateness of the use of the equity method of accounting.

A43. When the group auditor is unable to obtain sufficient appropriate audit evidence due to restrictions on access to information or people, the group auditor may:

- Communicate the restrictions to the group auditor's firm to assist the group auditor in determining an appropriate course of action. For example, the group auditor's firm may communicate with group management about the restrictions and encourage group management to communicate with regulators. This may be useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.
- Be required by law or regulation to communicate with regulators, listing authorities, or others, about the restrictions.

A44. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management's responses to the group auditor's inquiries and whether the restrictions call into question group management's integrity.

Effect of Restrictions on Access to Information or People on the Auditor's Report on Group Financial Statements (Ref: Para. 20–21)

A45. ISA (NZ) 705 (Revised)⁴⁸ contains requirements and guidance about how to address situations when the group auditor is unable to obtain sufficient appropriate audit evidence. Appendix 1 contains an example of an auditor's report containing a qualified group audit opinion based on the group auditor's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

⁴⁷ ISA (NZ) 330, paragraph 7(b)

⁴⁸ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement (Ref: Para. 20–21)

A46. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA (NZ) still apply to the group audit, and the effect of the group auditor’s inability to obtain sufficient appropriate audit evidence is addressed in ISA (NZ) 705 (Revised).

Overall Group Audit Strategy and Group Audit Plan

The Continual and Iterative Nature of Planning and Performing a Group Audit (Ref: Para. 22)

A47. As explained in ISA (NZ) 300,⁴⁹ planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. For example, due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and group audit plan, and the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The group auditor may also modify the determination of the components at which to perform audit work as well as the nature, timing and extent of the component auditors’ involvement. ISA (NZ) 300⁵⁰ requires the auditor to update and change the overall audit strategy and audit plan as necessary during the course of the audit.

Establishing the Overall Group Audit Strategy and Group Audit Plan (Ref: Para. 22)

A48. In an initial group audit engagement, the group auditor may have a preliminary understanding of the group and its environment, the applicable financial reporting framework and the entity’s system of internal control based on information obtained from group management, those charged with governance of the group and, when applicable, communication with component management or the predecessor auditor. In a recurring group audit engagement, the group auditor’s preliminary understanding may be obtained through prior period audits. This preliminary understanding may assist the group auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant.

A49. The group auditor may also use information obtained during the engagement acceptance and continuance process in establishing the overall group audit strategy and group audit plan, for example, in relation to the resources needed to perform the group audit.

A50. The process of establishing the overall group audit strategy and group audit plan and initial expectations about the classes of transactions, account balances and disclosures that may be

⁴⁹ ISA (NZ) 300, paragraph A2

⁵⁰ ISA (NZ) 300, paragraph 10

significant at the group financial statement level may assist the group auditor in developing a preliminary determination of matters such as:

- Whether to perform audit work centrally, at components or a combination thereof; and
- The nature, timing and extent of audit work to be performed with respect to the financial information of components (e.g., design and perform risk assessment procedures, further audit procedures, or a combination thereof).

Components at Which to Perform Audit Work (Ref: Para. 22(a))

A51. The determination of components at which to perform audit work is a matter of professional judgement. Matters that may influence the group auditor's determination include, for example:

- The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example:
 - Newly formed or acquired entities or business units.
 - Entities or business units in which significant changes have taken place.
 - Significant transactions with related parties.
 - Significant transactions outside the normal course of business.
 - Abnormal fluctuations identified by analytical procedures performed at the group level, in accordance with ISA (NZ) 315 (Revised 2019).⁵¹
- The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.
- Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.
- The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.
- The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralises activities relevant to financial reporting.

Resources (Ref: Para. 22(b))

A52. Matters that influence the group auditor's determination of the resources needed to perform the group audit and the nature, timing and extent to which component auditors are to be involved are a matter of professional judgement and may include, for example:

- The understanding of the group, the components within the group at which audit work

⁵¹ ISA (NZ) 315 (Revised 2019), paragraph 14(b)

is to be performed and whether to perform work centrally, at components or a combination thereof.

- The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. In addition, the involvement of auditor's experts may be needed on complex matters.
- The initial expectations about the potential risks of material misstatement.
- The amount or location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations.
- Access arrangements. For example, when the group auditor's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
- The nature of the components' activities, including their complexity or specialisation of operations.
- The group's system of internal control, including the information system in place, and its degree of centralisation. For example, the involvement of component auditors may be more likely when the system of internal control is decentralised.
- Previous experience with the component auditor.

A53. Component auditors may be involved in different phases of an audit, for example, component auditors may design or perform:

- Risk assessment procedures; and
- Procedures to respond to the assessed risks of material misstatement.

A54. The nature, timing and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase. When the group auditor does not intend to involve component auditors in risk assessment procedures, the group auditor may still discuss with component auditors whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements.

A55. ISA (NZ) 300⁵² requires the engagement partner and other key members of the engagement team to be involved in planning the audit. When component auditors are involved, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the group audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. The group engagement partner uses professional judgement in determining which component auditors to involve in planning the audit. This may be affected by the nature, timing and extent to which the component auditors

⁵² ISA (NZ) 300, paragraph 5

are expected to be involved in designing and performing risk assessment or further audit procedures.

A56. As described in PES 3,⁵³ there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal or regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required, may be a special consideration for group audit engagements. For example, in a group audit, the firm's financial and operational priorities may place constraints on the determination of the components at which audit work will be performed, as well as the resources needed, including the involvement of component auditors. In such circumstances, these constraints do not override the group engagement partner's responsibility for achieving quality at the engagement level or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

Considerations When Component Auditors Are Involved

Sufficient and Appropriate Involvement in the Work of the Component Auditor (Ref: Para. 23– 24)

A57. In evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.

A58. If the component auditor is unable to cooperate with the group auditor, the group auditor may:

- Request the component auditor to provide its rationale.
- Be able to take appropriate action to address the matter, including adjusting the nature of the work requested to be performed. Alternatively, in accordance with paragraph 27, the group auditor may need to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 25)

A59. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit engagement. Such requirements may be different from or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.

A60. In making the component auditors aware of relevant ethical requirements, the group auditor

⁵³ PES 3, paragraph A74

may consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.

Engagement Resources (Ref: Para. 26)

A61. ISA (NZ) 220 (Revised)⁵⁴ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may discuss the matter with the component auditor, group management or the group auditor's firm and may subsequently request the component auditor or the group auditor's firm to make sufficient and appropriate resources available.

Competence and capabilities of the component auditors

A62. ISA (NZ) 220 (Revised)⁵⁵ provides guidance regarding matters the engagement partner may take into consideration when determining the competence and capabilities of the engagement team. This determination is particularly important in a group audit when the engagement team includes component auditors. ISA (NZ) 220 (Revised)⁵⁶ indicates that the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether a component auditor from another firm has the appropriate competence and capabilities to perform the audit engagement.

A63. Determining whether component auditors have the appropriate competence and capabilities is a matter of professional judgement and is influenced by the nature and circumstances of the group audit engagement. This determination influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work.

A64. In determining whether component auditors have the appropriate competence and capabilities to perform the assigned audit procedures at the component, the group engagement partner may consider matters such as:

- Previous experience with or knowledge of the component auditor.
- The component auditor's specialised skills (e.g., industry-specific knowledge).
- The degree to which the group auditor and component auditor are subject to a common system of quality management, for example, whether the group auditor and a component auditor:
 - Use common resources to perform the work (e.g., audit methodologies or IT applications);
 - Share common policies or procedures affecting engagement performance (e.g.,

⁵⁴ ISA (NZ) 220 (Revised), paragraph 25

⁵⁵ ISA (NZ) 220 (Revised), paragraph A71

⁵⁶ ISA (NZ) 220 (Revised), paragraph A24

- direction, supervision and review of work or consultation);
- Are subject to common monitoring activities; or
- Have other commonalities, including common leadership or a common cultural environment.
- The consistency or similarity of:
 - Laws or regulations or legal system;
 - Language and culture;
 - Education and training;
 - Professional oversight, discipline, and external quality assurance; or
 - Professional organisations and standards.
- Information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.

A65. The procedures to determine the component auditor's competency and capability may include, for example:

- An evaluation of the information communicated by the group auditor's firm to the group auditor, including:
 - The firm's ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm.⁵⁷
 - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.⁵⁸
 - Information obtained from professional body(ies) to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.
- Discussing the assessed risks of material misstatement with the component auditor.
- Requesting the component auditor to confirm their understanding of the matters referred to in paragraph 25 in writing.
- Discussing the component auditor's competence and capabilities with colleagues in the group engagement partner's firm that have worked directly with the component auditor.
- Obtaining published external inspection reports.

A66. The group engagement partner's firm and the component auditor may be members of the same network and may be subject to common network requirements or use common network

⁵⁷ PES 3, paragraph 47

⁵⁸ PES 3, paragraph 51(b)

services.⁵⁹ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training or recruitment, or that require the use of audit methodologies and related implementation tools. In accordance with PES 3,⁶⁰ the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management.

Using the work of an auditor's expert

A67. ISA (NZ) 220 (Revised)⁶¹ requires the engagement partner to determine that members of the engagement team, and any auditor's external experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. If an auditor's expert is used by a component auditor, the group engagement partner may need to obtain information from the component auditor. For example, the group auditor may discuss with the component auditor the component auditor's evaluation of the competence and capabilities of the auditor's expert.

Automated tools and techniques

A68. When determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools and techniques. For example, as described in ISA (NZ) 220 (Revised),⁶² when the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may communicate with component auditors that the use of such automated tools and techniques need to comply with the group auditor's instructions.

Application of the Group Auditor's Understanding of a Component Auditor (Ref: Para. 27)

A69. ISA (NZ) 220 (Revised)⁶³ requires the engagement partner to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. This includes the firm's policies or procedures that address circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches. The firm's policies or procedures also may address breaches of independence requirements by component auditors, and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements. In addition, relevant ethical requirements or law or regulation may also specify particular

⁵⁹ PES 3, paragraphs A19, A175

⁶⁰ PES 3, paragraph 48–49

⁶¹ ISA (NZ) 220 (Revised), paragraph 26

⁶² ISA (NZ) 220 (Revised), paragraph A65

⁶³ ISA (NZ) 220 (Revised), paragraph 17

communications to those charged with governance in circumstances when breaches of independence requirements have been identified.⁶⁴

- A70. If there has been a breach by a component auditor of the relevant ethical requirements that apply to the group audit engagement, including those related to independence, and the breach has not been satisfactorily addressed in accordance with provisions of the relevant ethical requirements, the group auditor cannot use the work of that component auditor.
- A71. Serious concerns are those concerns that in the group auditor's professional judgement cannot be overcome. The group engagement partner may be able to overcome less than serious concerns about the component auditor's professional competency (e.g., lack of industry-specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by the group auditor being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: Para. 28)

- A72. ISA (NZ) 220 (Revised)⁶⁵ requires the engagement partner to determine that the nature, timing and extent of direction, supervision and review is planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements, and is responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team. For a group audit, the approach to direction, supervision and review will generally include a combination of addressing the group auditor's firm policies or procedures and group audit engagement-specific responses.
- A73. For a group audit, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations, the group engagement partner may assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the group engagement partner in fulfilling the responsibility for the nature, timing and extent of the direction and supervision of component auditors and the review of their work (see also paragraph 11).
- A74. If component auditors are from a firm other than the group auditor's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network (e.g., in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors). ISA (NZ) 220 (Revised) provides examples of actions that may need to be taken in such circumstances.⁶⁶

⁶⁴ ISA (NZ) 260 (Revised), paragraph A31

⁶⁵ ISA (NZ) 220 (Revised), paragraph 30

⁶⁶ ISA (NZ) 220 (Revised), paragraph A24–A25

A75. The nature, timing and extent of direction and supervision of component auditors and review of their work may be tailored based on the nature and circumstances of the engagement and, for example:

- The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, an increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's audit documentation may be appropriate.
- The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions, increase the frequency of discussions or other interactions with the component auditor, or assign more experienced individuals to oversee the component auditor as the work is performed.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including when service delivery centres are used.
- Access to component auditor audit documentation. For example, when law or regulation precludes component auditor audit documentation from being transferred out of the component auditor's jurisdiction, the group auditor may be able to review the audit documentation at the component auditor's location or remotely through the use of technology, when not prohibited by law or regulation (see also paragraphs A179–A180).

A76. There are different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work, for example:

- Communications with component auditors throughout the course of the group audit, including communications required by this ISA (NZ).
- Meetings or calls with component auditors to discuss identified and assessed risks, issues, findings and conclusions.
- Reviews of the component auditor's audit documentation in person or remotely when permitted by law and regulation.
- Participating in the closing or other key meetings between the component auditors and component management.

A77. In applying ISA (NZ) 220 (Revised),⁶⁷ the group engagement partner is required to review audit documentation at appropriate points in time during the audit engagement, including audit documentation relevant to the group audit relating to:

- Significant matters;
- Significant judgements, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and

⁶⁷ ISA (NZ) 220 (Revised), paragraphs 31, A92–A93

- Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities.

The review of such audit documentation by the group engagement partner often takes place during the course of the group audit, including the review of relevant component auditor audit documentation (also see paragraph A148).

Communications with Component Auditors (Ref: Para. 29)

A78. Clear and timely communication between the group auditor and the component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors and facilitates the group auditor's direction and supervision of them and the review of their work. Such communication also provides an opportunity for the group engagement partner to reinforce the need for component auditors to exercise professional scepticism in the work performed for purposes of the group audit.

A79. Other factors that may also contribute to effective two-way communication include:

- Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies or procedures of the group auditor's firm.
- A mutual understanding that the component auditor may discuss the audit work requested to be performed, based on the component auditor's knowledge and understanding of the component.
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.
- A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding particular matters.
- The process for the component auditor to take action and report back on matters communicated by the group auditor.

A80. The communications between the group auditor and component auditors depend on the facts and circumstances of the group audit engagement, including the nature and extent of involvement of the component auditors and the degree to which the group auditor and component auditors are subject to common systems of quality management or common network requirements or network services.

Form of communications

A81. The form of the communications between the group auditor and component auditors may

vary based on factors such as the nature of the audit work the component auditors have been requested to perform, and the extent to which communication capabilities are integrated into the audit tools used for the group audit.

A82. The form of communications also may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter has been or is expected to be communicated to group management and those charged with governance of the group.

A83. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor's verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters. In addition, the group auditor may meet with the component auditor to discuss significant matters or to review relevant parts of the component auditor's audit documentation.

A84. Paragraph 45 requires the group auditor to request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. As explained in paragraph A146, the form and content of the component auditor's deliverables are influenced by the nature and extent of the audit work the component auditor has been requested to perform.

A85. Regardless of the form of communication, the documentation requirements of this and other ISAs (NZ) apply.

Timing of communications

A86. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial group audit, may be made as part of agreeing the terms of the engagement.

Non-compliance with laws or regulations (Ref: Para. 25, 29)

A87. In applying ISA (NZ) 250 (Revised),⁶⁸ the group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁶⁹ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to auditors of the financial statements of entities or business units for which an audit is required by statute, regulation or for another reason, but for which no audit work is performed for purposes of the group audit.

⁶⁸ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶⁹ See, for example, Paragraphs R360.17 and R360.18 of PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES-1)*

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control (Ref: Para. 30)

- A88. ISA (NZ) 315 (Revised 2019)⁷⁰ contains requirements and guidance regarding the auditor’s responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control. Appendix 2 of this ISA (NZ) provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how ISA (NZ) 315 (Revised 2019) is to be applied to an audit of group financial statements.
- A89. The understanding of the group and its environment, the applicable financial reporting framework, and the group’s system of internal control may be obtained through communications with:
- Group management, component management or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group’s system of internal control, accounting policies and practices, and the consolidation process;
 - Component auditors; or
 - Auditors that perform an audit for statutory, regulatory or other reasons of the financial statements of an entity or business unit that is part of the group.
- A90. Obtaining an understanding of the group, identifying risks of material misstatement and assessing inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when component auditors are involved in the design and performance of risk assessment procedures, the group auditor may need to communicate its preferred approach with component auditors or provide instructions.

Engagement Team Discussion (Ref: Para. 30)

- A91. In applying ISA (NZ) 315 (Revised 2019),⁷¹ the group engagement partner and other key engagement team members are required to discuss the application of the applicable financial reporting framework and the susceptibility of the group’s financial statements to material misstatement. The group engagement partner’s determination of which members of the engagement team to include in the discussion, and the topics to be discussed, is affected by matters such as initial expectations about the risks of material misstatement and the preliminary expectation of whether to involve component auditors.
- A92. The discussion provides an opportunity to:
- Share knowledge of the components and their environments, including which components’ activities are centralised.

⁷⁰ ISA (NZ) 315 (Revised 2019), paragraphs 19–27, A50–A183

⁷¹ ISA (NZ) 315 (Revised 2019), paragraph 17

- Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. ISA (NZ) 240⁷² requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.
- Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.
- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalise committing fraud.
- Consider the risk that group or component management may override controls.
- Discuss fraud that has been identified, or information that indicates existence of a fraud.
- Identify risks of material misstatement relevant to components where there may be impediments to the exercise of professional scepticism.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, if not, how differences in accounting policies are identified and adjusted (when required by the applicable financial reporting framework).
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Discuss events or conditions identified by group management, component management or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management or component management, and any other related parties of which the engagement team is aware.

The Group and Its Environment (Ref: Para. 30 (a))

A93. An understanding of the group's organisational structure and its business model may enable the group auditor to understand such matters as:

⁷² ISA (NZ) 240, paragraph 16

- The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special-purpose entities are accounted for appropriately and whether adequate disclosures have been made.
- The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices.
- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates across multiple jurisdictions and when there are changes in ownership through formation, acquisition, disposal or joint venture. These factors may give rise to increased susceptibility to material misstatements.

A94. Obtaining an understanding of the degree to which the group's operations or activities are similar may help to identify similar risks of material misstatement across components and design an appropriate response.

A95. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The understanding of such performance measures may help to identify:

- Areas where there is increased susceptibility to material misstatements (e.g., due to pressures on component management to meet certain performance measures).
- Controls over the group's financial reporting process.

The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: Para. 30(c)(i))

- A96. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, which operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁷³
- A97. Understanding the components of the group's system of internal control includes understanding the commonality of the controls within those components across the group. In understanding the commonality of a control across the group, considerations that may be relevant include whether:
- The control is designed centrally and is required to be implemented as designed (i.e., without modification) at some or all components;
 - The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
 - If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or
 - If the control is automated, it is configured in the same way in each IT application across the components.
- A98. Judgement may often be needed to determine whether a control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that is generated from a specific IT application. When the aging reports are generated from different IT applications or the implementation of the IT application differs across entities or business units, there may be a need to consider whether the control can be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT applications (e.g., whether the IT application is configured in the same manner across components, and whether there are effective general IT controls across different IT applications).
- A99. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralisation and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed

⁷³ ISA (NZ) 315 (Revised 2019), paragraph A5

centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared service centre that processes transactions on behalf of other entities or business units within the group). The processing of transactions and related controls at a shared service centre may operate in the same way for those transactions being processed by the shared service centre regardless of the entity or business unit (e.g., the processes, risks and controls may be the same regardless of the source of the transaction). In such cases, it may be appropriate to identify the controls and evaluate the design and determine the implementation of the controls, and, if applicable, test operating effectiveness, as a single population.

Centralised Activities (Ref: Para. 30(c)(i)–(ii))

- A100. Group management may centralise some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralised manner for multiple entities or business units (e.g., when the initiation, authorisation, recording, processing, or reporting of revenue transactions is performed at a shared service centre).
- A101. Obtaining an understanding of how centralised activities fit into the overall group structure, and the nature of the activities undertaken, may help to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service centre may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorised at an entity or business unit, but the processing may occur at the shared service centre).
- A102. The group auditor may involve component auditors in testing the operating effectiveness of common controls or controls related to centralised activities. In such circumstances, effective collaboration between the group auditor and component auditors is important as the audit evidence obtained through testing the operating effectiveness of common controls or controls related to centralised activities supports the determination of the nature, timing and extent of substantive procedures to be performed across the group.

Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 30(c)(iv))

- A103. Group entities or business units may use a financial reporting framework for statutory, regulatory or other reasons that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, when relevant, financial reporting period-ends that differ from that of the group, enables the group auditor

to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Instructions by group management to entities or business units

A104. In applying ISA (NZ) 315 (Revised 2019),⁷⁴ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g., communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the identification and assessment of the risks of material misstatement of the group financial statements. For example, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.

A105. The group auditor's understanding of the instructions or policies may include the following:

- The clarity and practicality of the instructions for completing the reporting package.
- Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
 - Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
 - Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealised profits, and intra-group account balances; and
 - Include a reporting timetable.

Considerations When Component Auditors Are Involved (Ref: Para. 31–32)

A106. During the course of the group audit, the group auditor may communicate the matters in paragraph 31 to other component auditors, if these matters are relevant to the work of those component auditors. Paragraph A144 includes examples of other matters that may need to be communicated timely in the course of the component auditor's work.

A107. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁷⁵ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

⁷⁴ ISA (NZ) 315 (Revised 2019), paragraph 25(b)

⁷⁵ ISA (NZ) 550, paragraph 2

- The group structure is complex;
- The group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- There are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional scepticism, as required by ISA (NZ) 200,⁷⁶ is therefore particularly important when these circumstances exist.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 33)

A108. The process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic, and may be challenging, particularly when the component's activities are complex or specialised, or when there are many components across multiple locations. In applying ISA (NZ) 315 (Revised 2019),⁷⁷ the auditor develops initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

A109. The initial expectations about the potential risks of material misstatement take into account the auditor's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures as they may have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

A110. For identified risks of material misstatement at the assertion level, the group auditor is required to take responsibility for assessing inherent risk. Such assessment involves assessing the likelihood and magnitude of misstatement, which takes into account how, and the degree to which:⁷⁸

- Inherent risk factors affect the susceptibility of relevant assertions to misstatement.
- The risks of material misstatement at the group financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.

A111. Based on the risk assessment procedures performed, the group auditor may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction or in entities or business units that have similar operations or activities.

⁷⁶ ISA (NZ) 200, paragraph 15

⁷⁷ ISA (NZ) 315 (Revised 2019), paragraph A126

⁷⁸ ISA (NZ) 315 (Revised 2019), paragraph 31

A112. Appendix 3 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process.

Fraud

A113. In applying ISA (NZ) 240,⁷⁹ the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risk that the group financial statements may be materially misstated due to fraud.
- Group management's process for identifying and responding to the risks of fraud in the group financial statements, including any specific fraud risks identified by group management, or classes of transactions, account balances, or disclosures for which a risk of fraud is higher.
- Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and when appropriate, component management, the component auditors, and others) to the group auditor's inquiry about whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Considerations When Component Auditors Are Involved (Ref: Para. 34)

A114. When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control to have a sufficient basis for the identification and assessment of the risks of material misstatement of the group financial statements in accordance with paragraph 33.

A115. When the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement,

⁷⁹ ISA (NZ) 240, paragraphs 26, 31

ISA (NZ) 315 (Revised 2019)⁸⁰ requires the auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

Materiality

Component Performance Materiality (Ref: Para. 35(a))

A116. Paragraph 35(a) requires the group auditor to determine component performance materiality for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

A117. This ISA (NZ) does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, ISA (NZ) 320⁸¹ requires a determination of the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. In these circumstances, the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.⁸²

A118. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. Factors the group auditor may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).
- Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example:
 - Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions).

⁸⁰ ISA (NZ) 315 (Revised 2019), paragraph 35

⁸¹ ISA (NZ) 320, paragraphs 10 and A11–A12

⁸² ISA (NZ) 320, paragraph A13

- The nature and extent of misstatements identified at the component in prior audits.

A119. To address aggregation risk, paragraph 35(a) requires component performance materiality to be lower than group performance materiality. As explained in paragraph A118, as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements. When determining component performance materiality for a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may take into account the group's ownership percentage and the share of the investee's profits and losses.

A120. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., not disaggregated across components). In such cases, group performance materiality often will be used for purposes of performing these procedures.

“Clearly Trivial” Threshold (Ref: Para: 35(b))

A121. The threshold for communicating misstatements to the group auditor is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA (NZ) 450,⁸³ this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Considerations When Component Auditors Are Involved

Communicating Component Performance Materiality (Ref: Para. 36)

A122. In some cases, it may be appropriate for the group auditor to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor's knowledge of the component and potential sources of misstatement of the component financial information. In this regard, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.

A123. Component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial information. Therefore, ongoing communication between the component auditor and the group auditor is important, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.

⁸³ ISA (NZ) 450, paragraph A3

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 37)*Performing Further Audit Procedures*

Performing Further Audit Procedures Centrally

A124. Further audit procedures may be designed and performed centrally if the audit evidence to be obtained from performing further audit procedures on one or more significant classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement, for example, if the accounting records for the revenue transactions of the entire group are maintained centrally (e.g., at a shared service centre). Factors that may be relevant to the auditor's determination of whether to perform further audit procedures centrally include, for example:

- The level of centralisation of activities relevant to financial reporting.
- The nature and extent of commonality of controls.
- The similarity of the group's activities and business lines.

A125. The group auditor may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.

A126. When further audit procedures are performed centrally, component auditors may still be involved. For example, when the group has multiple shared service centres, the group auditor may involve component auditors in the performance of further audit procedures for these shared service centres.

Performing Further Audit Procedures at the Component Level

A127. In other circumstances, procedures to respond to the risks of material misstatement of the group financial statements that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has:

- Different revenue streams;
- Multiple lines of business;
- Operations across multiple locations; or
- Decentralised systems of internal control.

Large Number of Components Whose Financial Information Is Individually Immaterial but Material in the Aggregate to the Group Financial Statements

A128. A group may be comprised of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. Circumstances such as these in which the significant classes of transactions, account balances or disclosures in the group financial statements are disaggregated over a large number of components may present additional challenges for the group auditor in planning and

performing further audit procedures.

A129. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures may also include substantive analytical procedures in accordance with ISA (NZ) 520.⁸⁴ Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures. The use of automated tools and techniques may be helpful in these circumstances.

A130. In other cases, it may be necessary to perform further audit procedures at selected components to address the risks of material misstatement of the group financial statements. The determination of the components at which audit procedures are to be performed, and the nature, timing and extent of further audit procedures to be performed at the selected components, are matters of professional judgement. In these circumstances, introducing an element of unpredictability in the components selected for testing also may be helpful in relation to the risks of material misstatement of the group financial statements due to fraud (also see paragraph A136).

The Nature and Extent of Further Audit Procedures

A131. In response to the assessed risks of material misstatement, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):

- Design and perform further audit procedures on the entire financial information of the component;
- Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
- Perform specific further audit procedures.

A132. Although the group auditor takes responsibility for the nature, timing and extent of further audit procedures to be performed, component auditors can be, and often are, involved in all phases of the group audit, including in the design and performance of further audit procedures.

Design and Perform Further Audit Procedures on the Entire Financial Information of the Component

A133. The group auditor may determine that designing and performing further audit procedures on the entire financial information of a component is an appropriate approach, including when:

- Audit evidence needs to be obtained on all or a significant proportion of a component's

⁸⁴ ISA (NZ) 520, *Analytical Procedures*

financial information to respond to the assessed risks of material misstatement of the group financial statements.

- There is a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to the group auditor's evaluation of group management's assessment of the group's ability to continue as a going concern.

Design and Perform Further Audit Procedures on One or More Classes of Transactions, Account Balances or Disclosures

A134. The group auditor may determine that designing and performing further audit procedures on one or more particular classes of transactions, account balances, or disclosures of the financial information of a component is an appropriate approach to address assessed risks of material misstatement of the group financial statements. For example, a component may have limited operations but holds a significant portion of the land and buildings of the group or has significant tax balances.

Perform Specific Further Audit Procedures

A135. The group auditor may determine that designing and performing specific further audit procedures on the financial information of a component is an appropriate approach, such as when audit evidence needs to be obtained for one or more relevant assertions only. For example, the group auditor may centrally test the class of transaction, account balance or disclosure and may require the component auditor to perform specific further audit procedures at the component (e.g., specific further audit procedures related to the valuation of claims or litigation in the component's jurisdiction or the existence of an asset).

Element of Unpredictability

A136. Incorporating an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁸⁵

Operating Effectiveness of Controls

A137. The group auditor may rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components. ISA (NZ) 330⁸⁶ requires the auditor to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. Component auditors may be involved in designing and performing such tests of controls.

A138. If deviations from controls upon which the auditor intends to rely are detected,

⁸⁵ ISA (NZ) 240, paragraph 30(c)

⁸⁶ ISA (NZ) 330, paragraph 8

ISA (NZ) 330⁸⁷ requires the auditor to make specific inquiries to understand these matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

A139. When the operating effectiveness of controls is tested centrally (e.g., controls at a shared service centre or testing of common controls), the group auditor may need to communicate information about the audit work performed to the component auditors. For example, when a component auditor is requested to design and perform substantive procedures on the entire financial information of the component, or design and perform substantive procedures on one or more classes of transactions, account balances or disclosures, the component auditor may discuss with the group auditor about the control testing performed centrally to determine the nature, timing and extent of the substantive procedures.

Consolidation Process

Consolidation Procedures (Ref: Para. 38)

A140. The further audit procedures on the consolidation process, including sub-consolidations, may include:

- Determining that the necessary journal entries are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

Consolidation Adjustments and Reclassifications (Ref: Para. 38(b))

A141. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group auditor's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- Determining whether significant adjustments have been correctly calculated, processed and authorised by group management and, when applicable, by component management;

⁸⁷ ISA (NZ) 330, paragraph 17

- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Evaluating the reconciliation and elimination of intra-group transactions, unrealised profits, and intra-group account balances.

Considerations When Component Auditors Are Involved (Ref: Para. 42–43)

A142. When the group auditor involves component auditors in the design or performance of further audit procedures, the component auditor may determine that the use of the work of an auditor's expert is appropriate and communicate this to the group auditor. In such circumstances, when determining whether the component auditor's design and performance of further audit procedures is appropriate, the group auditor may, for example, discuss with the component auditor:

- The nature, scope and objectives of the auditor's expert's work.
- The component auditor's evaluation of the adequacy of the work of the auditor's expert for the group auditor's purposes.

A143. The appropriate level of the group auditor's involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor's previous experience with the component auditors that perform procedures on the consolidation process, including sub-consolidations, and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

Evaluating the Component Auditor's Communication and the Adequacy of Their Work

Communication about Matters Relevant to the Group Auditor's Conclusion with Regard to the Group Audit (Ref: Para. 45)

A144. Although the matters required to be communicated in accordance with paragraph 45 are relevant to the group auditor's conclusion with regard to the group audit, certain matters may be communicated during the course of the component auditor's procedures. In addition to the matters in paragraphs 32 and 50, such matters may include, for example:

- Information about breaches of relevant ethical requirements, including identified breaches of independence provisions;
- Information about instances of non-compliance with laws or regulations;
- Newly arising significant risks of material misstatement, including risks of fraud;
- Identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial statements; or
- Significant and unusual transactions.

Communication of Misstatements of Component Financial Information (Ref: Para. 45(e))

A145. Knowledge about corrected and uncorrected misstatements across components may alert the group auditor to potential pervasive internal control deficiencies, when considered along

with the communication of deficiencies in accordance with paragraph 45(g). In addition, a higher than expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit procedures need to be performed at certain components.

Component Auditor's Overall Findings or Conclusions (Ref: Para. 45(k))

A146. The form and content of the deliverables from the component auditor are influenced by the nature and extent of the audit work the component auditor has been requested to perform. The group auditor's firm policies or procedures may address the form or specific wording of an overall conclusion from the component auditor on the audit work performed for purposes of the group audit. In some cases, local law or regulation may specify the form of conclusion (e.g., an opinion) to be provided by the component auditor.

Evaluating Whether Communications with the Component Auditor Are Adequate for the Group Auditor's Purposes (Ref: Para. 46(b))

A147. If the group auditor determines that the component auditor's communications are not adequate for the group auditor's purposes, the group auditor may consider whether, for example:

- Further information can be obtained from the component auditor (e.g., through further discussions or meetings);
- It is necessary to review additional component auditor audit documentation in accordance with paragraph 47;
- Additional audit procedures may need to be performed in accordance with paragraph 48; or
- There are any concerns about the component auditor's competence or capabilities.

Reviewing Additional Component Auditor Audit Documentation (Ref: Para. 47)

A148. Paragraph A75 provides guidance for the group auditor in tailoring the nature, timing and extent of the direction and supervision of the component auditor, and the review of their work, based on the facts and circumstances of the group audit and other matters (e.g., the assessed risks of material misstatement of the group financial statements). The group auditor's consideration in accordance with paragraph 47(c) also may be affected by the following matters relevant to the group auditor's ongoing involvement in the work of the component auditor:

- Communications from the component auditor, including those in accordance with paragraph 45 of this ISA (NZ); and
- The review of component auditor audit documentation by the group auditor during the course of the group audit (e.g., to fulfill the requirements of paragraphs 34, 42 and 43) or by the group engagement partner in accordance with paragraph 31 of ISA (NZ) 220 (Revised).

A149. Other factors that may affect the group auditor's determination about whether, and the extent to which, it is necessary to review additional component auditor audit documentation

in the circumstances include:

- The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements;
- The significant judgements made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements;
- The competence and capabilities of more experienced engagement team members from the component auditor responsible for reviewing the work of less experienced individuals; and
- Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation.

Subsequent Events (Ref: Para. 49–50)

A150. The group auditor may:

- Request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the financial information of the components and the date of the auditor’s report on the group financial statements.
- Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor’s report on the group financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 51)

A151. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor’s attention that differs significantly from the information on which the risk assessment was based. For example:

- The misstatements identified at a component may need to be considered in relation to other components; or
- The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

In such circumstances, the group auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the significant classes of transactions, account balances, or disclosures and related assertions.

A152. The evaluation required by paragraph 51 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate.

The requirement in ISA (NZ) 330⁸⁸ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

A153. The group auditor may consider the engagement team’s exercise of professional scepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, the group auditor may consider whether matters such as those described in paragraph A17 have inappropriately led the engagement team to:

- Obtain audit evidence that is easier to access without giving appropriate consideration to its relevance and reliability;
- Obtain less persuasive evidence than is necessary in the circumstances; or
- Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory.

A154. ISA (NZ) 220 (Revised)⁸⁹ requires the engagement partner to determine, on or before the date of the auditor’s report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. Information that may be relevant to the group auditor’s evaluation of the audit evidence obtained from the work performed by component auditors depends on the facts and circumstances of the group audit, and may include:

- The communications from the component auditors required by paragraph 45, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit;
- Other communications from the component auditors throughout the group audit, including those required by paragraph 32; and
- The group auditor’s direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor’s review of additional component auditor audit documentation in accordance with paragraph 47.

A155. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.

Evaluating the Effect on the Group Audit Opinion (Ref: Para. 52)

A156. The group engagement partner’s evaluation may include a consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a

⁸⁸ ISA (NZ) 330, paragraph 18

⁸⁹ ISA (NZ) 220 (Revised), paragraph 32

systemic issue (e.g., regarding transactions subject to common accounting policies or common controls) that may affect other components.

Auditor's Report (Ref: Para. 53)

A157. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings or conclusions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A158. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability.⁹⁰ In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion, for example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management.

Communication with Group Management and Those Charged with Governance of the Group

Communication with Group Management (Ref: Para. 54–56)

A159. The group audit may be complex due to the number and nature of the entities and business units comprising the group. In addition, as explained in paragraph A7, the group auditor may determine that certain entities or business units may be considered together as a component for purposes of planning and performing the group audit. Therefore, discussing with group management an overview of the planned scope and timing may help in coordinating the work performed at components, including when component auditors are involved, and in identifying component management (see paragraph A24).

A160. ISA (NZ) 240⁹¹ contains requirements and guidance on the communication of fraud to management and, when management may be involved in the fraud, to those charged with governance.

A161. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.
- Significant legal agreements.

⁹⁰ ISA (NZ) 705 (Revised), paragraphs 20 and 24

⁹¹ ISA (NZ) 240, paragraphs 41–43

A162. Group management may inform the group auditor about non-compliance or suspected non-compliance with laws or regulations in entities or business units within the group. Paragraph A87 provides guidance for the group engagement partner in these circumstances.

Communication with Those Charged with Governance of the Group (Ref: Para. 57)

A163. The matters the group auditor communicates to those charged with governance of the group may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 57(a) may be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 57(b) may be communicated at the end of the audit, and the matters referred to in paragraph 57(c)–(d) may be communicated when they occur.

A164. ISA (NZ) 260 (Revised)⁹² requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. For a group audit, this communication helps those charged with governance understand the group auditor's determination of the components at which audit work will be performed, including whether certain of the group's entities or business units will be considered together as a component, and the planned involvement of component auditors. This communication also helps to enable a mutual understanding of and discussion about the group and its environment (see paragraph 30) and areas, if any, in which those charged with governance may request the group auditor to undertake additional procedures.

Communication of Identified Deficiencies in Internal Control (Ref: Para. 58)

A165. The group auditor is responsible for determining, on the basis of the audit work performed, whether one or more identified deficiencies, individually or in combination, constitute significant deficiencies.⁹³ The group auditor may request input from the component auditor about whether an identified deficiency or combination of deficiencies at the component is a significant deficiency in internal control.

Documentation (Ref: Para. 59)

A166. Other ISAs (NZ) contain specific documentation requirements that are intended to clarify the application of ISA (NZ) 230 in the particular circumstances of those other ISAs (NZ). The Appendix to ISA (NZ) 230 lists other ISAs (NZ) that contain specific documentation requirements and guidance.

A167. The audit documentation for the group audit supports the group auditor's evaluation in accordance with paragraph 51 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion. Also see paragraph A154.

A168. The audit documentation for the group audit comprises:

⁹² ISA (NZ) 260 (Revised), paragraph 15

⁹³ ISA (NZ) 265, paragraph 8

- The documentation in the group auditor’s file; and
- The separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (i.e., component auditor audit documentation).

A169. The final assembly and retention of the audit documentation for a group audit is subject to the policies or procedures of the group auditor’s firm in accordance with PES 3.⁹⁴ The group auditor may provide specific instructions to component auditors regarding the assembly and retention of the documentation of work performed by them for purposes of the group audit.

Basis for the Group Auditor’s Determination of Components (Ref: Para: 59(b))

A170. The basis for the group auditor’s determination of components may be documented in various ways, including, for example, documentation related to the fulfillment of the requirements in paragraphs 22, 33 and 57(a) of this ISA (NZ).

Basis for the Group Auditor’s Determination of the Competence and Capabilities of Component Auditors (Ref: Para: 59(d))

A171. PES 3⁹⁵ provides guidance on matters that the firm’s policies or procedures may address regarding the competence and capabilities of the engagement team members. Such policies or procedures may describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors. For example, the confirmation obtained from the component auditor in accordance with paragraph 24 may include information about the component auditor’s relevant industry experience. The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures.

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work (Ref: Para. 59(f))

A172. As described in paragraph A75, the approach to direction, supervision and review in a group audit will be tailored by the group auditor based on the facts and circumstances of the engagement, and will generally include a combination of addressing the group auditor’s firm policies or procedures and responses specific to the group audit. Such policies or procedures may also describe or provide guidance about the documentation of the group auditor’s direction and supervision of the engagement team and the review of their work.

A173. ISA (NZ) 300⁹⁶ requires the auditor to develop an audit plan that includes a description of the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. When component auditors are involved, the extent of such descriptions will often vary by component, recognising that the planned nature, timing and extent of direction and supervision of component auditors, and review of their work, may be influenced by the matters described in paragraph A51.

⁹⁴ PES 3, paragraphs 31(f) and A83–A85

⁹⁵ PES 3, paragraph A96

⁹⁶ ISA (NZ) 300, paragraph 9

A174. The group auditor's documentation of the direction and supervision of component auditors and the review of their work may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA (NZ).
- The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed.
- Matters discussed in meetings with component auditors or component management.
- The rationale for the group auditor's determination of component auditor audit documentation selected for review.
- Changes in the planned nature and extent of involvement in the work of component auditors, and the reasons why (e.g., assigning more experienced engagement team members in areas of the audit that are more complex or subjective than initially anticipated).

A175. Paragraph 47 requires the group auditor to determine whether, and the extent to which it is necessary to review additional component auditor audit documentation. Paragraphs A148–A149 provide guidance for the group auditor in making this determination.

A176. Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. However, the group auditor may decide to summarise, replicate or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this ISA (NZ). Examples of such component auditor documentation may include:

- A listing or summary of the significant judgements made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit;
- Matters that may need to be communicated to those charged with governance of the group; or
- Matters that may be determined to be key audit matters to be communicated in the auditor's report on the group financial statements.

A177. When required by law or regulation, certain component auditor documentation may need to be included in the group auditor's audit file, for example, to respond to the request of a regulatory authority to review documentation related to work performed by a component auditor.

A178. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors. The electronic audit tool also may be used for audit documentation, including providing information about the reviewer(s) and the date(s) and extent of their review.

Additional Considerations When Access to Component Auditor Audit Documentation is Restricted (Ref: Para. 59)

A179. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation restrict the component auditor from providing documentation outside of its jurisdiction, or when war, civil unrest or outbreaks of disease restrict access to relevant component auditor audit documentation.

A180. The group auditor may be able to overcome such restrictions by, for example:

- Visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation;
- Reviewing the relevant audit documentation remotely through the use of technology, when not prohibited by law or regulation;
- Requesting the component auditor to prepare and provide a memorandum that addresses the relevant information and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum; or
- Discussing with the component auditor the procedures performed, the evidence obtained and the conclusions reached by the component auditor.

It is a matter of professional judgement whether one or more of the actions described above may be sufficient to overcome the restrictions depending on the facts and circumstances of the group audit.

A181. When access to component auditor audit documentation is restricted, the group auditor's documentation nonetheless needs to comply with the requirements of the ISAs (NZ), including those relating to the documentation of the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work. The guidance in paragraphs A148–A149 may be helpful in determining the extent of the group auditor's review of the component auditor audit documentation in these circumstances. Paragraphs A176 and A177 provide examples of circumstances in which certain component auditor audit documentation may be included in the group auditor's audit file.

A182. If the group auditor is unable to overcome restrictions on access to the component auditor audit documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A45.

Appendix 1

(Ref: Para. A42)

Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of responsibility of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognised at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group auditor did not have access to the accounting records, management, or auditor of the component.
- The group auditor has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgement, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.¹
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.²
- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.

¹ If, in the group engagement partner's judgement, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA (NZ) 705 (Revised).

² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements³

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects (*or give a true and fair view of*), the consolidated financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Basis for Qualified Opinion

ABC Company’s investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC’s share of XYZ’s net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC’s investment in XYZ as at December 31, 20X1 and ABC’s share of XYZ’s net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

³ The sub-title, “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title, “Report on Other Legal and Regulatory Requirements” is not applicable.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised)⁴ – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the Other Information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Directors’ Responsibilities for the Consolidated Financial Statements⁵

[Reporting in accordance with ISA (NZ) 700 (Revised)⁶ – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised). The last two paragraphs which are applicable for audits of a FMC reporting entity considered to have a higher level of public accountability only would not be included.]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁴ ISA ((NZ) 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

⁵ Throughout these illustrative auditor’s reports, the term directors may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Understanding the Group's System of Internal Control

1. This appendix provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how ISA (NZ) 315 (Revised 2019)¹ is to be applied in relation to an audit of group financial statements. The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group auditor's understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management's oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
 - How oversight over the group's system of internal control by those charged with governance is structured and organised.
 - How ethical and behavioural standards are communicated and reinforced in practice across the group, (e.g., group-wide programmes, such as codes of conduct and fraud prevention programmes).
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group's Risk Assessment Process

3. The group auditor's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analysing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group's risk assessment process is and the involvement of entities and business units in this process.

The Group's Process to Monitor the System of Internal Control

4. The group auditor's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, when relevant, activities of the internal audit function across the group, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. ISA (NZ) 610 (Revised 2013)² requires the auditor to evaluate the extent to which the internal audit function's organisational status and

¹ ISA (NZ) 315 (Revised 2019), Appendix 3

² ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

relevant policies and procedures support the objectivity of internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

The Information System and Communication

5. The group auditor's understanding of the group's information system and communication may include matters such as the following:
 - The extent of centralisation in the group's IT environment and the commonality of IT applications, IT processes and IT infrastructure.
 - Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealised profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and evaluating the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group auditor's understanding of the consolidation process may include matters such as the following:

Matters Relating to the Applicable Financial Reporting Framework

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters Relating to the Consolidation Process

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, when applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences

in accounting policies are identified, and adjusted when required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group's IT environment is organised for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters Relating to Consolidation Adjustments and Reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorisation and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealised profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (when applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

Control Activities

7. The group auditor's understanding of the control activities component may include matters such as the following:
 - The commonality of information processing controls and general IT controls for all or part of the group.

- The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
- The extent to which commonly designed controls have been implemented consistently for all or part of the group.

Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorised by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see ISA (NZ) 315 (Revised 2019), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> • The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group, such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	<ul style="list-style-type: none"> • Judgements regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgements regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.
Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals or reorganisations.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unexpected government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.
Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilised to manipulate the timing of transactions. • Prior occurrences of unauthorised or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation. • Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk

Indicators that the control environment, the group’s risk assessment process or the group’s process to monitor the group’s system of internal control are not appropriate to the group’s circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group’s system of internal control, include:

- Poor corporate governance structures, including decision making processes that are not transparent.
- Non-existent or ineffective controls over the group’s financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Conforming and Consequential Amendments to ISAs (NZ) arising from ISA (NZ) 600 (Revised)

This Standard was issued on [Date] June 2022 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 secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Day, Month] 2022. [28 days from issue date/gazette date]

An auditor that is required to apply this Standard is required to apply it for audits of group financial statements for periods beginning on or after 15 December 2023. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of International Standard on Auditing (ISA) (NZ) 600 (Revised) being issued.

This Standard contains conforming and consequential amendments to other International Standards on Auditing (ISAs) (New Zealand) as a result of the issue of ISA(NZ) 600 (Revised).

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ISBN [To be updated]

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**B. CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING
FROM ISA (NZ) 600 (REVISED)**

C. EFFECTIVE DATE

A. Introduction

The following are conforming amendments to other International Standards (New Zealand) as a result of the approval of ISA (NZ) 600 (Revised).

These amendments will become effective at the same time as ISA (NZ) 600 (Revised) and are shown with marked changes from the latest approved versions of the International Standards (New Zealand) that are amended.

The footnote numbers within these amendments do not align with the International Standards (New Zealand) that are amended, and reference should be made to those International Standards (New Zealand).

These conforming and consequential amendments affect the following standards and are arranged in the following manner:

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B. CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM ISA (NZ) 600 (REVISED)

PES 3 – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

...

Application and Other Explanatory Material

...

Resources (Ref: Para. 32)

...

Human Resources

...

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

...

A96. ISA (NZ) 220 (Revised)¹ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. ISA (NZ) 600 (Revised)² expands on how ISA (NZ) 220 (Revised) is to be applied in relation to an audit of group financial statements. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address:

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

...

Information and Communication (Ref: Para. 33)

...

¹ ISA (NZ) 220 (Revised), paragraph 26

² ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~26~~49

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

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

Examples of communication among the firm, personnel and engagement teams

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.
- The firm communicates changes to the system of quality management to personnel and engagement teams, to the extent that the changes are relevant to their responsibilities and enables personnel and engagement teams to take prompt and appropriate action in accordance with their responsibilities.
- The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate to the firm information about:
 - The client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement.
 - The operation of the firm's responses (e.g., concerns about the firm's processes for assigning personnel to engagements), which in some cases, may indicate a deficiency in the firm's system of quality management.
- Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation.
- The Group engagement team/auditor communicates matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.
- The individual(s) assigned operational responsibility for compliance with independence requirements communicates to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes.

...

PES 4 – ENGAGEMENT QUALITY REVIEWS

...

Application and Other Explanatory Material

...

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

...

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

...

Group Audit Considerations

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

...

ISA (NZ) 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

...

Application and Other Explanatory Material

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

A1. This ISA (NZ) applies to all audits of financial statements, including audits of group financial statements. ISA (NZ) 600 (Revised)³ deals with special considerations that apply to an audit of group financial statements and when component auditors are involved. ISA (NZ) 600 (Revised), adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ISA (NZ) 600 (Revised) may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

...

Definitions

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

³ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

...

A21A. When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for the purposes of the ISAs (NZ). This ISA (NZ) does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

...

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

...

A24. In particular, the firm’s policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm:

- Has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm’s recruitment and training processes and therefore the firm’s policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs ~~2619~~ and ~~A59–A6438~~ of ISA (NZ) 600 (Revised) contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm’s training in respect of the firm’s policies or procedures for relevant ethical requirements. The firm’s policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm’s independence systems. The firm’s policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., consultation on a particular matter), it may be necessary for the firm’s related policies or procedures to be communicated to individuals who are not personnel. Such individuals are then able to alert the engagement partner if the circumstance arises, and this enables the engagement partner to comply with the firm’s policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation⁴ under the group

⁴ See paragraph 35.

auditor's policies or procedures, the component auditor is able to alert the group engagement team~~auditor~~ about the matter.

...

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

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

A38. ISA (NZ) 200⁵ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of listed entities. ISA (NZ) 600 (Revised) includes additional requirements and guidance to those in this ISA (NZ) regarding communications about relevant ethical requirements with component auditors.

...

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 22–24)

...

A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA (NZ) and making informed decisions about appropriate courses of action. Such information may include:

- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
- The entity's timetable for reporting, such as at interim and final stages;
- In relation to group audits, the nature of the control relationships between the parent and its entities and business units; and
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs (NZ), as well as this ISA (NZ), for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ISA (NZ) 210;⁶
- Identifying and assessing risks of material misstatement, whether due to error or fraud,

⁵ ISA (NZ) 200, paragraphs 14 and A16–A19

⁶ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 9

in accordance with ISA (NZ) 315 (Revised 2019) and ISA (NZ) 240;⁷

- Understanding the group, ~~its components and its~~their environments, in the case of an audit of group financial statements in accordance with ISA (NZ) 600 (Revised), and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ISA (NZ) 620; and
- The entity's governance structure in accordance with ISA (NZ) 260 (Revised)⁸ and ISA (NZ) 265.⁹

...

Engagement Resources (Ref: Para. 25–28)

...

A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group ~~engagement team~~ auditor. In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

...

Insufficient or Inappropriate Resources (Ref: Para. 27)

...

~~A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.~~

...

Engagement Performance

...

Direction, Supervision and Review (Ref: Para. 30)

...

⁷ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁸ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

⁹ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

The Engagement Partner's Review (Ref: Para. 30–34)

...

A92. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgements. Significant judgements in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
 - Personnel using expertise in a specialized area of accounting or auditing;
 - The use of personnel from service delivery centres.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team. The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
 - The proposed overall group audit strategy and group audit plan;
 - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work, ~~including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component;~~ and
 - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for

example, key audit matters, or a “Material Uncertainty Related to Going Concern” paragraph.

...

ISA (NZ) 230 – AUDIT DOCUMENTATION

...

Appendix

(Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs (NZ)

This appendix identifies paragraphs in other ISAs (NZ) that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements* – paragraph 41
- ISA (NZ) 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 45–48
- ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph 30
- ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance* – paragraph 23
- ISA (NZ) 300, *Planning an Audit of Financial Statements* – paragraph 12
- ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* – paragraph 38
- ISA (NZ) 320, *Materiality in Planning and Performing an Audit* – paragraph 14
- ISA (NZ) 330, *The Auditor’s Responses to Assessed Risks* – paragraphs 28–30
- ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit* – paragraph 15
- ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 39
- ISA (NZ) 550, *Related Parties* – paragraph 28
- ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph ~~59~~⁵⁷
- ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraph 36–37
- ISA (NZ) 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* – paragraph 25

...

ISA (NZ) 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

...

Application and Other Explanatory Material

...

Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor (Ref: Para. 9)

- A6. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within the engagement team ~~a group, including a group engagement partner, component auditors,~~ or other auditors performing work at ~~components~~ entities or business units of a group for purposes other than the audit of the group financial statements.¹⁰

...

ISA (NZ) 250 (REVISED) – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

...

Application and Other Explanatory Material

Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–9)

...

Responsibility of the Auditor

...

Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

- A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, PES 1 *International Code of Ethics for Professional Accountants (including International Independence Standards) (New Zealand)* (PES 1) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within the engagement team ~~a group, including a~~

¹⁰ See, for example, paragraphs R360.16–360.18 A1 of PES 1.

~~group engagement partner, component auditors,~~ or other auditors performing work at ~~components entities or business units~~ of a group for purposes other than the audit of the group financial statements.¹¹

...

ISA (NZ) 260 (REVISED) – COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

...

Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

....

A4. ISA (NZ) 600 (Revised) includes specific matters to be communicated by the group auditors with those charged with governance of the group.¹² The matters communicated may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Component auditors also may communicate matters to those charged with governance of the component.¹³ In those circumstances, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of ~~components entities or business units~~ may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those ~~components entities or business units~~ are the same (e.g., common board of directors), duplication may be avoided by dealing with these ~~components entities or business units~~ concurrently for the purpose of communication.

...

Appendix 1

(Ref: Para. 3)

Specific Requirements in PES 3 and Other ISAs (NZ) that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in PES 3¹⁴ and other ISAs (NZ) that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- PES 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements* – paragraph 34(e)

¹¹ See, for example, paragraphs R360.16–360.18 A1 of PES 1.

¹² ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~5749~~

¹³ ISA (NZ) 600 (Revised), paragraph 45(i)

¹⁴ PES 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 22, 39(c)(i) and 41–43
- ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 15, 20 and 23–25
- ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA (NZ) 505, *External Confirmations* – paragraph 9
- ISA (NZ) 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 38
- ISA (NZ) 550, *Related Parties* – paragraph 27
- ISA (NZ) 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA (NZ) 570 (Revised), *Going Concern* – paragraph 25
- ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 5749
- ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ISA (NZ) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraphs 17—19

...

ISA (NZ) 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

...

Requirements

...

Planning Activities

...

10A. The engagement partner shall review the overall audit strategy and audit plan.

...

Application and Other Explanatory Material

...

Planning Activities

The Overall Audit Strategy (Ref: Para. 7–8)

A8. The process of establishing the overall audit strategy, subject to the completion of the auditor's risk assessment procedures, may include such matters as:

- The nature of resources (human, technological or intellectual) to be deployed for specific audit areas. For example, the deployment of experienced team members for high risk areas, or the assignment of experts to address complex matters;
- The amount of resources to be allocated to specific audit areas. For example, the number of team members assigned to attend the physical inventory count at ~~material~~ multiple locations, the nature and extent of direction and supervision of component auditors and the review of ~~other auditors'~~ their work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
- When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
- How such resources are directed, supervised or used. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site).

...

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many

engagements. While some of the matters referred to below may be required by other ISAs (NZ), not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

...

- The expected audit coverage scope, including the ~~number and locations of components to be included~~ at which audit work is expected to be performed for purposes of a group audit, and the extent to which component auditors will be involved.
- The nature of the control relationships between a parent and its ~~components~~ entities or business units that determine how the group is to be consolidated.
- ~~The extent to which components are audited by other auditors.~~
- The nature of the business segments to be audited, including the need for specialised knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The requirement need for an audit of financial statements for statutory, regulatory or other reasons, audit of standalone financial statements in addition to an audit work performed for consolidation purposes of a group audit.

...

Reporting Objectives, Timing of the Audit, and Nature of Communications

...

- Communication with component auditors of components regarding the expected types and timing of ~~reports to be issued and other~~ communications in connection with the audit work performed for purposes of the group audit of components.
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of audit work performed.

...

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- The determination of materiality in accordance with ISA (NZ) 320¹⁵ and, where applicable:
 - The determination of component performance materiality ~~for components~~ and communication thereof to component auditors in accordance with ISA (NZ) 600 (Revised).¹⁶

¹⁵ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*

¹⁶ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs ~~21–23 and 40(e)~~ 35–36

- The initial expectations about the preliminary identification of significant components and material classes of transactions, account balances and disclosures that may be significant.

...

ISA (NZ) 315 (REVISED 2019) – IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities (Ref: Para. 13–18)

A11. The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this ISA (NZ). However, the significance of fraud is such that further requirements and guidance are included in ISA (NZ) 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.¹⁷ In addition, the following ISAs (NZ) provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

- ISA (NZ) 540 (Revised)¹⁸ in regard to accounting estimates;
- ISA (NZ) 550 in regard to related party relationships and transactions;
- ISA (NZ) 570 (Revised)¹⁹ in regard to going concern; and
- ISA (NZ) 600 (Revised)²⁰ in regard to group financial statements

...

Engagement Team Discussion (Ref: Para. 17–18)

...

Scalability

...

A45. When an engagement is carried out by a large engagement team, such as for an audit of group financial statements, it is not always necessary or practical for the discussion to include all members in a single discussion (for example, in a multilocation audit), nor is it necessary for all the members of the engagement team to be informed of all the decisions reached in the

¹⁷ ISA (NZ) 240, paragraphs 12–27

¹⁸ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

¹⁹ ISA (NZ) 570 (Revised), *Going Concern*

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

discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, those with specific skills or knowledge, and those responsible for the work to be performed at audits of components, while delegating discussion with others, taking into account the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful.

...

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–37)

...

Assessing Risks of Material Misstatement at the Assertion Level

...

Significant Risks (Ref: Para. 32)

Why significant risks are determined and the implications for the audit

A218. The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:

- ...
- ISA (NZ) 600 (Revised) requires the group auditor to evaluate the appropriateness of the design and performance of further audit procedures for areas of higher assessed risks of material misstatement of the group financial statements, or significant risks, on which a component auditor is determining the further audit procedures to be performed more involvement by the group engagement partner if the significant risk relates to a component in a group audit and for the group engagement team to direct the work required at the component by the component auditor.²¹

...

ISA (NZ) 320 – MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

...

Definition

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

- (a) P-performance materiality – ~~means~~ The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less

²¹ ISA (NZ) 600, paragraphs 30 and 31-42

than the materiality level or levels for particular classes of transactions, account balances or disclosures.

(b) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statement as a whole.

...

Application and Other Explanatory Material

...

Determining Materiality and Performance Materiality When Planning the Audit

...

Performance Materiality (Ref: Para. 11)

A13. Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality (which, as defined, is one or more amounts) is set at less than materiality for the financial statements as a whole to reduce aggregation risk~~reduce to an appropriately low level to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.~~ Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

...

ISA (NZ) 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION

...

Application and Other Explanatory Material

Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control

...

Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity
(Ref: Para. 12)

...

A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant controls at the service organisation related to services provided to the user entity. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organisation. The user auditor using the work of another auditor may find the guidance in ISA (NZ) ~~220600~~ (Revised)²² useful as it relates to determining the competence and capabilities of the other understanding another auditor (including that auditor's independence and professional competence), the direction and supervision involvement in the work of the other another auditor, in planning the nature, timing and extent of such the work assigned to the other auditor, and ~~in~~ evaluating the sufficiency and appropriateness of the audit evidence obtained.

...

ISA (NZ) 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

...

Application and Other Explanatory Material

Inventory

Attendance at Physical Inventory Counting (Ref: Para. 4(a))

...

- A3. Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs 4–8 of this ISA (NZ)) include, for example:
- The risks of material misstatement related to inventory.
 - The nature of the internal control related to inventory.
 - Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.
 - The timing of physical inventory counting.
 - Whether the entity maintains a perpetual inventory system.
 - The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations

²² ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements* 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 2, states: “An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements ...” See also paragraph 19 of ISA (NZ) 600.

attendance is appropriate. ~~ISA (NZ) 600²³ deals with the involvement of other auditors and accordingly may be relevant if such involvement is with regard to attendance of physical inventory counting at a remote location.~~

- Whether the assistance of an auditor's expert is needed. ISA (NZ) 620²⁴ deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

...

ISA (NZ) 510 – INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES

...

Appendix

...

Illustration 1:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)²⁵ does not apply).
- ...

...

Illustration 2:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

ISA (NZ) 550 – RELATED PARTIES

...

²³ ~~ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

²⁴ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

²⁵ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

...

Understanding the Entity's Related Party Relationships and Transactions

...

The Identity of the Entity's Related Parties (Ref: Para. 13(a))

...

A13. In the context of a group audit, ISA (NZ) 600 (Revised) requires the group engagement team auditor to request component auditors to communicate on a timely basis related party relationships not previously identified by group management or the group auditor provide each component auditor with a list of related parties prepared by group management and any other related parties of which the group engagement team is aware.²⁶ Where the entity is a component within a group, this Such information provides a useful basis for the auditor group auditor's inquiries of management regarding the identity of the entity's related parties.

...

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

...

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

Evaluating the Business Rationale of Significant Related Party Transactions (Ref: Para. 23)

A38. In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction:
 - Is overly complex (for example, it may involve multiple related parties within a consolidated group).
 - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
 - Lacks an apparent logical business reason for its occurrence.
 - Involves previously unidentified related parties.
 - Is processed in an unusual manner.
- Whether management has discussed the nature of, and accounting for, such a

²⁶ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~32(b)~~40(e)

transaction with those charged with governance.

- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with ISA (NZ) 500,²⁷ to consider the reliability of management's explanations and representations on other significant matters.

...

ISA (NZ) 570 (REVISED) – GOING CONCERN

...

Appendix

...

[NZ] Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)²⁸ does not apply).
- ...

...

[NZ] Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

²⁷ ISA (NZ) 500, *Audit Evidence*, paragraph 11

²⁸ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

[NZ] Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

ISA (NZ) 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

...

Application and Other Explanatory Material

...

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

...

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

...

A16. Examples of work of the internal audit function that can be used by the external auditor include the following:

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgement.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- ~~In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of ISA NZ 600).²⁹~~

...

²⁹ ~~ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit (Ref: Para. 5, 26–28)

A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant ~~for~~ in the circumstances of a the group audit, auditors for the group auditor to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.³⁰

...

ISA (NZ) 700 (REVISED) – FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

...

Requirements

...

Auditor's Report

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (New Zealand)

...

Auditor's Responsibilities for the Audit of the Financial Statements

...

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)

...

- (c) When ISA (NZ) 600 (Revised)³¹ applies, further describe the auditor's responsibilities in a group audit engagement by stating that:
 - (i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities–units within the group ~~to~~ as a basis for express forming an opinion on the group financial statements;
 - (ii) The auditor is responsible for the direction, supervision and review performance

³⁰ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 25(a)40(b)

³¹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- of the audit work performed for purposes of the group audit; and
- (iii) The auditor remains solely responsible for the auditor's opinion.³²

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para. 20)

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (New Zealand)

...

Basis for Opinion (Ref: Para. 28)

...

Considerations specific to group audits

- A38. In group audits for which~~when~~ there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group ~~engagement team~~auditor. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.³³
- A39. The ISAs (NZ) do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of Professional and Ethical Standard 1 or other ethical requirements to which the group ~~engagement team~~auditor is subject, nor do the ISAs (NZ) require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group ~~engagement team~~auditor. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA (NZ) 600 (Revised)³⁴ provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

...

³² ISA (NZ) 600 (Revised), paragraph 53

³³ ISA (NZ) 600 (Revised), paragraph A56–A57, A66–A68A37

³⁴ ISA (NZ) 600 (Revised), paragraphs 25, 27–29

...

[NZ] Illustration 1 – Auditor’s Report on Financial Statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, NZ IFRS)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

[NZ] Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, NZ IFRS)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- ...

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements³⁵

...

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

...

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to regarding

³⁵ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

the financial information of the entities or business units within the group as a basis for express-forming an opinion on the consolidated group financial statements. We are responsible for the direction, supervision and review performance of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

...

[NZ] Illustration 3 – Auditor’s Report on Financial Statements of a Public Benefit Entity that is not a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, Public Benefit Entity Standards)

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 Revised does not apply).
- ...

...

[NZ] Illustration 4 – Auditor’s Report on Financial Statements of an Entity Other than a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a General Purpose Compliance Framework.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability required by law or regulation. The audit is not a group audit (i.e., ISA (NZ) 600 Revised does not apply).
- ...

...

ISA (NZ) 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR’S REPORT

...

Application and Other Explanatory Material

...

Determining Key Audit Matters (Ref: Para. 9–10)

...

Matters that Required Significant Auditor Attention (Ref: Para. 9)

...

A15. Various ISAs (NZ) require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA (NZ) 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.³⁶ The ISAs (NZ) acknowledge potential difficulties in relation to, for example:
 - Related party transactions,³⁷ in particular limitations on the auditor’s ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm’s length transaction.
 - Limitations on the group audit, for example, where ~~the group engagement team’s~~ access to information or people may have been restricted.³⁸
- ISA (NZ) 220 (Revised) establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm’s policies or procedures require consultation,³⁹ and other matters that in the engagement partner’s professional judgement, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgements arising during the audit engagement with the engagement quality reviewer.⁴⁰

...

ISA (NZ) 705 (REVISED) – MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR’S REPORT

...

Application and Other Explanatory Material

...

Circumstances When a Modification to the Auditor’s Opinion Is Required

...

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

...

A10. Examples of circumstances beyond the control of the entity include when:

- The entity’s accounting records have been destroyed.

³⁶ ISA (NZ) 260 (Revised), paragraphs 16(b) and A21

³⁷ ISA (NZ) 550, *Related Parties*, paragraph A42

³⁸ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 5749(c)

³⁹ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 35

⁴⁰ ISA (NZ) 220 (Revised), paragraph 36

- The accounting records of a ~~significant~~ component for which further audit procedures are determined to be necessary for the purposes of the group audit have been seized indefinitely by governmental authorities.

...

Appendix

...

[NZ] Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)⁴¹ does not apply).
- ...

...

[NZ] Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- ...

...

[NZ] Illustration 3 – Qualified Opinion due to the Auditor’s Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- ...

⁴¹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

...

[NZ] Illustration 4 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- ...

...

Illustration 5 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

ISA (NZ) 706 (REVISED) – EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR’S REPORT

...

Appendix 3

...

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)⁴² does not apply).
- ...

...

⁴² ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

...

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

ISA (NZ) 710 – COMPARATIVE INFORMATION CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

...

Appendix

...

Illustration 1 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity with a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)⁴³ does not apply).
- ...

...

Illustration 2 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity with a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

⁴³ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Illustration 3 – Corresponding Figures

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity with a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

Illustration 4 – Comparative Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity with a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

ISA (NZ) 720 (REVISED) – THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION

...

Application and Other Explanatory Material

...

Reading and Considering the Other Information (Ref: Para. 14–15)

...

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor’s Knowledge Obtained in the Audit (Ref: Para. 14(b))

...

A35. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, is appropriate as a basis for the auditor’s consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor’s consideration of whether the description is materially inconsistent with the auditor’s knowledge obtained during the audit.

- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor’s recollection.

A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, is a matter of professional judgement. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, about any matter included in the other information.

...

Appendix 2

...

[NZ] Illustration 1 – An auditor’s report of any entity, whether an FMC entity considered to have a higher level of public accountability or not, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)⁴⁴ does not apply).
- ...

...

[NZ] Illustration 2 – An auditor’s report of a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

⁴⁴ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

[NZ] Illustration 3 – An auditor’s report of an entity other than a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

[NZ] Illustration 4 – An auditor’s report of a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

[NZ] Illustration 5 – An auditor’s report of any entity, whether a FMC reporting entity considered to have a higher level of public accountability or not, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has concluded that a material misstatement of the other information exists.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of any entity, whether a FMC reporting entity considered to have a higher level of public accountability or not, using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- ...

...

[NZ] Illustration 6 – An auditor’s report of any entity, whether a FMC reporting entity considered to have a higher level of public accountability or not, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of any entity, whether a FMC reporting entity considered to have a higher level of public accountability or not, using a fair presentation framework. The audit is a group audit (i.e., ISA (NZ) 600 (Revised) applies).
- ...

...

[NZ] Illustration 7 – An auditor’s report of any entity, whether a FMC reporting entity considered to have a higher level of public accountability or not, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and the adverse opinion on the consolidated financial statements also affects the other information.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of any entity, whether a FMC reporting entity considered to have a higher level of public accountability or not, using a fair presentation framework. The audit is a group audit (i.e., ISA (NZ) 600 (Revised) applies).
- ...

...

ISA (NZ) 805 (REVISED) – SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

Introduction

Scope of this ISA (NZ)

1. This ISA (NZ) does not apply to circumstances in which the report audit procedures are performed by ~~of a component auditor, issued as a result of work performed~~ on the financial information of a component ~~at the request of a group engagement team~~ for purposes of an audit of group financial statements (see ISA (NZ) 600 (Revised)).⁴⁵

...

⁴⁵ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISRE (NZ) 2400 (REVISED) – ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

...

Application and Other Explanatory Material

Scope of this ISRE (NZ) (Ref: Para. 1–2)

...

Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities

~~A2. Review engagements in accordance with this ISRE (NZ) may be requested for component entities by the auditor of the financial statements of a group of entities. Such a review engagement performed in accordance with this ISRE (NZ) may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.~~

...

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 29)

...

Agreeing the Terms of Engagement

...

Review of components of groups of entities

~~A54. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this ISRE (NZ). The group auditor may also specify additional procedures to supplement the work done for the review performed under this ISRE (NZ). Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this ISRE (NZ).~~

...

Performing the Engagement

...

The Practitioner's Understanding (Ref: Para. 45–46)

...

A78. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:

- Whether the entity is a component of a group of entities, or an associated entity of

another entity.

- ...

Designing and Performing Procedures (Ref: Para. 47, 55)

...

A80. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner's objectives for the review engagement stated in this ISRE (NZ), but in the context of the group financial statements.

...

Analytical Procedures (Ref: Para. 46–47, 49)

A90. In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centres, branches or other components ~~profit centres, branches or other components~~ of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements

C. EFFECTIVE DATE

This Standard is effective for audits of group financial statements for periods beginning on or after 15 December 2023.

Date: 1 June 2022

To: Michele Embling, Chair External Reporting Board

From: Robert Buchanan, Chair NZAuASB

Subject: Certificate Signing Memorandum

International Standard on Auditing (New Zealand) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements* for issue in New Zealand.

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements*.

Background

International process

2. The project to address group audits originated from the ISA Implementation Monitoring Project. The findings from this project formed the basis for the IAASB's Strategy for 2015–2019 and the IAASB Work Plan for 2015–2016, which included a project to revise ISA 600¹.
3. In December 2015, the IAASB released an Invitation to Comment (ITC) *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* to obtain stakeholder views on key issues regarding quality control, group audits and professional scepticism. The input from the ITC informed the development of the project proposal.
4. In December 2016, the IAASB approved the project proposal to revise ISA 600 and the quality control standards. The project proposal set out, as objectives for revising ISA 600, to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs.
5. The project objectives were to propose revisions to:
 - a) ISQC 1², ISA 220³ and ISA 600

¹ ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² 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*.

³ ISA 220 *Quality Control for an Audit of Financial Statements*

- b) propose consequential amendments to other standards that may be necessary as a result of revisions to ISQC 1, ISA 220 and ISA 600.
 - c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement revisions to the new standard(s).
6. The project proposal recognised the strong linkage between the IAASB’s work to clarify and strengthen ISA 600 and the projects to revise other standards, in particular ISQC 1 and ISA 220. As some foundational issues had to be first considered and addressed in these other projects, IAASB prioritised the progression of these projects to appropriately build on the revised requirements and application material in making necessary revisions to ISA 600.
7. At its March 2020 meeting, the IAASB approved the ED of Proposed ISA 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600), including related conforming and consequential amendments to other International Standards. ED-600 was issued on 27 April 2020 and closed for comment on 2 October 2020.
8. The IAASB received 83 comment letters on ED-600, from regulators and oversight authorities, national auditing standard setters, accounting firms, public sector organisations, member bodies and other professional organisations, academics and individuals. Responses were received from four Monitoring Group members.
9. Following the approval of ISA 600 (Revised) at its December 2021 meeting, the IAASB voted not to re-expose the standard. The ISA 600 Task Force analysis noted that while there have been many changes to ISA 600 since its exposure, the key elements of ED-ISA 600 have been retained, with further clarifications and modifications in response to comments received on exposure.
10. The IAASB issued ISA 600 (Revised) on 7 April 2022.
11. The amendments to ISA 600 (Revised) aim to:
- a) clarify:
 - i. the scope the standard, including explaining whether ISA 600 (Revised) applies to shared service centres, non-controlled entities and entities with branches or divisions.
 - ii. the interaction of the standard with other ISAs, including ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*, ISA 315 (Revised 2019) *Identifying and Assessing the risks of Material Misstatement* and ISA 330 *The Auditor’s Responses to Assessed Risks*.
 - iii. how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.

- iv. how the concepts of materiality and aggregation risk apply in a group audit.
- b) strengthen the auditors' approach to planning and performance of a group audit by closer aligning the standard to the principles in ISA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*.
- c) enhance the documentation requirements by clarifying what the group auditor may need to document in different situations.
- d) emphasise the importance of professional scepticism in a group audit; and
- e) reinforcing the need for robust communication and interactions during the audit.

The standard is scalable and adaptable to a variety of circumstances.

Domestic due process

- 12. In October 2020, the NZAuASB submitted to the IAASB on ED-600 and was supportive of its proposals.
- 13. The NZAuASB undertook various outreach activities to obtain feedback from its constituents on ED-600, including a webinar and one-on-one interviews with practitioners from both small and large firms.
- 14. The NZAuASB also considered the relevant academic research findings included in the Accounting and Finance Association of Australia and New Zealand (AFAANZ) submission to the NZAuASB (which is identical to the AFAANZ submission to the IAASB). The feedback helped inform the NZAuASB in developing its response.
- 15. The Board acknowledged the importance of some of the other recent IAASB activities to improve the quality of audits of group financial statements (e.g., ISA 220, ISQM 1 and ISQM 2).
- 16. The NZAuASB noted that it was important for the IAASB and its task force to continue the conversation on audit quality with respect to group audits, so that the final standard can address the practical challenges, as far as it is possible to do so, with an eye also on implementation guidance once the standard has been issued.

Australian process

- 17. The AUASB approved the issue of ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and related conforming amendments at its 27 April 2022 meeting.
- 18. The AUASB considered the compelling reason test for Australian purposes and agreed to the following changes:
 - a. the deletion of paragraph A25 which relates to joint audits. As joint auditors are not arrangements that are allowable in Australia.

- b. carrying forward (slightly amended) from extant ASA 600 an application material paragraph (Aus A34.1), that reminds the auditors of the *Corporations Act 2001* requirement for the officer or auditor of a controlled entity to give the principal auditor access to the controlled entity's books.
 - c. in Appendix 1, deletion of the international illustrative Auditor's Report and the inclusion of a *Corporations Act 2001* example as its replacement. This change is for consistency with example audit reports in ASA 700 *Forming an Opinion and Reporting on a Financial Report* and within extant ASA 600.
19. The changes made in Australia due to application of the compelling reason test are not relevant in the New Zealand context.
20. At its June 2022 meeting, the NZAuASB approved ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements*.

Privacy

21. 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

22. 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

23. The adoption of ISA (NZ) 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements* 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

24. 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

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

Attachments

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

Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements

Certificate of Determination

Robert Buchanan

Chair NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	1 June 2022
Subject:	Assurance over Financial Information Prepared in Connection with a Capital Raising
Date:	18 May 2022
Prepared by:	Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to approve an invitation to comment and exposure draft of proposed SAE *Assurance over Financial Information in Connection with a Capital Raising*.

Activities since the last NZAuASB Meeting

2. As reported at the last meeting, we socialised the April draft of the proposed standard with the firms and to Roger Wallis of Chapman Tripp for their initial feedback. We are grateful to the firm representatives who were able to meet with us to provide input on the developing draft.
3. The firms are supportive of the developing draft, specifically the narrow scope and restricting the engagement to limited assurance, noting that this makes draft standard easier to read and understand.
4. Firms did reflect that some of the procedural requirements in paragraphs 19-37 of the April draft used language associated with reasonable assurance engagements (i.e., positive statements such as “assess”) rather than limited assurance language (i.e., nothing has come to our attention).
5. We have reviewed the required procedures, in particular those relating to obtaining an understanding of and performing procedures on the financial information for consistency with a limited assurance engagement.
6. A limited assurance engagement requires the assurance practitioner to perform primarily enquiry and analytical procedures to obtain sufficient evidence as the basis for a conclusion nothing has come to their attention that causes the assurance practitioner to believe that the financial information is not presented, in all material respects, in accordance with the stated basis of preparation.
7. If the assurance practitioner becomes aware of a matter that causes the assurance practitioner to believe the financial information may be materially misstated, the assurance practitioner designs and performs additional procedures, as considered necessary, to conclude on the financial information.
8. We have amended some of the requirements in paragraphs 30 and 34-38 (previously paragraphs 29 and 33-37 in the April draft) to include wording that is more consistent with a

limited review engagement. A marked draft showing changes made since the April meeting is included at agenda item 4.3 for the Board's information.

9. Key issues arising from the previous meeting requiring report back include:
 - (i) *Naming of the lead assurance partner*
10. The draft proposed standard requires the name of the lead assurance practitioner to be included in the assurance report.
11. 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.
12. At its April meeting, the Board requested to staff to consider the implications when the assurance practitioner is not a licensed auditor, if the name of the lead assurance practitioner is included in the assurance report.
13. Notwithstanding that the engagement is performed by a team from the firm, practitioner reviewers did not have significant concerns with the requirement to name the lead assurance practitioner, noting that it is consistent ISA (NZ) 700 (Revised), for the types of entities addressed by the proposed standard (i.e., FMC reporting entities with a higher level of public accountability).
14. We have not identified any unintended consequences of naming the lead assurance practitioner. The engagement is not required by law or regulation to be performed by a licensed auditor. Rather, assurance over the financial information in connection with a capital raising is voluntary.
 - (ii) *Illustrative assurance report*
15. Paragraph 51 of the proposed standard establishes the basic elements of the assurance report.
16. At its April meeting, the NZAuASB requested staff to consider whether the conclusion paragraph should be presented at the beginning of the assurance report (consistent with the presentation in the auditor's report).
17. ISAE (NZ) 3000 (Revised) and the Review Engagement Standards do not specify the order of presentation of the elements of the assurance report. The firm may present the elements of the assurance report in the order that they consider appropriate, i.e., if the firm wishes to present the conclusion at the beginning of the report, it is not prohibited from doing so.
18. The assurance report needs to be read and appreciated by users in a holistic manner. Among other things, the report needs to be clear what financial information is being reported on, what the assurance practitioner's conclusion is on each type of financial information, what the assurance practitioner's responsibilities are and what the responsible party's responsibilities are.
19. We have redrafted the illustrative report which now presents the required elements of the assurance report with the conclusion first.

Matters to Consider

20. The Board is asked to CONSIDER and APPROVE the draft ITC and ED for public consultation.
21. With the objective of finalising a standard by the end of the year we propose a 90 day consultation period.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Draft ITC and Exposure Draft
Agenda item 4.3	ED (marked) in tabular format (for information purposes)

Appendix

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.

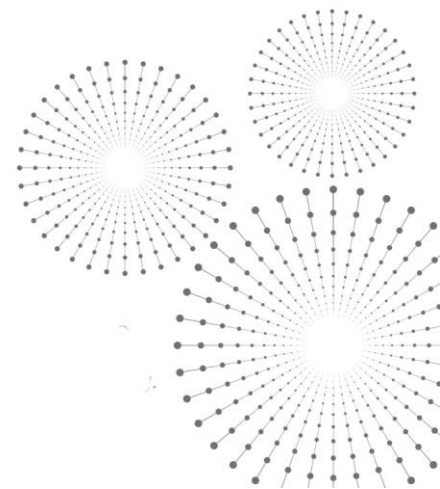


Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Exposure Draft NZAuASB ED 2022-3
Proposed SAE 3450 Assurance Over
Financial Information Prepared in
Connection with a Capital Raising

Invitation to Comment

June 2022



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Information for respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising the proposed Standard on Assurance Engagements (SAE) 3450, *Assurance Over Financial Information Prepared in Connection with a Capital Raising*.

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

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

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

<https://xrb.govt.nz/assurance-standards/standards-in-development/open-for-comment/>

We are eager to receive feedback on these proposals, and it does not need to be via a formal written submission; any comments are appreciated. The closing date for submissions is **15 September 2022**.

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

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

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

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

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ASAE	Standard on Assurance Engagements (Australia)
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
SAE	Standard on Assurance Engagements
XRB	External Reporting Board

Questions for respondents

Respondents are asked to consider the following specific questions and to respond to the NZAuASB by 15 September 2022:

- Question 1. Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.
- Question 2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.
- Question 3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.
- Question 4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.
- Question 5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.
- Question 6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If you not, please explain why not.
- Question 7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement
- Question 8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.
- Question 9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

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 the proposed SAE 3450, *Assurance Over Financial Information Prepared in Connection with a Capital Raising*.

1.2 Background

2. The current assurance standards do not specifically address assurance over financial information prepared in connection with a capital raising, which is not required by regulation, but often voluntarily sought by the engaging entity. New Zealand practitioners are increasingly looking to ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* for guidance when performing such an engagement.
3. As there is no equivalent international standard, the NZAuASB added to its workplan a project to develop a domestic New Zealand standard for assurance over financial information prepared in connection with a capital raising.

1.3 Timeline and next steps

4. Submissions on NZAuASB ED 2022-3 are due by **15 September 2022**. Information on how to make a submission is provided on page 4 of this ITC.
5. 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 standard by the end of 2022.

2. Overview of the proposed SAE

6. The proposed SAE establishes requirements and provides application and other explanatory material regarding the performance of and reporting on financial information prepared in connection with a capital raising. The types of financial information covered by the proposed SAE include:
 - Historical
 - Pro forma historical
 - Prospective
 - Pro forma prospective
7. Assurance engagements covered by the proposed SAE often involve the assurance practitioner performing an assurance engagement and reporting on more than one type of financial information. The assurance report may be on a single type of financial information (individual report) or on multiple types of financial information (combined report).

8. Any non-assurance services performed in connection with the capital raising are a separate engagement and are not covered by the proposed SAE.
9. The proposed SAE has been prepared with significant reliance on ASAE 3450 as its base. Given the number of dual listings on the NZX/ASX the NZAuASB considers consistency between the proposed SAE and ASAE 3450 an important factor. However, as ASAE 3450 contains direct references to the Corporations Act 2001 and other review standards that have no equivalent in New Zealand, its adoption without amendment is not appropriate.

2.1 Scope of the proposed SAE

10. The proposed SAE is intentionally narrowly scoped. It is intended to apply only to transactions that involve 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.
11. Capital raising assurance engagements involve a complex subject matter. Restricting the scope of the proposed SAE allowed the NZAuASB to develop an exposure draft that was more targeted toward the subject matter, including the drafting of illustrative letters and reports to drive consistency in practice and in reporting.

Question for respondents

1. Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.

2.2 Limited assurance

12. The proposed SAE applies to assurance engagements to provide a limited assurance report on the financial information.
13. The proposed SAE does not contemplate the provision of a reasonable assurance opinion on the financial information. The nature of the financial information presented in the capital raising, particularly in relation to the prospective financial and pro forma prospective financial information, is subjective in nature. Current market practice does not support providing reasonable assurance around elements of prospective financial information that contain best estimate assumptions given the inherent uncertainty around best estimate assumptions being achieved. Accordingly, the Board proposes to restrict the assurance over financial information prepared in connection with a capital raising to a limited assurance engagement.

Question for respondents

2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.

2.3 Engagement not performed by the auditor of the entity

14. While recognising that 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, the ED does not require, as a precondition, that the limited assurance engagement be performed by the auditor of the entity.
15. The ED requires that the assurance practitioner complies with ISAE (NZ) 3000 (Revised) and the applicable review engagement standards when performing an assurance engagement to report on published financial information prepared in connection with a capital raising. For assurance over historical financial information components, that means the assurance practitioner is required to comply with either ISAE (NZ) 2400 (if not the auditor of the entity) or NZ SRE 2410 (Revised) (if the auditor of the entity), as applicable.
16. The assurance practitioner will need to do significantly more work on the historical financial information, driven by the requirements of ISRE (NZ) 2400, when the assurance practitioner is not the auditor of the entity.
17. Application material is included at paragraph A11 to highlight the difficulties of providing assurance over historical financial information when the assurance practitioner is not also the auditor of the entity. Paragraph A11 states,

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, for example, among other factors, the assurance practitioner's limited knowledge of the entity, their understanding of risks and the compressed timeline often involved in these types of assurance engagement. The assurance practitioner may consider it necessary to perform a review engagement in accordance with ISRE (NZ) 2400 on the historical financial information in order to obtain sufficient evidence on which to base the limited assurance conclusion.

Question for respondents

3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.
4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.
5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.

2.4 Naming the lead assurance practitioner

18. The proposed SAE requires inclusion of the name of the lead assurance practitioner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. The proposal to require the lead assurance practitioner to be named is consistent with the requirement in ISA 700 (Revised) requiring 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.
19. 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.

Question for respondents

6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If you not, please explain why not.

2.5 Obtaining an understanding and performing procedures

20. Paragraphs 19-37 of the ED require the assurance practitioner to obtain an understanding of and to perform specific procedures on the financial information.
21. A limited assurance engagement requires the assurance practitioner to perform primarily enquiry and analytical procedures to obtain sufficient evidence as the basis for a conclusion nothing has come to their attention that causes the assurance practitioner to believe that the financial information is not presented, in all material respects, in accordance with the stated basis of preparation.
22. If the assurance practitioner becomes aware of a matter that causes the assurance practitioner to believe the financial information may be materially misstated, the assurance practitioner designs and performs additional procedures, as considered necessary, to conclude on the financial information.
23. Accordingly, the procedures required by the ED are targeted towards enquiry and analytical procedures.

Question for respondents

7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement.
8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.

2.6 Effective Date

24. The proposed effective date for Proposed SAE 3450 *Assurance over Financial Information Prepared in Connection with a Capital Raising* is for engagements commencing on or after 15 December 2023. This date is tentative and would be reviewed prior to issuing the final standard.
25. Early adoption will be permitted.
26. After the consultation period ends, the NZAuASB will consider the submissions received, and subject to the comments in those submissions, expects to finalise and issue the standard by the end of 2022. This would allow approximately 12 months for implementation.

Questions for respondents

9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

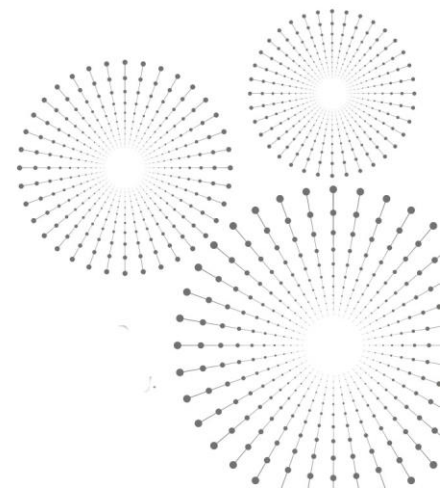


Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Exposure Draft NZAuASB ED 2022-3

Proposed SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising

DRAFT



[Proposed] SAE 3450 Assurance over Financial Information Prepared in Connection with a Capital Raising

Introduction

Scope of this SAE

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.
2. This SAE applies to assurance engagements to provide a limited assurance report on the financial information. (Ref: A1)
3. The types of financial information covered by this SAE are:
 - historical,
 - pro forma historical,
 - prospective and
 - pro forma prospective

financial information prepared in respect of a 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. Non-assurance services are outside the scope of this engagement. (Ref: A2)

Relationship with Other Standards issued by the NZAuASB

5. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ISAE (NZ) 3000 (Revised)². 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.

² International Standard on Assurance Engagements (New Zealand) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

6. The assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised) and Review Engagement Standards, as applicable, and 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) or the applicable Review Engagement Standard.

7. Compliance with ISAE (NZ) 3000 (Revised) and Review Engagement Standards requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*³ 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.⁴ It also requires the lead assurance practitioner to be a member of a firm that applies Professional and Ethical Standard 3⁵, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3.⁶

Effective Date

8. This SAE is effective for engagements commencing on or after 15 December 2023. Early adoption is permitted.

Objectives

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.

Definitions⁷

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: A3)
- (b) Assurance report – a written report prepared by an independent assurance practitioner. (Ref: A4)

³ In Professional and Ethical Standard 1, the term “engagement partner” should be read as referring to “lead assurance practitioner”.

⁴ ISAE (NZ) 3000 (Revised), paragraph 3(a), 20 and 34

⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁶ ISAE (NZ) 3000 (Revised) paragraphs 3(b) and 31(a)

⁷ 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.

(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: A5)

(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: A6)

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

- (i) Historical financial information
- (ii) Pro forma historical financial information
- (iii) Prospective financial information
- (iv) Pro forma prospective financial information.

(f) Pro forma adjustments – adjustments to the base financial information to:

- (i) illustrate the impact of a transaction or event as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred or as if it had not occurred at all;
- (ii) eliminate the effects of unusual or non-recurring events or transactions that are not part of the normal operations of the entity; or
- (iii) exclude certain events or transactions or present transactions or balances on a different recognition or measurement basis from that required or permitted by generally accepted accounting principles.

(g) Pro forma financial information – base financial information shown together with pro forma adjustments prepared in accordance with the stated basis of preparation resulting in financial information that is not prepared in accordance with New Zealand generally accepted accounting practice. It is subject to the assumptions inherent in the responsible party's stated basis of preparation.

(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: A7)

(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 entry.

(j) Responsible party – The party(ies) responsible for the source and basis of preparation of the financial information and other engagement circumstances.

(k) 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.

11. In this SAE, Review Engagement Standards 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.

Requirements

12. 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) and Review Engagement Standards, as applicable.

Preconditions for the Assurance Engagement

13. In addition to the requirements of ISAE (NZ) 3000 (Revised)⁸ and Review Engagement Standards, as applicable, 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: A8-A15)

- (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: A12-A13)
- (b) maintaining adequate accounting records and such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement.

Prospective Financial Information

14 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:

- (a) is based on assumptions that are reasonable and supportable; and
- (b) faithfully represent the assumptions and information on which the prospective financial information is based.

Agreeing on the Terms of the Engagement

15. The terms of the engagement agreed in accordance with ISAE (NZ) 3000 (Revised)⁹ and Review Engagement Standards, as applicable, shall include: (Ref: A16)

- (a) The objective and scope of the engagement, including that the engagement is a limited assurance engagement; (Ref: A17)

⁸ ISAE (NZ) 3000 (Revised) paragraph 24

⁹ ISAE (NZ) 3000 (Revised), paragraph 27

- (b) The responsibilities of the assurance practitioner;
- (c) The responsibilities of the responsible party, including those described in paragraphs 13 and, if applicable, 14;
- (d) Identification of the stated basis of preparation for the financial information;
- (e) Reference to the expected form and content of any reports to be issued by the assurance practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content;
- (f) An expectation that the responsible party will provide written representations at the conclusion of the engagement;
- (g) An expectation that the responsible party will provide access to all information of which it is aware that is relevant to the preparation of the financial information, including an expectation that the responsible party will provide access to information relevant to disclosures;
and
- (h) Such other terms that the assurance practitioner determines are appropriate in the engagement circumstances. (Ref: A18)

16. Where there is a change in the terms of the engagement in accordance with ISA (NZ) 3000 (Revised) and Review Engagement Standards, as applicable, such change in the terms shall be agreed, in writing, with the engaging party. (Ref: A19)

Planning and Performing the Engagement

Planning

17. When planning the engagement in accordance with ISAE (NZ) 3000 (Revised)¹⁰ and Review Engagement Standards, as applicable, the assurance practitioner shall: (para A20-A22)

- (a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;
- (c) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts;
- (d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the lead assurance practitioner for the entity is relevant;
- (e) Ascertain the nature, timing and extent of resources needed to perform the engagement, including the involvement of experts and other assurance practitioners; and

¹⁰ ISAE (NZ) 3000 (Revised), paragraph 40

- (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.

Materiality

18. 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. (Ref: A23-A26)

19. 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)

Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances

20. The assurance practitioner shall obtain an understanding of the source and basis of preparation of the financial information and other engagement circumstances sufficient to: (Ref: A28)

- (a) Enable the assurance practitioner to identify areas where a material misstatement of the financial information is likely to arise; and (Ref: A29)
- (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.

21. In obtaining an understanding of the source and basis of preparation of the financial information and other engagement circumstances under paragraph 19, the assurance practitioner shall obtain an understanding of internal control over the process used to prepare the financial information. (Ref: A30)

22. 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 source and basis of preparation of the financial information and other engagement circumstances.

23. In obtaining the understanding required by paragraph 20, the assurance practitioner shall obtain an understanding of:

- (a) The financial information; (Ref: A31)
- (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)
- (c) Events and transactions that may have a significant impact on the preparation of the financial information;

- (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;
- (e) Relevant industry, legal and regulatory and other external factors related to the financial information or that may impact the financial information; (Ref: A33-A35)
- (f) Any recent key changes in the entity's business activities, and how such changes may affect the financial information;
- (g) Whether experts are required, and the extent to which their work will be used; and
- (h) The competence of the preparers of the financial information.

Pro Forma Historical Financial Information

24. In an engagement to provide assurance over pro forma historical financial information, in addition to the understanding required by paragraph 23, the assurance practitioner shall obtain an understanding of:

- (a) The source of the base historical financial information;
- (b) Whether the base 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
- (c) The pro forma adjustments. (Ref: A38)

Prospective Financial Information

25. In an engagement to provide assurance over prospective financial information, in addition to the understanding required by paragraph 23, the assurance practitioner shall obtain an understanding of:

- (a) The stated basis of preparation chosen by the responsible party; (Ref: A39)
- (b) The accuracy of any prospective financial information prepared in prior time periods, and the reasons for any material variances;
- (c) Whether comparative financial information is to be included, and whether it will be restated;
- (d) Relevant financial information available in the public domain;
- (e) Key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures; and
- (f) significant assumptions used in the prospective financial information.

Pro Forma Prospective Financial Information

26. In an engagement to provide assurance over pro forma prospective financial information, in addition to the understanding required by paragraph 23, the assurance practitioner shall obtain an understanding of:

- (a) The source of the base 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)
- (b) The stated basis of preparation of the pro forma prospective financial information;

- (c) The pro forma adjustments; and
- (d) Any recent key changes in the entity's business activities and how they affect the pro forma financial information.

27. 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.

28. 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.

Obtaining Evidence

Designing and Performing Procedures

29. Based on the assurance practitioner's understanding obtained in accordance with paragraph 20, the assurance practitioner shall:

- (a) Identify areas where a material misstatement of the financial information is likely to arise; and (Ref: A40)
- (b) Design and perform procedures to address the areas identified in paragraph 29(a) and to obtain limited assurance to support the assurance practitioner's conclusion. (Ref: A41)

30 The assurance practitioner shall perform the following procedures on the financial information:

- (a) In respect of comparative information:
 - (i) read the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information
 - (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
 - (iii) evaluate the reasons for any differences; and
 - (iv) determine that any restatements or adjustments made are appropriate;
- (b) evaluate the reasonableness and appropriateness of the time period covered;
- (c) enquire of the responsible party in respect of the financial information:
 - (i) that it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;
 - (ii) that it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;
 - (iii) that it reflects the results of any identified misstatements from the prior year's financial statements;
 - (iv) if any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records;

- (d) evaluate the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation;
- (e) perform analytical procedures on the financial information. (Ref: A42-A43)
- (f) if applicable, enquire how the responsible party makes significant accounting estimates included in the financial information; (Ref: A44-A46)
- (g) in respect of the stated basis of preparation:
 - (i) understand the process for its selection and approval;
 - (ii) understand what accounting policies have been adopted;
 - (iii) evaluate its reasonableness and suitability;
 - (iv) perform consistency checks in the application of the stated basis of preparation to the financial information;
 - (v) evaluate, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document; and
 - (vi) evaluate whether the financial information is prepared in all material respects in accordance with the stated basis of preparation;
- (h) enquire of the responsible party and other relevant parties whether there were:
 - (i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the relevant time period;
 - (ii) any adjustments made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;
 - (iii) any unadjusted differences from the most recently audited or reviewed financial report that may be material for purposes of the published financial information;
 - (iv) any other provisions and other accounting estimates (such as asset revaluations) in the financial information;
 - (v) any significant transactions with related parties (for example, assets purchased from an associated entity); and
- (i) such other procedures that, in the assurance practitioner's judgement, are appropriate. (Ref: A47)

Pro forma historical financial information

10. In addition to the procedures required by paragraph 30, the assurance practitioner's procedures on the pro-forma historical financial information shall include:

- (a) Such procedures as are necessary, in relation to the base historical financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: A48-A49)
- (b) Understanding the stated basis of preparation for the pro forma historical financial information;

- (c) Understanding the basis for, and calculations underlying the pro forma adjustments; (Ref: A50-A51)
- (d) Determining whether the pro forma adjustments:
 - (i) Have been selected and applied to the base historical financial information in accordance with the stated basis of preparation;
 - (ii) Are supported by sufficient appropriate evidence;
 - (iii) Are arithmetically correct; and
- (e) Determining whether the resultant pro forma historical financial information reflects the results of the applying the pro forma adjustments to the base financial information. .

Prospective financial information

32. In addition to the procedures required by paragraph 30, for assurance over prospective financial information, to determine whether the responsible party has extracted the prospective financial information from an appropriate source, the assurance practitioner shall:

- (a) make enquiries of the responsible party, experts and relevant parties on the nature of the source of the prospective financial information;
- (b) if the source of the prospective financial information includes material historical financial information which has been previously audited or reviewed:
 - (i) 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
 - (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
- (c) If the source of the prospective financial information includes material historical financial information which has not been previously audited or reviewed: (ref A52)
 - (i) Ascertain whether the assurance practitioner is able to access all required documentation describing and supporting the source;
 - (ii) Enquire of the responsible party about:
 - the process by which the source has been prepared and the reliability of its underlying accounting records;
 - Whether all transactions for the time period have been recorded;
 - Whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation.
 - Whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;
 - The responsible party's assessment of the risk that the source may be materially misstated as a result of error or fraud;

- How recently the entity’s historical financial information was audited or reviewed;
 - Whether there have been any changes in the entity’s business activities and operations, and if so, their effect on the source; and
 - The extent to which statistical and mathematical modelling, computer assisted audit techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; or
- (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;
- (d) Evaluate the adequacy and reliability of the source of the prospective financial information;
- (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)
- (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:
- (i) Determine the nature of, and reasons for, the changes and their effect on the prospective financial information;
 - (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 the reasonableness of such adjustments; and
 - (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.
33. 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.
34. The assurance practitioner shall perform the following procedures on the assumptions: (Ref: A53-A54)
- (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;
 - (b) enquire of the responsible party of:
 - (i) the source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable;

- (ii) the time period the assumptions cover;
 - (iii) the methodology used in development and quantification of the assumptions, including the extent to which they are affected by the responsible party's judgement;
 - (iv) the likelihood of the assumptions actually occurring; and/or
 - (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;
- (c) evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified;
 - (d) determine whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;
 - (e) determine whether the assumptions are arithmetically correct;
 - (f) consider whether the significant assumptions are reasonable and supportable;
 - (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;
 - (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
 - (i) consider the responsible party's reliance on the work of experts in relation to the assumptions.
35. 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.
36. 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:
- (a) evaluate the stated basis of preparation used by the responsible party in the preparation of the prospective financial information; (Ref: A55)
 - (b) evaluate whether the stated basis of preparation described in the published financial information is consistent with the assurance practitioner's understanding;
 - (c) agree or reconcile the significant assumptions to the stated basis of preparation;

- (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;
 - (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);
 - (f) Perform clerical checks such as re-computations on the prospective financial information;
 - (g) consider the interrelationships of elements within the prospective financial information; and
 - (h) consider whether any other procedures are necessary in the circumstances.
37. The assurance practitioner shall perform the following procedures on the prospective financial information itself:
- (a) evaluate the length of time covered by the prospective financial information by: (Ref: A56)
 - (i) enquiring of the responsible party the reasons for the choice of time period;
 - (ii) considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and
 - (iii) considering whether any elapsed portion of the current time period is included in the prospective financial information;
 - (b) 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;
 - (c) consider the accuracy of prospective financial information prepared in prior time periods as compared to actual financial results and obtain and evaluate the responsible party's reasons for any significant variances; and
 - (d) evaluate whether the prospective financial information is reasonable and supportable, based on evidence obtained throughout the engagement.

Pro Forma Prospective Financial Information

38. In addition to the procedures required by paragraph 30 and 32-37, for assurance over pro forma prospective financial information, the assurance practitioner shall:
- (a) Perform such procedures as are necessary, in relation to the base financial information, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para A57)
 - (b) Determine whether the pro forma adjustments: (Ref: Para A58)

- i) Are directly attributable to the events or transactions requiring the preparation of the pro forma prospective financial information;
 - ii) Have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;
 - iii) Are supported by sufficient appropriate evidence;
 - iv) Are arithmetically correct; and
 - v) Reflect the planned events or transactions in the time period in which they are expected to occur.
- (c) Evaluate whether the resultant pro forma prospective financial information reflects the results of applying the pro forma adjustments to the base financial information. (Ref: Para A59-A60)

Specialised Skills or Knowledge

39. 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: A61 – A62)

Written Representations

40. The assurance practitioner shall request written representations from the appropriate party(ies): (para A3)

- (a) That they understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type of assurance, i.e., limited assurance, to be expressed
- (b) That they acknowledge and understand their responsibility for:
 - (i) the preparation of the of the financial information in accordance with the stated basis of preparation;
 - (ii) The selection of the financial information, including whether it contains comparatives;
 - (iii) Determining the relevant time period to be covered by the financial information;
 - (iv) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document;
 - (v) The contents, preparation and issuance of the published financial information.
 - (vi) Complying with the requirements of the applicable laws and regulations in the preparation of the published financial information; and
 - (vii) Such internal control as is determined to be necessary to enable the preparation of financial information and the published financial information.
- (c) That the going concern basis of preparation of the financial information is appropriate in the document;

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

Pro forma historical financial information

41. When the financial information includes pro forma historical financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraph 40, acknowledgement by the responsible party of its responsibility for:

- (a) Selecting the basis of preparation of the pro forma historical financial information;
- (b) Selecting the base historical financial information used as the source of the pro forma historical financial information;

- (c) Selecting and determining the pro forma adjustments;

Prospective Financial Information

42. In addition to the representations required by paragraph 40, when the financial information includes prospective financial information, the assurance practitioner shall request the following representations from the appropriate party(ies)

- (a) Confirmation of the completeness of all significant assumptions used in the preparation of the prospective financial information
- (b) That the significant assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.

Pro forma prospective financial information

43. When the financial information includes proforma pro forma prospective financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraph 40, acknowledgement by the responsible party of its responsibility for:

- (a) Selecting the basis of preparation of the pro forma prospective financial information;
- (b) Selecting the base prospective financial information used as the source of the pro forma prospective financial information; and
- (c) Selecting and determining the pro forma adjustments.

Subsequent Events

44. 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)

45. 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 44 is not appropriately addressed by the responsible party.

Going Concern

46. 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)

47. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to events or conditions that individually, or collectively, may cast significant doubt

about the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: A66)

Forming the Assurance Conclusion

48. 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)¹¹ and Review Engagement Standards, as applicable.

Preparing the Assurance Report

49. 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.

50. 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)

Assurance Report Content

51. The assurance report shall be in writing and shall include, at a minimum, the following basic elements: (Ref: A69-A70)

- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee
- (c) Identification of the financial information, including the period(s) it covers, and, if any information in the financial information is not covered by the assurance practitioner's conclusion, clear identification of the financial information subject to assurance as well as the excluded information, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.
- (d) A description of the responsible party's responsibilities.
- (e) Identification of the stated basis of preparation including:
 - (i) How the stated basis of preparation can be accessed; and

¹¹ ISAE (NZ) 3000 (Revised), paragraphs 64-65

- (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, *Assurance Engagements over Financial Information Prepared in Connection with a Capital Raising*. (Ref: A71)
- (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.
- (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.
- (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:
 - (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: A72 – A74)
 - (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.

- (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.
- (m) When the assurance practitioner expresses a modified conclusion, the assurance report shall contain:
 - (i) A section that provides a description of the matter(s) giving rise to the modification; and
 - (ii) A section that contains the assurance practitioner's modified conclusion.
- (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.
- (o) A consent statement
- (p) The name of the lead assurance practitioner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
- (q) The assurance practitioner's signature.
- (r) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the assurance practitioner has obtained the evidence on which the assurance practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the financial information.
- (s) The location in the jurisdiction where the assurance practitioner practices.
- (t) 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.

Pro forma historical financial information

52. When reporting on pro forma historical financial information, in addition to the elements required by paragraph 51, the assurance report shall include:

- (a) Statements that:
 - (i) Identify the pro forma historical financial information being reported on, including the time period it covers;

- (ii) Identify whether there has been an audit or review conducted on the source from which the base historical financial information was prepared; and
 - (iii) Cross reference to, or describe, the stated basis of preparation selected by the responsible party for the pro forma historical financial information.
- (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.
- (c) The assurance practitioner's conclusion on the pro forma historical financial information.

Prospective financial information

53. When reporting on prospective financial information, in addition to the elements required by paragraph 51, the assurance report shall include:

- (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;
- (b) Statements that:
 - (i) Identify the entities whose prospective financial information is the subject of the assurance report and, if applicable, the responsible party;
 - (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.
 - (iii) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information.
- (c) Statements that:
 - (i) Actual results are likely to be different from the prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation could be material; and
 - (ii) Disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information.

Pro Forma Prospective financial information

54. When reporting on prospective financial information, in addition to the elements required by paragraphs 51 and 53, the assurance report shall include:

- (a) Statements that:
 - (i) Identify the pro forma prospective financial information, its purpose, the time period covered and, if applicable, a 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.

- (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.

Consent

55. 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: A75 – A77)

56. 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.

Application and Other Explanatory Material

Scope of this SAE

A1. The assurance report may be on a single type of financial information (individual assurance report) or on multiple types of financial information.

A2. In some circumstances the assurance practitioner may also agree to provide non-assurance services related to the capital raising, for example, participation in the entity's due diligence committee or the preparation and issuance of a Materiality Advice Letter or similar document related to the capital raising to an entity's due diligence committee. Such services are outside the scope of this standard.

Definitions

A3. 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.

A4. The assurance report may also be referred to as an "Investigating Accountant's Report".

A5 Base financial information may not or may not have been previously audited or reviewed.

A6. Capital raisings may include, for example, initial public offerings, takeovers, schemes of arrangement or other corporate restructures.

A7 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

Preconditions for the Assurance Engagement

A8. The engaging party is ordinarily the responsible party. References in this SAE to *responsible party* are taken to include the *engaging party* unless otherwise stated.

A9 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.

A10. 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.

A11. 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, for example, , among other factors, the assurance practitioner's limited knowledge of the entity, their understanding of risks and the compressed timeline often involved in these types of assurance engagement. The assurance practitioner may consider it necessary to perform a review engagement in accordance with ISRE (NZ) 2400 on the historical financial information in order to obtain sufficient evidence on which to base the limited assurance conclusion.

A12. 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.

Pro Forma Financial Information

A13. 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:

- Selecting the basis of preparation of the pro forma financial information;
- Selecting the base financial information used as the source for the pro forma financial information;
- Selecting and determining the pro forma adjustments;
- Preparing pro forma financial information in accordance with the stated basis of preparation.

A14. 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. When the assurance practitioner is required to provide assurance on whether the pro forma financial information has been properly compiled, refer to ISAE (NZ) 3420 *Assurance Engagements to report on the Compilation of Pro Forma Financial Information Included in a Prospectus*.

A15. Circumstances such as those outlined in paragraph A14 may occur, for example, when:

- 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.
- The capital raising involves a takeover transaction where the other entity has not been subject to an audit or review.
- There is insufficient time to which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.

Agreeing on the Terms of the Engagement

A16. An illustrative engagement letter is set out in Appendix 1.

A17. The objective and scope agreed in the terms of engagement may include, for example:

- 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.
- Confirmation that the assurance practitioner will conduct the engagement in accordance with this SAE.
- That the responsible party is responsible for the preparation of the financial information.
- That the assurance practitioner will assess whether the financial information has been prepared in accordance with the stated basis of preparation.
- That an audit is not being performed and that consequently, an audit opinion will not be expressed.
- The type(s) and proposed wording of the assurance conclusion.
- 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.

A18. Other terms that the assurance practitioner may consider appropriate to agree include, for example:

- A description of the assurance procedures to be performed.
- 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.

- Arrangements regarding the planning and performance of the engagement, including the composition of the engagement team.
- Arrangements for the assurance practitioner to:
 - Attend meetings such as the due diligence committee meetings, if applicable.
 - Receive draft and final versions of the financial information.
 - Use the services of the responsible party's experts.
 - Communicate directly with the entity's external auditor regarding matters relevant to the financial information.
 - Provide consent to the inclusion of the assurance practitioner's assurance report.

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.

Planning and Performing the Engagement

Planning

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.

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.

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.

Materiality

A23. The concept of materiality generally includes the principles that:

- 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.

- 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
- 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.

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.

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.

A26. Judgements about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. However, 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. 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 annual financial statements due to difference in the purpose for which the financial information is prepared and potential differences in who the intended users are.

A27. The assurance practitioner's determination of materiality may need to be revised during the engagement as a result of:

- A change in circumstances a (for example, the disposal of a major part of the entity's business),
- 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.

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 materiality and the nature, timing and extent of the further procedures.

Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances

A28 Obtaining an understanding of the source and basis of preparation of the financial information and

other engagement circumstances provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the engagement, for example when:

- Considering the characteristics of the source of the financial information;
- Assessing the suitability of criteria, i.e., its basis of preparation;
- 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;
- Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
- Developing expectations for use when performing analytical procedures;
- Designing and performing procedures; and
- Evaluating evidence, including the reasonableness of the oral and written representations received by the assurance practitioner.

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.

A30. In a limited assurance engagement, obtaining an understanding of internal control over the process used to prepare the financial information assists the assurance practitioner in designing and performing procedures that address the areas where a material misstatement of the financial 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.

A31. The assurance practitioner's understanding of the financial information generally includes obtaining an understanding of:

- The type, source and nature of the financial information.
- The time period covered and the reasons for its selection.
- Its intended use.
- The extent to which the financial information may be affected by the responsible party's judgements.
- Whether the financial information contains comparative information, whether such comparative information will be restated, and if so, why.
- Identifying relevant information available in the public domain.
- Identifying expected and plausible relationships within the financial information for use when performing analytical procedures.

- 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.
- 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.
- Whether adjustments have been made that were considered immaterial in the prior period audit or review.

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.

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:

- The market and competition, including demand, capacity, and price competition.
- Common business practices within the industry.
- Cyclical or seasonal activity.
- Product technology relating to the entity's products.

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:

- Industry specific accounting practices.
- The legal and regulatory framework for a regulated industry.
- Legislation and regulation that directly affect the entity's or any acquiree's or divestee's operations, including direct supervisory activities.
- Taxation.
- Government policies that may be relevant to the entity or any acquiree or divestee.
- Environmental requirements affecting the entity's or any acquiree's or divestee's industry and business.

A35. Other external factors might include the general economic conditions, interest rates and availability of financing.

Pro Forma Financial Information

A36. When the base financial information has been previously audited or reviewed, the assurance practitioner may:

- Request a copy of the audit or review report accompanying the base financial information and, if obtained, read it to understand the type of report issued and, if modified, the reasons for the modification;
- 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 base financial information;
- Read the base 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
- Plan to perform further procedures as is considered necessary in the engagement circumstances.

A37. As noted in paragraph A14, if the assurance practitioner has not previously performed an audit or review of the historical financial information, the assurance practitioner may instead consider performing an assurance engagement on the compilation of the pro forma historical financial information in accordance with ISAE (NZ). If the assurance practitioner nevertheless agrees to perform an assurance engagement incorporating historical financial information they did not audit or review and 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 by other means, the assurance practitioner considers the impact on the engagement and the assurance report.

A38. In respect of the pro forma adjustments, the understanding obtained by the assurance practitioner may include:

- Identifying the pro forma adjustments;
- Understanding the event or transaction that the pro forma adjustments are intending to record;
- Understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them.

Prospective Financial Information

A39. The understanding of the stated basis of preparation of the prospective financial information obtained by the assurance practitioner may include an understanding of:

- Its relevance, completeness, reliability, and understandability; and
- Any differences between the stated basis of preparation and that used in the most recent audited or reviewed historical financial information.

Obtaining Evidence

Designing and Performing Procedures

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:

- the likelihood of intentional misstatement in the financial information;
- applicable law or regulatory requirements or guidance with respect to the preparation or presentation of the financial information;
- the complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and
- how the responsible party makes significant accounting estimates and the data on which they are based.

A41. The nature, timing and extent of assurance procedures is influenced by various factors, for example:

- 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.
- The stated basis of preparation chosen by the responsible party.
- Whether some of the financial information has previously been audited or reviewed.
- Whether the financial information is prepared on the same basis as prior period audited or reviewed historical financial information, and if not, why not.
- Whether the source and time period covered by the financial information are appropriate and consistent with the stated basis of preparation.
- Whether misstatements considered immaterial in prior period audited or reviewed historical financial information need to be corrected.

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.

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.

A44 The assurance practitioner's enquiries of the responsible party regarding significant accounting estimates may address:

- whether the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates
- The method chosen for making material accounting estimates and whether:
 - It has been applied consistently;

- It is appropriate when compared with the most recent audited or reviewed financial statements;
- It reflects any changes in method from prior periods; and
- any changes in method are consistent with the stated basis of preparation

A45. 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.

A46 Other procedures in the context of material accounting estimates that the assurance practitioner may determine are appropriate in the circumstances may include:

- testing how the responsible party made the accounting estimate and the data on which it is based
- evaluating whether the method of quantification used is appropriate in the circumstances
- evaluating whether the assumptions used by the responsible party are reasonable

A47. Other procedures the assurance practitioner may consider appropriate depending on the nature and circumstances of the engagement may include:

- Reviewing key contracts.
- Reconciling key recorded accounts and balances to supporting documentation.
- Re-performing key calculations such as accounting estimates and reconciling differences noted.
- Performing external confirmation procedures.

Pro forma historical financial information

A48. The assurance procedures on the pro forma historical financial information may include:
(Ref: Para. 100(a))

- enquiring of the responsible party about:
 - the process and source from which the base historical financial information has been prepared and the reliability of the underlying accounting records to which the base historical financial information is agreed or reconciled;
 - whether all transactions for the time period have been recorded;
 - whether the base historical financial information has been prepared in accordance with the entity's accounting policies;
 - 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;
 - its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
 - the effect of changes in the entity's business activities and operations;
- if the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical 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 base financial information has been extracted;

- 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
- comparing the source from which the base historical financial information has been prepared with the corresponding prior period historical financial information and, as applicable, the immediately preceding annual or interim historical financial information, and discussing significant changes with the responsible party.

A49. When there is no audit or review report on the source from which the base financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source (e.g. when historical financial information is extracted from financial statements or management accounts that were not audited or reviewed). Factors that may affect the nature and extent of these procedures include, for example:

- 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.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to other periodic reviews by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the base historical financial information.
- The type of assurance to be provided, i.e., limited assurance.

A50. 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. For example, in the context of a business combination this may involve consideration of such matters as:

- whether differences exist between the acquiree's accounting policies and those of the entity; and
- 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.

A51. 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:

- 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
- whether it has appropriately applied such policies in preparing the pro forma historical financial information.

Prospective financial information

A52. This [proposed] SAE does not require the assurance practitioner to perform an audit or review of the source from which the base financial information has been extracted as part of the engagement, if such an audit or review has not already been performed.

A53. 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.

A54. The assurance practitioner's enquiries of the responsible party in accordance with paragraph 33(b)(v) may also address the interaction of assumptions with each other.

A55. The assurance practitioner's evaluation of the stated basis of preparation used by the responsible party may include:

- the process for its selection and approval;
- the differences, if any to the basis of preparation, adopted in the most recent financial report; and
- its suitability for the preparation of the prospective financial information, based on the stated purpose of the prospective financial information.

A56. Prospective financial information ordinarily becomes more speculative and less verifiable as the length of the period covered increases.

Pro Forma Prospective Financial Information

A57. The assurance procedures may include:

- Enquiring of the responsible party about:
 - The process by which the base financial information has been prepared and the reliability of the underlying accounting records to which the base financial information is agreed or reconciled;
 - Whether all transactions for the time period have been recorded;
 - Whether the base financial information has been prepared in accordance with the entity's accounting policies;
 - 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;

- Its assessment of the risk that the base financial information may be materially misstated as a result of error or fraud; and
- The effect of changes in the entity's business activities and operations;
- 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 base financial information has been extracted;
- 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
- Comparing the base financial information 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.

A58 When there is no audit or review report on the source from which the base 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:

- 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.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filings.
- Whether the assurance practitioner is able to access documentation describing and supporting the source of the base historical financial information.
- The type of assurance to be provided.

A59. 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:

- Whether differences exist between the acquiree's accounting policies and those of the entity.
- 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.

A60. 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:

- Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework;

- Whether it has appropriately applied such policies in preparing the pro forma prospective financial information.

Specialised Skills or Knowledge

A61. The assurance practitioner may decide to engage an expert to, for example:

- Evaluate the suitability of the stated basis of preparation.
- Assess the impact of contractual requirements on the pro forma prospective financial information.
- Evaluate pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation.
- Value new complex financial instruments.

A62. The expert may be an assurance practitioner's internal expert (i.e., from the assurance practitioner's firm) or an external expert.

Written Representations

A63. An illustrative representation letter is presented in Appendix 2.

Subsequent Events

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.

Going Concern

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

A66. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern basis:

- (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

- (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.

Preparing the Assurance Report

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).

A68. In a composite report:

- (c) the different types of financial information should be clearly identified in the financial information, and separately referred to in the assurance report; and
- (d) the assurance report should clearly identify and segregate the work carried out, and type of assurance expressed, on the different types of financial information.

Assurance Report Content

A69. Appendix 3 contains an illustrative assurance report.

A70. In addition to the required basic elements, the assurance report may include a liability statement.

A71. 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 historical financial information in accordance with [proposed] SAE 3450, *Assurance Engagements over Financial Information Prepared in Connection with a Capital Raising* and NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*.

A72. 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 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.

A73. Factors to consider in making that determination and the level of detail to be provided include:

- (a) circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);

- (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
- (c) 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.

A74 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.

Consent

A75. 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.

A76. The assurance practitioner ordinarily pays particular attention to the following disclosure areas within the published financial information:

- Other financial information not subject to the assurance engagement including:
 - Summarized financial information, for example, in tabular or graphical forms.
 - Disclosures related to other financial information that has been previously audited or reviewed.
 - Management discussion and analysis discussing other financial information.
- Disclosures about the nature of the events or transactions giving rise to the preparation of the published financial information.
- Qualitative and quantitative disclosures about the entity's plans and future outlooks.
- 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.
- Other relevant disclosures, for example:
 - Explanations of how revenue would be generated
 - Nature and extent of related party disclosures
 - Valuation of material assets

A77. 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.

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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 initial 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.
- The assurance engagement will be performed by the auditor of the entity.
- Prospective financial information will be prepared in accordance with Financial Reporting Standard 42 *Prospective Financial Statements* (FRS-42)

[Date]

[To the engaging party]¹²*[Objective and Scope of the engagement]*

This purpose of this letter is to confirm our¹³ 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 (PDS) and online register entry (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 (the “Company”) in relation to the *[proposed initial public offering of shares in the Company and listing of the Company on the NZX¹⁴ (the “Offer”)]*. This engagement letter *[including*

¹² The addressee and references in the letter would be those that are appropriate in the circumstances of the engagement.

¹³ Throughout this letter, references to “you,” “we,” “us,” “our” and “management,” would be used or amended as appropriate in the circumstances.

¹⁴ 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*

its appendices,] sets out the services we will provide and the terms of our engagement, which take effect from [date].

1. Financial information

The following financial information will be included in the PDS and/or Register Entry (paragraphs a to d below) (collectively, the Financial Information).

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 20X0, 31 December 20X1 and 31 December 20X2;
- Net cash flows from operating activities for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the PDS, 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 PDS.

Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the PDS;
- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 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 PDS.

Prospective Financial Information (PFI) being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;

- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; 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 20X3 and 31 December 20X4 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.

Pro Forma PFI 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 20X3 and 31 December 20X4 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 20X3 and 31 December 20X4 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 PDS.

Review of Historical Financial Information

Objective of the Review Engagement

For the purpose of the Offer, 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 PDS 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 [proposed] 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 PDS), 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

Limited assurance procedures on the Pro Forma Historical Financial Information, PFI and Pro Forma PFI

Objective of the limited assurance engagement

For the purpose of the Offer, 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 PDS 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 PDS 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 PDS 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 [proposed] 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 y.*]

Scope of the limited assurance engagement

a. The scope of our limited assurance engagement is to perform our engagement in accordance with [proposed] 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 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 *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.

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.

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). Accordingly, we do not express an audit opinion.

Our procedures will include, but are not limited to¹⁵:

[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]*

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 firm will not express any opinion as to whether the 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 the Company.

[The responsibilities of *[Directors]*

The *[Directors]* of the Company are responsible for:

- (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.

¹⁵ The procedures to be performed may be included in the body of the letter or in an attachment.

- (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 directors, 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 the 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 PDS 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.

Consent

Prior to the issue of the proposed PDS, 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 PDS and full Register Entry.

The consent relates to the use of our name and report in the context of the whole proposed PDS and Register Entry. 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 PDS or Register Entry].

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 the 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 the 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

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Appendix 2

(Ref: Para. A13)

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...,

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 (the “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 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.
- The Company's financial information has been prepared on a going concern basis. Having considered the circumstances likely to affect the 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 the 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 the 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 the Company and to assume that the information provided is, to the best knowledge and belief of management and the directors of the 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 the 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 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 the Company's assets during the period covered by the financial information, other than those already reflected in the public document.
- The 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 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 the Company, and which would have a material effect on the financial information.
- *[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):

- 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]*.

- 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:
 - ABC Company’s historical financial information, as described in section [X] of the *[published financial information]*; and
 - 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.
- 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):

- The *[prospective financial information]* is based on assumptions that:
 - are based on the best information that could be reasonably expected to be available at the time the *[prospective financial information]* is prepared;
 - Are consistent among themselves;
 - Are consistent with the current plans of ABC Company to the extent that is relevant;
 - Are applied consistently; and
 - Have a reasonable and supportable basis.
- All liabilities which will arise out of the activities of ABC Company have been included in the *[prospective financial information]*.
- 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.
- The accounting policies adopted in preparing the *[prospective financial information]* for the years ending 31 December 20x3 and 31 December 20x4 are those that are expected to be used for reporting historical financial information for the corresponding period.
- 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.

- *[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

DRAFT

Appendix 3

(Ref: Para. A69)

ILLUSTRATIVE ASSURANCE REPORT

The illustrative assurance report should 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

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.

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.

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.

Information subject to assurance

- (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 20X0, 31 December 20X1 and 31 December 20X2
- Net cash flows from operating activities for the years 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the PDS, 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 PDS.

(b) Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the PDS;
- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 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 PDS.

(c) Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; 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 20X3 and 31 December 20X4 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 20X3 and 31 December 20X4 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 20X3 and 31 December 20X4 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 PDS

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

Our limited assurance engagement

We 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 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))*].

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

Our Independence and Quality Control

We have complied with 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.]*

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 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.

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.

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.]

[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]

[Proposed] SAE 3450 Assurance over Financial Information Prepared in Connection with a Capital Raising	
Introduction	
<u>Scope of this SAE</u>	
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.	
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"> • historical, • pro forma historical, • prospective and • pro forma prospective 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. Non-assurance services are outside the scope of this engagement. (Ref: A2)	<u>A2. In some circumstances the assurance practitioner may also agree to provide non-assurance services related to the capital raising, for example, participation in the entity's due diligence committee or the preparation and issuance of a Materiality Advice Letter or similar document related to the capital raising to an entity's due diligence committee. Such services are outside the scope of this standard.</u>

<p><i>Relationship with Other Standards issued by the NZAuASB</i></p>	
<p>5. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ISAE (NZ) 3000 (Revised)¹. 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.</p>	
<p>6. The assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised) and Review Engagement Standards, as applicable, and this SAE when performing an assurance engagement to report on published financial information prepared in connection with a capital raising. This SAE supplements, but <u>supplements but</u> does not replace ISAE (NZ) 3000 (Revised) or the applicable Review Engagement Standard.</p>	
<p>7. Compliance with ISAE (NZ) 3000 (Revised) and Review Engagement Standards 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>² 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.³ It also requires the lead assurance practitioner to be a member of a firm that</p>	

¹ International Standard on Assurance Engagements (New Zealand) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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

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

applies Professional and Ethical Standard 3 ⁴ , or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3. ⁵	
Effective Date	
8. This SAE is effective for engagements commencing on or after {date} 15 December 2023. Early adoption is permitted.	
Objectives	
9. The objectives of the assurance practitioner are: <ul style="list-style-type: none"> (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. 	
Definitions⁶	
10. For purposes of this SAE, the following terms have the meanings attributed below:	

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

⁵ ISAE (NZ) 3000 (Revised) paragraphs 3(b) and 31(a)

⁶ 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 4.3
Presented for information purposes

<p>(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: A32)</p>	<p>A23. 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.</p>
<p>(b) Assurance report – a written report prepared by an independent assurance practitioner. (Ref: A43)</p>	<p>A34. The assurance report may also be referred to as an “Investigating Accountant’s Report”.</p>
<p>(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: A54)</p>	<p>A45 Base financial information may not or may not have been previously audited or reviewed.</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: A56)</p>	<p>A56. Capital raisings may 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"> (i) Historical financial information (ii) Pro forma historical financial information (iii) Prospective financial information (iv) Pro forma prospective financial information. 	
<p>(f) Pro forma adjustments – adjustments to the base financial information to:</p> <ul style="list-style-type: none"> (i) illustrate the impact of a transaction or event as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred or as if it had not occurred at all; (ii) eliminate the effects of unusual or non-recurring events or transactions that are not part of the normal operations of the entity; or (iii) exclude certain events or transactions or present transactions or balances on a different recognition or measurement basis from that required or permitted by generally accepted accounting principles. 	

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<p>(g) Pro forma financial information – base financial information shown together with pro forma adjustments prepared in accordance with the stated basis of preparation resulting in financial information that is not prepared in accordance with New Zealand generally accepted accounting practice It is subject to the assumptions inherent in the responsible party’s stated basis of preparation.</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: A67)</p>	<p>A67 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 entry.</p>	
<p>(j) Responsible party – The party(ies) responsible for the source and basis of preparation of the financial information and other engagement circumstances.</p>	
<p>(kj) 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) Unadjusted Base financial information – financial information to which pro forma adjustments are applied by the responsible party. (Ref: A87)</p>	<p>A87. Unadjusted Base financial information is ordinarily historical in nature, however, it can also be prospective, for example, a profit forecast. Unadjusted Base financial information may or may not have been previously audited or reviewed.</p>
<p>10-1. In this SAE, Review Engagement Standards refer to International Standard on Review Engagements (New Zealand) 2400, <i>Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity</i>, and New</p>	

Commented [A1]: Added in response to feedback received from reviewing firms. Based on the definition in ISAE (NZ) 3000 (Revised) but amending the words “underlying subject matter” to conform with the term in this draft “source and basis of preparation of the financial information and other engagement circumstances” per paragraph 19

Commented [A2]: Deleted to remove duplication

Zealand Standard on Review Engagements 2410 (Revised), <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i> , as applicable.	
Requirements	
142. 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) and Review Engagement Standards, as applicable.	
<i>Preconditions for the Assurance Engagement</i>	<i>Preconditions for the Assurance Engagement</i>
<p>123. In addition to the requirements of ISAE (NZ) 3000 (Revised)⁷ and Review Engagement Standards, as applicable, 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: A8-A15)</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: A12-A13)</p> <p>(b) <u>maintaining adequate accounting records and</u> such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement.</p>	<p>A8. 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>A9 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>A10. 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>

⁷ ISAE (NZ) 3000 (Revised) paragraph 24

Agenda item 4.3
Presented for information purposes

	<p>A11. 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, <u>for example, in accordance with ISRE (NZ) 2400, given,</u> among other factors, the assurance practitioner's limited knowledge of the entity, their understanding of risks and the compressed timeline often involved in these types of assurance engagement. <u>The assurance practitioner may consider it necessary to perform a review engagement in accordance with ISRE (NZ) 2400 on the historical financial information in order to obtain sufficient evidence on which to base the limited assurance conclusion.</u></p>
	<p>A12. 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>A13. 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"> • Selecting the basis of preparation of the pro forma financial information; • Selecting the base financial information used as the source for the pro forma financial information; • Selecting and determining the pro forma adjustments;

Commented [A3]: Added in response to Board suggestion that application material could be stronger in highlighting difficulties that might be encountered when the AP is not also the auditor of the entity.

	<ul style="list-style-type: none">• Preparing pro forma financial information in accordance with the stated basis of preparation. <p>A14. 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. <u>When the assurance practitioner is required to provide assurance on whether the pro forma financial information has been properly compiled, refer to ISAE (NZ) 3420 Assurance Engagements to report on the Compilation of Pro Forma Financial Information Included in a Prospectus.</u></p> <p>A15. Circumstances such as those outlined in paragraph A14⁵ may occur, for example, when:</p> <ul style="list-style-type: none">• 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.• The capital raising involves a takeover transaction where the other entity has not been subject to an audit or review.• There is insufficient time to which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.
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<p><i>Prospective Financial Information</i></p> <p>134 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 <u>is based on assumptions that:</u></p> <p>(a) <u>is based on assumptions that</u> 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>145. The terms of the engagement agreed in accordance with ISAE (NZ) 3000 (Revised)⁸ and Review Engagement Standards, as applicable, shall include: (Ref: A16)</p> <p>(a) The objective and scope of the engagement, <u>including that the engagement is a limited assurance engagement</u>; (Ref: A17)</p> <p>(b) The responsibilities of the assurance practitioner;</p> <p>(c) The responsibilities of the responsible party, including those described in paragraphs 123 and, if applicable, 134;</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>A16. An illustrative engagement letter is set out in Appendix 1.</p> <p>A17. The objective and scope agreed in the terms of engagement may include, for example:</p> <ul style="list-style-type: none"> • 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. • Confirmation that the assurance practitioner will conduct the engagement in accordance with this SAE. • That the responsible party is responsible for the preparation of the financial information.

⁸ ISAE (NZ) 3000 (Revised), paragraph 27

<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"> • That the assurance practitioner will assess whether the financial information has been prepared in accordance with the stated basis of preparation. • That an audit is not being performed and that consequently, an audit opinion will not be expressed. • The type(s) and proposed wording of the assurance conclusion. • 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.
<p style="text-align: center; font-size: 48px; opacity: 0.2; transform: rotate(-30deg);">DRAFT</p>	<p>A18. Other terms that the assurance practitioner may consider appropriate to agree include, for example:</p> <ul style="list-style-type: none"> • A description of the assurance procedures to be performed. • 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. • Arrangements regarding the planning and performance of the engagement, including the composition of the engagement team. • Arrangements for the assurance practitioner to: <ul style="list-style-type: none"> ○ Attend meetings such as the due diligence committee meetings, if applicable. ○ Receive draft and final versions of the financial information. ○ Use the services of the responsible party's experts. ○ Communicate directly with the entity's external auditor regarding matters relevant to the financial information. ○ Provide consent to the inclusion of the assurance practitioner's assurance report.

<p>156. Where there is a change in the terms of the engagement in accordance with ISA (NZ) 3000 (Revised) and Review Engagement Standards, as applicable, 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>Planning and Performing the Engagement</p>	<p>Planning and Performing the Engagement</p>
<p><i>Planning</i></p>	<p><i>Planning</i></p>
<p>167. When planning the engagement in accordance with ISAE (NZ) 3000 (Revised)⁹ and Review Engagement Standards, as applicable, the assurance practitioner shall: (para A20-A22)</p> <ul style="list-style-type: none"> (a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan; (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required; (c) Consider the factors that, in the assurance practitioner’s professional judgement, are significant in directing the engagement team’s efforts; (d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the lead assurance practitioner for the entity is relevant; (e) Ascertain the nature, timing and extent of resources needed to perform the engagement, including the involvement of experts and other assurance practitioners; and (f) If applicable, determine whether the entity’s external auditor or assurance practitioner will need to be contacted in respect of the audit opinion or review conclusion expressed on the most recent historical financial statements. 	<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>

⁹ ISAE (NZ) 3000 (Revised), paragraph 40

	<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>178. 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"> • Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected

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	<p>to influence relevant decisions of users taken on the basis of the financial information.</p> <ul style="list-style-type: none"> • 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 • 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.
	<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, hHowever, that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable</p>

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	<p>assurance engagement is the same as for a limited assurance engagement. The mMateriality 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 <u>annual</u> financial statements <u>due to difference in the purpose for which the financial information is prepared and potential differences in who the intended users are.</u></p>
<p>189. 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"> • A change in circumstances a (for example, the disposal of a major part of the entity’s business), • 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. <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 Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances</i></p>	<p><i>Understanding the Source <u>and Basis of Preparation</u> of the Financial Information and Other Engagement Circumstances</i></p>
<p>1920. The assurance practitioner shall obtain an understanding of the source and basis of preparation of the financial information and other engagement circumstances sufficient to: (Ref: A28)</p>	<p>A28 Obtaining an understanding of the source and basis of preparation of the financial information 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"> • Considering the characteristics of the source of the financial

Commented [A4]: Additional application material added in response to Board suggestion re context

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<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>information;</p> <ul style="list-style-type: none"> • Assessing the suitability of criteria, i.e., its basis of preparation; • 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; • Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors; • Developing expectations for use when performing analytical procedures; • Designing and performing procedures; and • Evaluating evidence, including the reasonableness of the oral and written representations received by the assurance practitioner.
	<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>291. In obtaining an understanding of the source and basis of preparation of the financial information and other engagement circumstances under paragraph 19, the assurance</p>	<p>A30. In a limited assurance engagement, obtaining an understanding of internal control over the process used to prepare the financial information</p>

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<p>practitioner shall obtain an understanding of internal control over the process used to prepare the financial information. (Ref: A30)</p>	<p>assists the assurance practitioner in designing and performing procedures that address the areas where a material misstatement of the financial 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>
<p>232. 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 source and basis of preparation of the financial information and other engagement circumstances.</p>	
<p>232. In obtaining the understanding required by paragraph 4920, the assurance practitioner shall obtain an understanding of:</p> <ul style="list-style-type: none"> (a) The financial information; (para A31) (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) (c) Events and transactions that may have a significant impact on the preparation of the financial information; (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; (e) Relevant industry, legal and regulatory and other external factors related to the financial information or that may impact the financial information; (Ref: A33-A35) (f) Any recent key changes in the entity's business activities, and how such changes may affect the financial information; 	<p>A31. The assurance practitioner's understanding of the financial information generally includes obtaining an <u>an</u> understanding of:</p> <ul style="list-style-type: none"> • The type, source and nature of the financial information. • The time period covered and the reasons for its selection. • Its intended use. • The extent to which the financial information may be affected by the responsible party's judgements. • Whether the financial information contains comparative information, whether such comparative information will be restated, and if so, why. • Identifying relevant information available in the public domain. • Identifying expected and plausible relationships within the financial information for use when performing analytical procedures. • 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.

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<p>(g) Whether experts are required, and the extent to which their work will be used; and</p> <p>(h) The competence of the preparers of the financial information.</p>	<ul style="list-style-type: none"> • 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. • Whether adjustments have been made that were considered immaterial in the prior period audit or review.
	<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>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:</p> <ul style="list-style-type: none"> • The market and competition, including demand, capacity, and price competition. • Common business practices within the industry. • Cyclical or seasonal activity. • Product technology relating to the entity's products.
	<p>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:</p> <ul style="list-style-type: none"> • Industry specific accounting practices. • The legal and regulatory framework for a regulated industry.

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	<ul style="list-style-type: none"> • Legislation and regulation that directly affect the entity's or any acquiree's or divestee's operations, including direct supervisory activities. • Taxation. • Government policies that may be relevant to the entity or any acquiree or divestee. • Environmental requirements affecting the entity's or any acquiree's or divestee's industry and business.
	<p>A35. Other external factors might include the general economic conditions, interest rates and availability of financing.</p>
<p><i>Pro Forma Historical Financial Information</i></p> <p><u>243</u>. In an engagement to provide assurance over pro forma historical financial information, in addition to the understanding required by paragraph <u>223</u>, the assurance practitioner shall also obtain an understanding of:</p> <ul style="list-style-type: none"> (i) The source of the base historical financial information; (ii) Whether the base 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 (iii) The pro forma adjustments. (Ref: A38) 	<p><i>Pro Forma Financial Information</i></p> <p>A36. When the base financial information has been previously audited or reviewed, the assurance practitioner may:</p> <ul style="list-style-type: none"> • Request a copy of the audit or review report accompanying the base financial information and, if obtained, read it to understand the type of report issued and, if modified, the reasons for the modification; • 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 base financial information; • Read the base 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

	<ul style="list-style-type: none"> Plan to perform further procedures as is considered necessary in the engagement circumstances.
	<p>A37. <u>As noted in paragraph A14, if the assurance practitioner has not previously performed an audit or review of the historical financial information, the assurance practitioner may instead consider performing an assurance engagement on the compilation of the pro forma historical financial information in accordance with ISAE (NZ).</u> If the assurance practitioner <u>nevertheless agrees to perform an assurance engagement incorporating historical financial information they did not audit or review and</u> 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 <u>due to a scope limitation by other means</u>, 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"> Identifying the pro forma adjustments; Understanding the event or transaction that the pro forma adjustments are intending to record; Understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them.
<p><i>Prospective Financial Information</i></p> <p>245. In an engagement to provide assurance over prospective financial information, in addition to the understanding required by paragraph 223, the assurance practitioner shall also obtain an understanding of:</p>	<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>

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<p>(i) The stated basis of preparation chosen by the responsible party. (Ref: A39)</p> <p>(ii) The accuracy of any prospective financial information prepared in prior time periods, and the reasons for any material variances;</p> <p>(iii) Whether comparative financial information is to be included, and whether it will be restated;</p> <p>(iv) Relevant financial information available in the public domain;</p> <p><u>(v) Key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures;</u></p> <p>(vi) significant assumptions used in the prospective financial information.</p>	<ul style="list-style-type: none"> • Its relevance, completeness, reliability, and understandability; and • Any differences between the stated basis of preparation and that used in the most recent audited or reviewed historical financial information.
<p><i>Pro Forma Prospective Financial Information</i></p> <p>256. In an engagement to provide assurance over pro forma prospective financial information, in addition to the understanding required by paragraph 223, the assurance practitioner shall also obtain an understanding of:</p> <p>(a) The source of the base 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; and</p> <p>(d) Any recent key changes in the entity's business activities and how they affect the pro forma financial information.</p>	
<p>267. 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>278. 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>	

Commented [A5]: Moved from paragraph 36 as sits better here

<i>Obtaining Evidence</i>	<i>Obtaining Evidence</i>
Designing and Performing Procedures	Designing and Performing Procedures
<p>289. Based on the assurance practitioner’s understanding obtained in accordance with paragraph 4920, 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 298(a) and to obtain limited assurance to support the assurance practitioner’s conclusion. (Ref: A41)</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"> • the likelihood of intentional misstatement in the financial information; • applicable law or regulatory requirements <u>or guidance</u> with respect to the preparation or presentation of the financial information; • the complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and • how the responsible party makes significant accounting estimates and the data on which they are based. <p>A41. The nature, timing and extent of assurance procedures is influenced by various factors, for example:</p> <ul style="list-style-type: none"> • 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. • The stated basis of preparation chosen by the responsible party. • Whether some of the financial information has previously been audited or reviewed. • Whether the financial information is prepared on the same basis as prior period audited or reviewed historical financial information, and if not, why not. • Whether the source and time period covered by the financial information are appropriate and consistent with the stated basis of preparation.

	<ul style="list-style-type: none"> Whether misstatements considered immaterial in prior period audited or reviewed historical financial information need to be corrected.
<p>3029 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>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><u>A44 The assurance practitioner's enquiries of the responsible party regarding significant accounting estimates may address:</u></p> <ul style="list-style-type: none"> <u>whether the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates</u> <u>The method chosen for making material accounting estimates and whether:</u> <ul style="list-style-type: none"> <u>It has been applied consistently;</u> <u>It is appropriate when compared with the most recent audited or reviewed financial statements;</u> <u>It reflects any changes in method from prior periods; and</u>

Commented [A6]: Paragraphs 30 and 34-38, amended requirements so language, more consistent with limited assurance procedures, i.e., enquiry and analytical procedures

<p>(iii) that it reflects the results of any identified misstatements from the prior year's financial statements;</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 <u>evaluate</u> 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, <u>enquire how the responsible party makes significant</u> in respect of material accounting estimates included in the financial information; (Ref: A44-A46)</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"> • has been applied consistently; • is appropriate when compared with the most recent audited or reviewed financial statements; • reflects any changes in method from prior periods; and • any changes in method are consistent with the stated basis of preparation; <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><u>o any changes in method are consistent with the stated basis of preparation</u></p> <p>A445. 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>A456 Other procedures in the context of material accounting estimates that the assurance practitioner may determine are appropriate in the circumstances <u>may</u> include:</p> <ul style="list-style-type: none"> • testing how the responsible party made the accounting estimate and the data on which it is based • evaluating whether the method of quantification used is appropriate in the circumstances • evaluating whether the assumptions used by the responsible party are reasonable <p>A467. Other procedures the assurance practitioner may consider appropriate depending on the nature and circumstances of the engagement may include:</p> <ul style="list-style-type: none"> • Reviewing key contracts. • Reconciling key recorded accounts and balances to supporting documentation. • Re-performing key calculations such as accounting estimates and reconciling differences noted. • Performing external confirmation procedures.
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<ul style="list-style-type: none">(i) understand the process for its selection and approval;(ii) understand what accounting policies have been adopted;(iii) assess <u>evaluate</u> its reasonableness and suitability;(iv) perform consistency checks in the application of the stated basis of preparation to the financial information;(v) assess <u>evaluate</u>, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document; and(vi) assess <u>evaluate</u> whether the financial information is prepared <u>in all material respects</u> in accordance with the stated basis of preparation; <p>(h) enquire of the responsible party and other relevant parties whether there were:</p> <ul style="list-style-type: none">(i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the relevant time period;(ii) any adjustments made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;(iii) any unadjusted differences from the most recently audited or reviewed financial report that may be material for purposes of the published financial information;(iv) any other provisions and other accounting estimates (such as asset revaluations) in the financial information;(v) any significant transactions with related parties (for example, assets purchased from an associated entity); and <p>(i) such other procedures that, in the assurance practitioner's judgement, are appropriate. (Ref: A467)</p>	
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<p><i>Pro forma historical financial information</i></p> <p>130. In addition to the procedures required by paragraph 2930, the assurance practitioner's procedures on the <i>pro-forma historical financial information</i> shall include:</p> <ul style="list-style-type: none"> (a) Such procedures as are necessary, in relation to the base historical financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: A478-A489) (b) Understanding the stated basis of preparation for the pro forma historical financial information; (c) Understanding the basis for, and calculations underlying the pro forma adjustments; (Ref: A5049-A501) (d) Determining whether the pro forma adjustments: <ul style="list-style-type: none"> (i) Have been selected and applied to the base historical financial information in accordance with the stated basis of preparation; (ii) Are supported by sufficient appropriate evidence; (iii) Are arithmetically correct; and (e) Determining whether the resultant pro forma historical financial information reflects the results of the applying the pro forma adjustments to the base financial information. . 	<p><i>Pro forma historical financial information</i></p> <p>A478. The assurance procedures on the pro forma historical financial information may include: (Ref: Para. 100(a))</p> <ul style="list-style-type: none"> • enquiring of the responsible party about: <ul style="list-style-type: none"> ○ the process <u>and source from which the base historical financial information by which the source</u> has been prepared and the reliability of the underlying accounting records to which the <u>source-base historical financial information</u> is agreed or reconciled; ○ whether all transactions for the time period have been recorded; ○ whether the <u>source-base historical financial information</u> has been prepared in accordance with the entity's accounting policies; ○ 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; ○ its assessment of the risk that the source may be materially misstated as a result of error or fraud; and ○ the effect of changes in the entity's business activities and operations; • if the assurance practitioner has audited or reviewed the immediately preceding annual or interim <u>historical</u> 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 base financial information has been extracted;

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	<ul style="list-style-type: none">• 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• comparing the source <u>from which the base historical financial information has been prepared</u> with the corresponding prior period <u>historical</u> financial information and, as applicable, the immediately preceding annual or interim <u>historical</u> financial information, and discussing significant changes with the responsible party.
	<p>A499. When there is no audit or review report on the source from which the base financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source <u>(e.g. when historical financial information is extracted from financial statements or management accounts that were not audited or reviewed)</u>. Factors that may affect the nature and extent of these procedures include, for example:</p> <ul style="list-style-type: none">• 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.• How recently the entity's historical financial information was audited or reviewed.• Whether the entity's financial information is subject to <u>other</u> periodic review<u>s</u> by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.

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	<ul style="list-style-type: none">• Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the base historical financial information.• The type of assurance to be provided, i.e., limited assurance.
	<p><u>A49A50</u>. 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. For example, <u>4</u>in the context of a business combination this may involve consideration of such matters as:</p> <ul style="list-style-type: none">• whether differences exist between the acquiree’s accounting policies and those of the entity; and• 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.
	<p><u>A5510</u>. 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">• 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

	<ul style="list-style-type: none"> • whether it has appropriately applied such policies in preparing the pro forma historical financial information.
<p><i>Prospective financial information</i></p> <p>342. In addition to the procedures required by paragraph 2930, for assurance over <i>prospective financial information</i>, to determine whether the responsible party has 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 A542)</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"> • the process by which the source has been prepared and the reliability of its underlying accounting records; 	<p><i>Prospective financial information</i></p> <p>A524. This [proposed] SAE does not require the assurance practitioner to perform an audit or review of the source from which the base financial information has been extracted as part of the engagement, if such an audit or review has not already been performed.</p>

<ul style="list-style-type: none">• Whether all transactions for the time period have been recorded;• Whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation.• Whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;• The responsible party's assessment of the risk that the source may be materially misstated as a result of error or fraud;• How recently the entity's historical financial information was audited or reviewed;• Whether there have been any changes in the entity's business activities and operations, and if so, their effect on the source; and• The extent to which statistical and mathematical modelling, computer assisted audit techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; or <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>	
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<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> <ul style="list-style-type: none"> (i) Determine the nature of, and reasons for, the changes and their effect on the prospective financial information; (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 the reasonableness of such adjustments; and (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. 	
<p>323. 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>334. The assurance practitioner shall perform the following procedures on the assumptions: (Ref: A53-A54)</p> <ul style="list-style-type: none"> (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; 	<p>A523. 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>

<p>(b) enquire of the responsible party of:</p> <ul style="list-style-type: none"> (i) the source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable; (ii) the time period the assumptions cover; (iii) the methodology used in development and quantification of the assumptions, including the extent to which they are affected by the responsible party's judgement; (iv) the likelihood of the assumptions actually occurring (Ref: A52); and/or (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; <p>(c) evaluate whether all material-significant assumptions required for the preparation of the prospective financial information have been identified;</p> <p>(d) determine whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;</p> <p>(e) determine whether the assumptions are arithmetically correct;</p> <p>(f) obtain consider whether the appropriate evidence to support all material-significant assumptions are reasonable and supportable;</p>	<p><u>A54. The assurance practitioner's enquiries of the responsible party in accordance with paragraph 33(b)(v) may also address the interaction of assumptions with each other.</u></p>
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Commented [A7]: Request from Board to consider whether para 33 should address completeness of the assumptions and/or interaction of assumptions with each other.
34(c) addresses completeness
New AM para A52.1 to address interaction of assumptions with each other

<p>(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;</p> <p>(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</p> <p>(i) consider the responsible party's reliance on the work of experts in relation to the assumptions.</p>	
<p>345. 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>356. 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: A553)</p> <p>(b) assess-evaluate 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 <u>significant</u> assumptions to the stated basis of preparation;</p>	<p>A535. 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"> • the process for its selection and approval; • the differences, if any to the basis of preparation, adopted in the most recent financial report; and • its suitability for the preparation of the prospective financial information, based on the stated purpose of the prospective financial information.

<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>(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);</p> <p>(f) Perform clerical checks such as re-computations on the prospective financial information;</p> <p>(g) consider the interrelationships of elements within the prospective financial information; and</p> <p>(h) obtain an understanding of all material assumptions through enquiry of the responsible party, and</p> <p>(+)(h) consider whether any other procedures are necessary in the circumstances.</p>	
<p>367. The assurance practitioner shall perform the following procedures on the prospective financial information itself:</p> <p>(a) evaluate the length of time covered by the prospective financial information by: (Ref: A564)</p> <p>(i) enquiring of the responsible party the reasons for the choice of time period;</p> <p>(ii) considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to</p>	<p>A546. Prospective financial information ordinarily becomes more speculative and less verifiable as the length of the period covered increases.</p>

Commented [A8]: Moved to paragraph 25. Whether the PFI is prepared in accordance with the assumptions is addressed by para 36(c)

<p>make it comparable to any previously issued historical financial information; and</p> <p>(iii) considering whether any elapsed portion of the current time period is included in the prospective financial information;</p> <p>(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;</p> <p>(c) assess <u>consider</u> the accuracy of prospective financial information prepared in prior time periods as compared to actual financial results and obtain and assess <u>evaluate</u> the responsible party's reasons for any significant variances; and</p> <p>(d) assess <u>evaluate</u> whether the prospective financial information is reasonable and supportable, based on evidence obtained throughout the engagement.</p>	
<p><i>Pro Forma Prospective Financial Information</i></p> <p>378. In addition to the procedures required by paragraph 29-30 and 324-376, for assurance over pro forma prospective financial information, the assurance practitioner shall:</p> <p>(a) Perform such procedures as are necessary, in relation to the base financial information, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para A557)</p> <p>(b) Determine whether the pro forma adjustments: (Ref: Para A568)</p> <p>i) Are directly attributable to the events or transactions requiring the preparation of the pro forma prospective financial information;</p>	<p><i>Pro Forma Prospective Financial Information</i></p> <p>A557. The assurance procedures may include:</p> <p>(a) Enquiring of the responsible party about:</p> <p>(i) The process by which the base financial information has been prepared and the reliability of the underlying accounting records to which the base financial information is agreed or reconciled;</p> <p>(ii) Whether all transactions for the time period have been recorded;</p> <p>(iii) Whether the base financial information has been prepared in accordance with the entity's accounting policies;</p>

<p>ii) Have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;</p> <p>iii) Are supported by sufficient appropriate evidence;</p> <p>iv) Are arithmetically correct; and</p> <p>v) Reflect the planned events or transactions in the time period in which they are expected to occur.</p> <p>(c) <u>Determine-Evaluate</u> whether the resultant pro forma prospective financial information reflects the results of applying the pro forma adjustments to the base financial information. (Ref: Para A579-A6058)</p>	<p>(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;</p> <p>(v) Its assessment of the risk that the base financial information 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 base 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 base financial information 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>A568 When there is no audit or review report on the source from which the base 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">• 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
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	<p>engagement.</p> <ul style="list-style-type: none">• How recently the entity's historical financial information was audited or reviewed.• Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filings.• Whether the assurance practitioner is able to access documentation describing and supporting the source of the base historical financial information.• The type of assurance to be provided. <p><u>A579</u>. 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">• Whether differences exist between the acquiree's accounting policies and those of the entity.• 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. <p><u>A58A60</u>. 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> <p>(a) Whether the responsible party has selected appropriate accounting</p>
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	<p>policies to be used in accounting for such financial instruments under its applicable financial reporting framework;</p> <p>(b) Whether it has appropriately applied such policies in preparing the pro forma prospective financial information.</p>
<i>Specialised Skills or Knowledge</i>	<i>Specialised Skills or Knowledge</i>
<p>389. 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: A6159 – A602)</p>	<p>A6159. The assurance practitioner may decide to engage an expert to, for example:</p> <ul style="list-style-type: none"> • Evaluate the suitability of the stated basis of preparation. • Assess the impact of contractual requirements on the pro forma prospective financial information. • Evaluate pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation. • Value new complex financial instruments. <p>A602. 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>	<i>Written Representations</i>
<p>3940. The assurance practitioner shall request written representations from the appropriate party(ies): (para A64A3)</p> <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>A643. An illustrative representation letter is presented in Appendix 2.</p> <p>Pro forma historical financial information</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 [A9]: Moved to requirements 41, 43

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<ul style="list-style-type: none"> (iii) Determining the relevant time period to be covered by the financial information; (iv) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document; (v) The contents, preparation and issuance of the published financial information. (vi) Complying with the requirements of the applicable laws and regulations in the preparation of the published financial information; and (vii) Such internal control as is determined to be necessary to enable the preparation of financial information and the published financial information. <ul style="list-style-type: none"> (c) That the going concern basis of preparation of the financial information is appropriate in the document; (d) That the assurance practitioner has been provided with all relevant information and access as agreed in the terms of engagement prior to the finalisation of the assurance report; (e) That all material events and transactions have been properly recorded in the accounting records underlying the financial information. (f) That there are no currently anticipated material changes to be made to the financial information between the date of the report and the date of the published financial information (or that any material changes that may have occurred have been advised to the assurance practitioner/firm); (g) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial information. A summary of such items shall be included in or attached to the written representations. 	<ul style="list-style-type: none"> (b) Selecting the base historical financial information used as the source of the pro forma historical financial information; (c) Selecting and determining the pro forma adjustments; <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"> (a) Selecting the basis of preparation of the pro forma prospective financial information; (b) Selecting the base prospective financial information used as the source of the pro forma prospective financial information; and <p>Selecting and determining the pro forma adjustments.</p>
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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) That 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">(i) Management; Employees who have significant roles in internal control; or(ii) Others where the fraud could have a material effect on the financial information. <p>(k) That all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial information have been disclosed to the assurance practitioner.</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><u>Pro forma historical financial information</u></p> <p><u>41. When the financial information includes pro forma historical financial information, the written representations requested by the assurance practitioner shall include, in</u></p>	

<p><u>addition to the requirements in paragraph 40, acknowledgement by the responsible party of its responsibility for:</u></p> <ul style="list-style-type: none"><u>(a) Selecting the basis of preparation of the pro forma historical financial information;</u><u>(b) Selecting the base historical financial information used as the source of the pro forma historical financial information;</u><u>(c) Selecting and determining the pro forma adjustments;</u>	
<p><i>Prospective Financial Information</i></p> <p>402. In addition to the representations required by paragraph 3940, when the financial information includes prospective financial information, the assurance practitioner shall request the following representations from the appropriate party(ies)</p> <ul style="list-style-type: none">(a) Confirmation of the completeness of all <u>material-significant</u> assumptions used in the preparation of the prospective financial information(b) That the <u>material-significant</u> assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.	
<p><u>Pro forma prospective financial information</u></p> <p>43. <u>When the financial information includes proforma pro forma prospective financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraph 40, acknowledgement by the responsible party of its responsibility for:</u></p> <ul style="list-style-type: none"><u>(a) Selecting the basis of preparation of the pro forma prospective financial information;</u><u>(b) Selecting the base prospective financial information used as the source of the pro forma prospective financial information; and</u>	

<p><u>(c) Selecting and determining the pro forma adjustments.</u></p>	
<p><i>Subsequent Events</i></p>	<p><u><i>Subsequent Events</i></u></p>
<p>444. 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>452. 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 444 is not appropriately addressed by the responsible party.</p>	
<p><i>Going Concern Considerations</i></p>	<p><u><i>Going Concern</i></u></p>
<p>436. 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>447. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to events or conditions that individually, or collectively, may cast significant doubt about the entity's ability to continue as a going concern, the</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 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>assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: A66)</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>Forming the Assurance Conclusion</p>	
<p><u>458</u>. 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)¹⁰ and Review Engagement Standards, as applicable.</p>	
<p>Preparing the Assurance Report</p>	<p><u>Preparing the Assurance Report</u></p>
<p><u>469</u>. 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>	
<p><u>5047</u>. 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</p>

¹⁰ ISAE (NZ) 3000 (Revised), paragraphs 64-65

	of financial information are the subject of the assurance report (for example historical and prospective financial information)
	<p>A68. In a composite report:</p> <ul style="list-style-type: none"> (c) the different types of financial information should be clearly identified in the financial information, and separately referred to in the assurance report; and (d) the assurance report should clearly identify and segregate the work carried out, and type of assurance expressed, on the different types of financial information.
<i>Assurance Report Content</i>	<u><i>Assurance Report Content</i></u>
<p><u>4851.</u> The assurance report shall <u>be in writing and shall</u> include, at a minimum, the following basic elements: (Ref: A69-A70)</p>	<p>A69. Appendix 3 contains an illustrative assurance report.</p> <p><u>A70 In addition to the required basic elements, the assurance report may include a liability statement.</u></p>
(a) A title that clearly indicates the report is an independent assurance report.	
(b) An addressee	
(c) Identification of the financial information, including the period(s) it covers, and, if any information in the financial information is not covered by the assurance practitioner’s conclusion, clear identification of the financial information subject to assurance as well as the excluded information, together with a statement that the	

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<p>assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.</p>	
<p>(d) A description of the responsible party's responsibilities.</p>	
<p>(e) Identification of the stated basis of preparation including:</p> <ul style="list-style-type: none"> (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). 	
<p>(f) If the stated basis of preparation is available only to specific intended users, or is relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the financial information may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose.</p>	
<p>(g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the assurance practitioner's responsibilities.</p>	
<p>(h) A statement that the engagement was performed in accordance with [proposed] SAE 3450, <i>Assurance Engagements over Financial Information Prepared in Connection with a Capital Raising</i>. (Ref: A719)</p>	<p>A791. 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</p>

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	<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>A724. 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: A742 – A734)</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>A732. Factors to consider in making that determination and the level of detail to be provided include:</p> <p style="padding-left: 40px;">(e)(a) circumstances specific to the entity (for example, the differing nature of the entity’s activities compared to those typical in the sector);</p> <p style="padding-left: 40px;">(f)(b) specific engagement circumstances affecting the nature and extent of the procedures performed; and</p> <p style="padding-left: 40px;">(g)(c) 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>A743. 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>	

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<p>(m) When the assurance practitioner expresses a modified conclusion, the assurance report shall contain:</p> <ul style="list-style-type: none"> a. A section that provides a description of the matter(s) giving rise to the modification; and b. A section that contains the assurance practitioner's modified conclusion. 	
<p>(n) A statement as to the existence of any relationship (other than as investigating accountant) the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity.</p>	
<p>(o) A consent statement</p>	
<p>A liability statement</p>	
<p>(p) 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>(q) The assurance practitioner's signature.</p>	
<p>(r) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the assurance practitioner has obtained the evidence on which the assurance practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the financial information.</p>	
<p>(s) The location in the jurisdiction where the assurance practitioner practices.</p>	

Commented [A10]: Moved to application material. Each firm will make their own determination based on the facts and circumstances of the engagement whether a liability statement is appropriate. Should not be a required element.

<p>(u)(t) 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><u>5249</u>. When reporting on pro forma historical financial information, in addition to the elements required by paragraph <u>4851</u>, the assurance report shall include:</p> <p>(a) Statements that:</p> <ul style="list-style-type: none">(i) Identify the pro forma historical financial information being reported on, including the time period it covers;(ii) Identify whether there has been an audit or review conducted on the source from which the base historical financial information was prepared; and(iii) Cross reference to, or describe, the stated basis of preparation selected by the responsible party for the pro forma historical financial information. <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><u>593</u>. When reporting on prospective financial information, in addition to the elements required by paragraph <u>4851</u>, 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">(i) Identify the entities whose prospective financial information is the subject of the assurance report and, if applicable, the responsible party;(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.(iii) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information. <p>(c) Statements that:</p> <ul style="list-style-type: none">(i) Actual results are likely to be different from the prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation could be material; and(ii) Disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information.	
<p><i>Pro Forma Prospective financial information</i></p> <p>544. When reporting on prospective financial information, in addition to the elements required by paragraphs 5148 and 503, the assurance report shall include:</p> <p>(a) Statements that:</p> <ul style="list-style-type: none">(i) Identify the pro forma prospective financial information, its purpose, the time period covered and, if applicable, a	

<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>Consent</p>	<p><u>Consent</u></p>
<p><u>525</u>. 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: <u>A754</u> – <u>A776</u>)</p>	<p><u>A754</u>. 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><u>A765</u>. 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"> • Summarized financial information, for example, in tabular or graphical forms. • Disclosures related to other financial information that has been previously audited or reviewed.

Agenda item 4.3
Presented for information purposes

	<ul style="list-style-type: none">• Management discussion and analysis discussing other financial information.(b) Disclosures about the nature of the events or transactions giving rise to the preparation of the published financial information.(c) Qualitative and quantitative disclosures about the entity's plans and future outlooks.(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.(e) Other relevant disclosures, for example:<ul style="list-style-type: none">• Explanations of how revenue would be generated• Nature and extent of related party disclosures• Valuation of material assets
	<p>A776. 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>526. 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>	

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 5.1

Meeting date: 1 June 2022

Subject: Submission to IESBA for Proposed Revisions to the Code relating to the Definition of Engagement Team and Group Audits

Date: 17 May 2022

Prepared By: Lisa Thomas

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the Board to:
 - a. CONSIDER and APPROVE the draft submission on the IESBA exposure draft *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*.

Background

2. ISA 220 (Revised) changed the definition of engagement team (ET) to include individuals who perform audit procedures on an engagement regardless of their location or employment status. In response, the IESBA commenced a project to address the implications of the change in definition from the Code's perspective, to clarify the independence requirements that apply to various individuals who are part of the ET under the revised definition.
3. In addition, IESBA has proposed changes to the International Independence Standards so that they are robust, comprehensive and clear when applied in a group audit context, including independence for non-network component auditors, who are now part of the revised ET definition.
4. IESBA issued an [exposure draft](#) for proposed revisions to the Code in February 2022. Submissions close on 31 May 2022 however we have been granted an extension until 3 June to enable the NZAuASB to consider outreach feedback at its June meeting.
5. We gathered feedback from Board members at the April meeting and presented on the exposure draft at an Ethics Webinar hosted by the Assurance team in April. As part of the presentation, we used polling to obtain views on some of the key aspects of the ED. Staff also attended the APESB's roundtable discussion on the ED.
6. Feedback from the webinar was consistent with the views of board members in that there was general agreement with the principles being proposed. There was a level of uncertainty by respondents in the proposals which may reflect the complexity observed by the Board.
7. Submissions to the NZAuASB were requested by 16 May 2022. We received one submission from Chartered Accountants Australia and New Zealand (CA ANZ) which contained preliminary CA ANZ staff views. Overall CA ANZ was supportive of aligning

independence requirements with ISA 600 and ensuring that independence is maintained to support audit quality.

8. CA ANZ however were concerned that by not considering the materiality of the component, the increased work effort of applying and monitoring the independence requirements would have an impact on the pool of auditors available, which would in turn impact audit quality. Likewise, the independence requirements for external engagement quality reviewers might decrease the available pool of engagement quality reviewers, and in turn impact audit quality.
9. While we are sympathetic to the resource pressures being faced by the firms, it is our view that if the audit firm has considered the need for a component auditor then it is likely that the component is significant and therefore, we consider it is appropriate that the independence requirements of the group audit client apply. Similarly, while there may be a reduction in available external engagement quality reviewers, this should not override the need for independence.
10. CA ANZ also raised a concern around inconsistency in the way breaches of independence are treated. Whilst we can see the logic and benefit of aligning the processes for dealing with breaches for component auditors within and outside of a firm's network, there may be practical implementation challenges as the independence monitoring and disciplinary procedures at a component auditor outside of the firm's network would be outside of the Group Engagement Partner's control. A full copy of the submission is available at agenda item 5.3.

Matters to Consider

11. Staff have developed a draft submission based on the views and feedback received from Board members, CA ANZ submission and the webinar.

Recommendations

12. We recommend that the Board approves the draft submission.

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Draft NZAuASB Submission to IESBA
Agenda item 5.3	CA ANZ Submission

2 June 2022

Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants
539 Fifth Avenue
New York, 10017
USA

Dear Ms Figueiredo Dias,

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

Thank you for the opportunity to comment on the IESBA *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* in the attachment.

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

The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the proposals is limited in this regard.

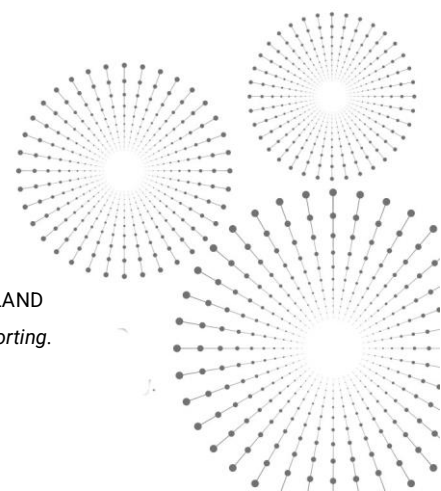
The NZAuASB supports the IESBA's objective to align the definition of engagement team with the ISAs and to revise the International Independence Standards so that they are robust, comprehensive and clear in a group context.

Overall, we agree with the proposals in principle. However, the proposals are complex and very technical areas, and we found a number of them difficult to understand and confusing. We encourage the IESBA to consider where the proposals can be simplified by shorter sentences, more examples, use of flowcharts and clarity from application material or non-authoritative material. Our detailed responses to questions 1 and 6 are included in the attachment.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Misha Pieters (misha.pieters@xrb.govt.nz).

Yours sincerely,

Robert Buchanan
Chairman
Email: robert@buchananlaw.co.nz



Submission of the New Zealand Auditing and Assurance Standards Board

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

1. **Question 1: Do you agree with the proposed changes to the Code related to the revised definition of ET, including:**
 - a) **The revised definitions of the terms “engagement team”, “audit team”, “review team” and “assurance team;” and**
 - b) **The explanatory guidance in paragraphs 400.A – 400.D?**

Response:

The NZAuASB supports the revision to the definitions of the terms engagement team, audit team, review team and assurance team to align with the IAASB standards. However, it is important that these definitions are clear and that it is easy to understand which individuals involved in an engagement are captured by each definition. The NZAuASB supports the inclusion of the explanatory guidance in paragraphs 400.A-400.D to achieve this. We note, however, that the role of experts in an engagement and whether or not they are part of the engagement team is complex, we consider that further examples in 400.C would be helpful, along with context as to the implications of being an engagement team member or an audit team member in the specific example. In addition, the explanatory guidance in paragraph 400.C could be enhanced by the use of a flowchart.

The NZAuASB is encouraged by the IESBA’s consideration of the independence requirements for experts in an audit of financial statements. We urge IESBA to consider further the impact of the use of experts in Part 4B of the Code dealing with assurance other than audit and review engagements, as it is our expectation that the use of experts is likely to increase with the increase in demand for reporting of ESG information.

- 2) **Question 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?**

Response:

405.12 A2 proposes application material for the evaluation of the self-review threat when a limited scope engagement is performed. The example provided to illustrate the concept is audit work limited to a specific line item such as inventory. The example states:

*“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.**”*

It is unclear whether it was intended that “related to the accounting for, or the internal controls over inventory” extends to captions that the inventory balance can impact such as creditors and cost of goods sold or if it strictly the inventory caption of the financial statements. For example, when a firm is engaged to perform a limited scope audit over inventory, we consider the guidance is clear that if the non-assurance service related to internal controls over inventory, a self-review threat might be created. On the other hand, if the non-assurance services related to internal controls over the entity’s payroll system, we consider it is unlikely that a self-review threat might be created. However, if the non-assurance engagement related to internal controls over creditors, it is not clear cut how this scenario might be captured by the words “related to the accounting for, or internal controls over inventory”. We consider that additional clarification to explain what the words “related to the accounting for” means would be helpful. In this regard, including case study type scenarios in more detailed non-authoritative material would be helpful.

Lisa Thomas

Subject: CA ANZ comments on IESBA's Exposure Draft Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

From: Melanie Scott <Melanie.Scott@charteredaccountantsanz.com>

Sent: Thursday, 12 May 2022 1:42 pm

To: Misha Pieters <Misha.Pieters@xrb.govt.nz>

Cc: Amir Ghandar <Amir.Ghandar@charteredaccountantsanz.com>; Zowie Pateman <zowie.pateman@charteredaccountantsanz.com>

Subject: CA ANZ comments on IESBA's Exposure Draft Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

Dear Misha

The below are our high-level comments on the proposals contained in the IESBA's Exposure Draft Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits (the ED) based on our outreach to date. These comments are preliminary CA ANZ staff views which may change as we finalise our joint submission to the IAASB with the ACCA. We hope the board finds them useful in its considerations.

Overall comments

Overall, we are supportive of the IESBA making amendments to the Code of Ethics to align with the changes made by the IAASB to ISA 600. Independence is a fundamental principle of audit, and we support striving to ensure that independence is maintained to support audit quality.

However, we also acknowledge that the management of independence for group audits is complex in practice and is already an area to which audit firms devote considerable amounts of time and resources. In further extending the independence requirements for group audits, EQRs and component auditors via the proposed changes, it is important that the board considers:

- Whether the uplift in work effort will result in a benefit (improvement in audit quality) that outweighs the costs of monitoring and compliance in the case of small/immaterial components.
- Whether there may be unintended consequences to the changes. Expanding the independence requirements, particularly without consideration of materiality of a component, may drive firms and networks to choose not to work with external component auditors in order to make the independence process more efficient to manage. Similarly local firms may decline group engagements where this would subject them to independence requirements that they view as onerous. Given the recent discussions in many jurisdictions about the need to broaden the pool of auditors to protect audit quality, neither of these outcomes is desirable.
- Whether the changes to the requirements for Engagement Quality Reviewers (EQRs) may decrease the availability of external EQRs to smaller firms which may also negatively impact audit quality and the market.

It would be helpful if IESBA field tested the proposed changes with a variety of firms to understand the work involved before making a final decision on whether or not materiality of a component should be considered in applying the requirements.

Specific comments

These are our preliminary views on the key areas where the IESBA may need to further reflect and refine the approach to the standard.

Definition of Engagement Team, Audit Team, Review Team and Assurance Team

We support aligning the definitions. However, it is important that these definitions are clear and that it is easy to understand which individuals involved in an engagement are captured by each definition. Stakeholders expressed views that further clarification and examples are needed and that including the references to ISA 610 (Revised 2013) and ISA 620 increases the complexity, rather than clarifying.

Independence considerations for Group PIE Audits

We encourage the board to consider the unintended consequences of applying the PIE requirements to component audits (CAs) with no consideration of materiality. As stated above, there is a risk that the increased work effort involved in checking and monitoring will drive network firms to preference internal component auditors or discourage external firms from wanting to accept group related engagements. Field testing of the definitions with firms may be useful.

In relation to the application material in relation to the provision of NAS by a component auditor, stakeholders would prefer more examples to be provided.

Breaches of Independence by Component Auditor Firm

Stakeholders did not understand why there was a difference in the processes for dealing with a breach by an external CA versus an internal CA. The processes should be aligned, and the external process is preferred.

Kind regards

Melanie

Melanie Scott FCA

(She/her)

Senior Policy Advocate – Reporting and Assurance

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Please note CA ANZ has gone virtual: With heightened awareness around COVID-19 we are taking practical steps to protect the health and safety of our people, members and visitors. We are keen to keep going so please check [our website](#) for more information and bear with us while we figure out our new normal.

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	16 May 2022
Subject:	Action and implementation Plan Update
Date:	19 May 2022
Prepared By:	Misha Pieters

 Action Required **For Information Purposes Only**

Agenda Item Objectives

1. For the Board to:
 - NOTE the XRB's statement of intent 2022-2027 and the statement of performance expectations for 2022/23
 - NOTE the update on the NZAuASB 2021/22 implementation plan.
 - NOTE the 2022-2027 NZAuASB action plan to support the XRB's strategy.

Background

2. In December 2021, the NZAuASB NOTED an update on its progress towards the 21/22 implementation plan.
3. In April 2022, at the joint meeting of the NZASB and NZAuASB, the XRB Chair and Chief Executive provided a summary of the XRB Board's updated strategy and key priority areas for the 2022/23 year.
4. The XRB statement of intent (SOI) 2022-2027 and the statement of performance expectations for 2022/23 have now been finalised.
5. In light of the updated SOI, a NZAuASB 2022-2027 action plan has been developed.
6. As highlighted at the April 2022 meeting, the priority assurance related actions include:
 - a. Assurance over non-financial disclosures including Greenhouse gas assurance engagements
 - b. Audit of Service Performance Information
 - c. Audit quality reforms in New Zealand
 - d. Non-assurance services
 - e. Assurance over Financial Information Prepared in Connection with a Capital raising
 - f. Going Concern
 - g. Audit Evidence
 - h. Public Interest Entity Definition

Matters for consideration*2021/22 performance*

7. The following key highlights are relevant for full year to June 2022:

Forecast to June 2022	Actual to June 2022
4 International based professional and ethical standards	4 issued (PES 3, PES 4, Objectivity changes to PES 1, Fees) Issue of NAS pending June discussions
4 International based auditing and assurance related services standards	3 issued (ISA (NZ) 220 (Revised), Quality management conforming amendments to the ISAs, Conforming and consequential amendments to Other Standards as a Result of the New and Revised Quality Management Standards) Issue of revised Group Audits standard pending June discussions
2 New Zealand specific assurance standards	2 issued to date (Deferral of NZ AS 1 and Annual Improvements and Conforming Amendments to Domestic Assurance Standards)
3 exposure drafts of domestic standards	4 issued (Non-assurance services, NZ definition of a PIE, deferral of NZ AS 1 and annual improvements and domestic standards QM conforming amendments) Issue of Capital Raising ED pending June agenda discussions
Standards reflect international standards with departures only to improve quality	100%
Develop consultation document on ISAE NZ 3410	Work underway – target date Oct 2022
Due process demonstrated by signing memo	100% compliance to date
25 outreach events to support development and raise awareness of assurance standards	16 events to date (3 NAS events, 3 LCE events, 1 Quality management presentation, 1 update on IAASB projects, 2 speaking events on EER assurance, 2 events on GHG assurance, 1 ethics edified webinar, 1 general assurance presentation, 2 guest lecture presentations to BakerTilly and Victoria University) Targeted before end of June: PIE roundtable, further events on GHG assurance.
Submissions on relevant international consultations (5-8 submissions)	3 submissions to date (IAASB workplan (Aug 21), Conforming amendments to the Code from quality management (Sep 21), Less complex entities (Jan 22)) Targeted by the end of June 2022 Technology related amendments to the Code (June 22 – pending approval) Engagement team definition and groups (June 22 – pending approval)

8. The following actions from the 21/22 implementation plan had no action taken or are on hold:

- a. Not yet considered request for guidance on example of compliance framework audit report for small NFPs. Priority has been given to working with the public sector to address concerns relating to NZ AS 1.
 - b. Development of an exposure draft on the review of service performance information has been put on hold until further notice. Priority has been given to working with the public sector to address concerns relating to NZ AS 1.
 - c. Development of standard or guidance on an alternative engagement for micro charities is on hold. We continue to monitor developments on the LCE standard.
 - d. The need for or priority of XRB guidance related to technology has not yet been determined. This is not seen as a NZ priority, but we will include links to technology related guidance developed by the IAASB and others on the XRB website.
 - e. Agreement of vision for wider NASS group on hold until next in person meeting.
 - f. Not yet undertaken research on the effectiveness of KAM reporting during the COVID pandemic and issue a report summarising the findings. We have commissioned this research to be undertaken by an academic with the aim of producing a report in October 2022.
9. Board members are asked to NOTE:
- a. The actions implemented for the 2021/22 financial year
 - b. The 2022-2027 NZAuASB action plan to support the XRB's strategy.
10. We plan to seek feedback on the detailed 2022/23 NZAuASB implementation plan at the August 2022 meeting.

Material Presented

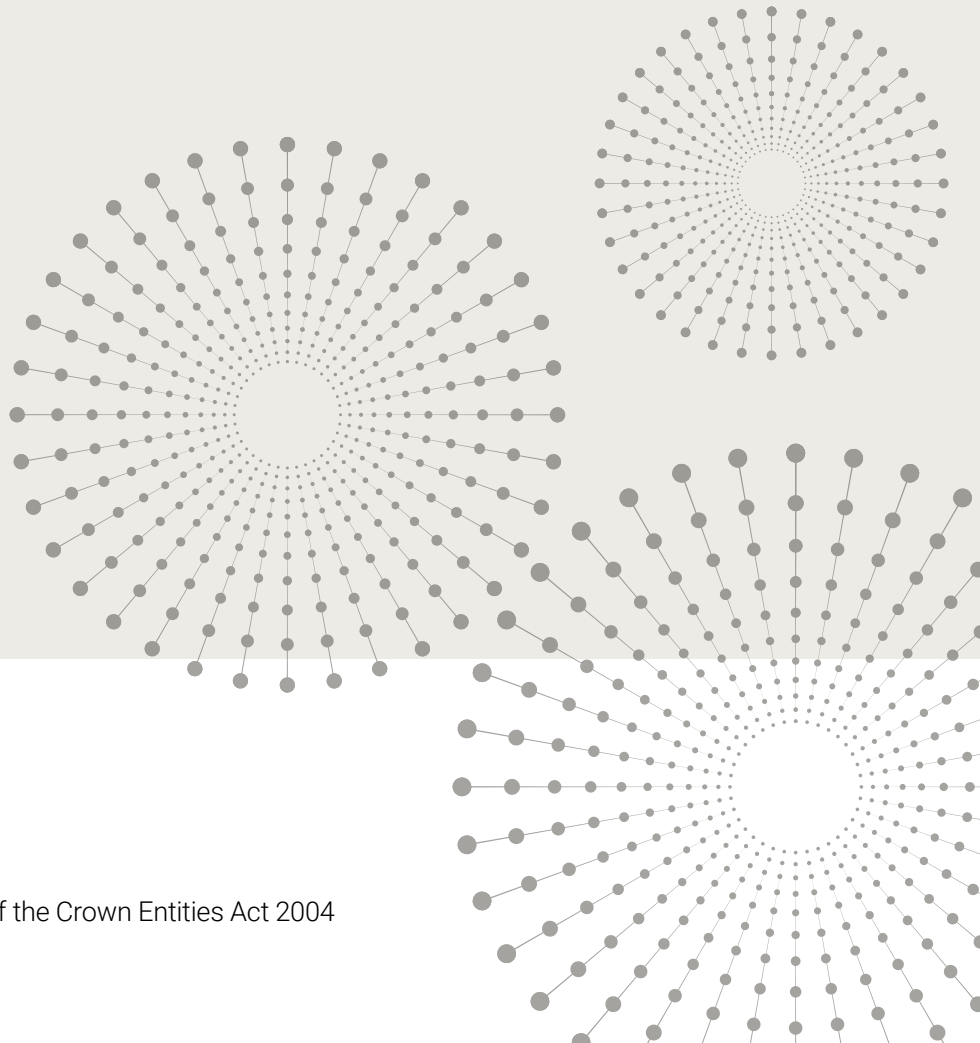
Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	2022-2027 XRB statement of intent
Agenda item 6.3	2022-23 XRB statement of performance expectations
Agenda item 6.4	21/22 implementation work plan
Agenda item 6.5	NZAuASB action plan 2022-2027

Statement of Intent

For the five-year period 1 July 2022 to 30 June 2027

April 2022

Prepared in accordance with section 139 of the Crown Entities Act 2004



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Statement of responsibility

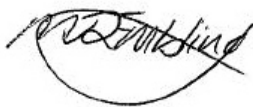
This Statement of Intent has been prepared in accordance with the requirements of section 139 of the Crown Entities Act 2004. The purpose of the Statement of Intent is to promote the public accountability of the External Reporting Board (XRB) by:

- Enabling the Crown to participate in the process of setting the XRB's strategic intentions and medium-term undertakings;
- Setting out for the House of Representatives those intentions and undertakings; and
- Providing a base against which the XRB's actual performance can be assessed.

The XRB Board is responsible for the content of this Statement of Intent.

As the XRB is an Independent Crown Entity, the Minister may not direct the XRB to have regard to, or give effect to, a government policy relating to the XRB's standard-setting functions, and as a result no such matters are included in this Statement of Intent.

In accordance with section 145 of the Crown Entities Act 2004, the XRB has consulted with the Minister of Commerce and Consumer Affairs in the preparation of this Statement.



Michele Embling
Chair
26 April 2022



Jane Taylor
Deputy chair
26 April 2022

1. Introducing the External Reporting Board

The External Reporting Board (XRB) is an Independent Crown Entity initially established under the Financial Reporting Act 1993, with continued existence under section 11 of the Financial Reporting Act 2013 and operating within the framework of the Crown Entities Act 2004.

A significant extension to the XRB's mandate was enacted on 27 October 2021¹ to include the issue of climate standards and the issue of non-binding guidance on a wider range of environmental, social and governance (ESG) and other non-financial matters. This change to our mandate and the flow on impacts on the organisation together with the fast-changing external reporting environment prompted us to review and issue an updated Statement of Intent.

The XRB's vision is that New Zealand prospers through effective decision making for resource allocation informed by high-quality, trusted, and integrated reporting.

The XRB's strategic intentions are focused on establishment of financial reporting, climate and audit and assurance standards and other guidance that give rise to:

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

The XRB's strategic intentions are achieved through its core functions as set out in sections 12 and 19A of the Financial Reporting Act 2013:

- Developing and implementing reporting strategies and frameworks for the XRB's standard setting activities, including the development of an ESG reporting framework that is relevant for Aotearoa New Zealand.
- Preparing and issuing financial reporting standards.
- Preparing and issuing auditing and assurance, and other related services standards.
- Preparing and issuing professional and ethical standards that govern the professional conduct of auditors.
- Preparing and issuing climate standards.
- Preparing and issuing authoritative notices for the purposes of the definition of generally accepted accounting practice or the definition of climate-related disclosure framework.
- Preparing and issuing non-binding guidance on a wider range of environmental, social and governance (ESG) and other non-financial matters.
- Liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

The XRB has used its powers under the Crown Entities Act to establish two subsidiary boards as committees of the XRB Board: the New Zealand Accounting Standards Board (NZASB) to set financial reporting standards and the New Zealand Auditing and Assurance Standards Board (NZAuASB) to set auditing, assurance, other related services and ethical standards.

¹ Through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

Due to the strategic significance of the new reporting standards on climate-related disclosures, the XRB Board itself is developing those standards, the first of which is expected to be issued in December 2022. A dedicated Project Steering Committee made up of a number of XRB Board members and the Chief Executive has been set up for that purpose. We expect that it will be necessary to maintain and issue on-going guidance and consider international alignment as international standards develop. This may prompt a review of our operating structure in the next few years to ensure the work is delivered in the most efficient way and involving the right mix of people. We note that internationally, many standard-setters have/are in the process of establishing separate sustainability standards boards.

In addition, as the first phase in the development of an ESG reporting framework to enable guidance on ESG matters, the XRB Board is overseeing the development of a Te Ao Māori framework for ESG reporting. The project is called Ngā pou o te kawa ora. The XRB Board itself will be involved in the initial work on this project and the appropriate structure for the project will be formalised in due course.

In addition to direct involvement in the climate and ESG reporting projects, the XRB Board is responsible for general governance of the organisation, overall financial reporting strategy (including advising the Minister of Commerce and Consumer Affairs accordingly), standard-setting strategy and oversight of the subsidiary standard-setting boards.

Further information on the XRB can be found on our website: <https://www.xrb.govt.nz/>

2. Overview

High-quality information is critical to ensure that decision making for resource allocation that impacts the wellbeing of New Zealand and New Zealanders is well informed.

We understand the growing demand for information about the entity's impact and social license to operate. Therefore our strategy recognises that high quality information needed for decision making for resource allocation is more than financial information. It includes non-financial elements of performance including: value creation, resilience, sustainability and the wider impacts an organisation has on society and the environment. Integrated, this information spans the natural, human, social, and financial capitals that support intergenerational wellbeing.

We set standards for a wide range of entities across all sectors that attempt to address the specific user needs of the entity reporting. Therefore, the importance of consultation, and communication and engagement with a broad cross section of stakeholders, and the consideration of Te Ao Māori principles into our work, cannot be understated. Our extended mandate also provides us with the opportunity to engage with a larger range of practitioners and users of our standards. We are building our capacity and capability to make the most of this opportunity and will continue our focus on enhancing our consultation, communication and engagement efforts.

Equally, we will continue to focus on maintaining and building strong international connections and maintaining our current policy of convergence with international standards and harmonisation with Australia. This is central to our role of taking, as appropriate, international standards and making them relevant and applicable for a New Zealand context. Our focus on this recognises the importance of comparable information when it comes to accessing capital, and that adopting internationally recognised standards remains extremely important to New Zealand entities. However, we are acutely aware that external reporting demands are changing at pace and that may mean that we need to move ahead of others internationally, in the short term, in order to ensure relevance in New Zealand.

Alongside this, we are committed to maintaining our role as a credible influencer on the global standard setting stage. This is particularly important as momentum grows in the development of sustainability-related disclosure standards and the establishment of the International Sustainability Standards Board. We have a credible voice and a reputation for being fair and even handed in our approach. In the years ahead, we intend to maintain and build on our international standing to avoid unnecessary disruption and uncertainty in reporting by New Zealand entities.

3. Our purpose and approach

3.1 Why are we here?

Government's overall goal

To improve the living standards and wellbeing of all New Zealanders through sustainable and inclusive growth



Our purpose

We enable high quality, trusted, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.



Our vision

New Zealand prospers through effective decision making for resource allocation informed by high-quality, trusted, and integrated reporting.

We achieve our purpose and work towards our vision by developing reporting strategies, frameworks, standards and guidance. We also ensure that these respond promptly to local and international external reporting developments, the pace of which has significantly increased over the last few years. The range of stakeholders for whom reporting standards are relevant is broadening and users of reports are increasingly demanding richer information well beyond financial reporting.

Through our stakeholder engagement processes and international connections we gain a deeper understanding of issues faced by entities and work with others in the external reporting system (e.g. regulators and policy makers) to have these resolved. Rising to the challenge of an extended mandate to develop standards on climate-related disclosures and non-binding guidance on environmental, social and governance (ESG) and other non-financial matters means we must develop stronger and deeper relationships with a broader group of stakeholders. This work will also recognise and honour the Crown's obligations under the Treaty of Waitangi.

The XRB is well placed to respond to the changing environment. We are a small organisation with the ability to be agile and adapt to events at pace. These actions are critical in maintaining trust, confidence and transparency during a time of disruption and uncertainty.

Our Strategy

Our Purpose

We enable high quality, trusted, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

Our Vision

New Zealand prospers through effective decision making for resource allocation informed by high-quality, trusted, and integrated reporting.

Our Strategic Intentions



Trusted

High-quality reporting and assurance that maintains confidence in New Zealand's reporting and promotes transparency and accountability across all sectors of the economy.



Informative

Reporting that generates relevant information to support informed decision making and better outcomes for New Zealand.



Integrated

Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

What we will deliver

Reporting strategies and frameworks

Financial reporting standards

Audit and assurance standards

Climate standards

International liaison

How we will deliver

Lead to ensure stakeholders understand the purpose and value of reporting standards and are informed of international developments.

Influence through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest.

Collaborate with stakeholders, with a greater emphasis on Māori, throughout the lifecycle of developing standards and ensure external reporting and assurance gaps are identified, understood, and addressed.

Respond to stakeholder input and the fast-changing external reporting landscape to ensure our frameworks, standards and guidance are robust and sustainable.

4. Our strategic intentions

4.1 Overarching strategic intention

Promote and facilitate effective decision making for resource allocation

All of the XRB's activities are aimed at achieving our overarching goal. It is key to have the right information when making decisions about the allocation of limited resources and create long-term value for Aotearoa New Zealand. The XRB will continue to work and engage with stakeholders in setting frameworks, standards and guidance to promote and facilitate effective decision making.

4.2 Trusted

High-quality reporting and assurance that maintains confidence in New Zealand's reporting and promotes transparency and accountability across all sectors of the economy.

High-quality reporting can be achieved only if the rules on which it is prepared (reporting standards) are reliable and based on clear and sound economic principles, are mutually consistent, can be readily applied by preparers and can be understood by users. Similarly the assurance provided on that information should be based on standards that require robust and independent examination by assurance providers. In other words, a necessary condition for high quality reporting is high quality reporting and assurance standards.

In the area of audit and assurance there is considerable international and domestic activity examining trust and confidence in external reporting, including audit quality and the independence of audit firms. The XRB will continue to monitor and work with the key stakeholders in the reporting supply chain to consider how the issues identified could impact New Zealand and how best these should be addressed in New Zealand.

With the rise in demand for assurance over reporting of non-financial information the XRB will be working with a broader group of stakeholders to promote and facilitate a common understanding of what "assurance" means in the context of broader non-financial reporting, and to provide the right foundation and tools to those delivering assurance services.

4.3 Informative

Reporting that generates relevant information to support informed decision making and better outcomes for New Zealand.

High-quality reporting that informs users' decision-making for resource allocation is fundamental to effective accountability, transparency, stewardship and good governance. This will build a more sustainable and productive economy and promote high-quality investment into all regions of New Zealand.

The process of standard setting includes significant engagement with stakeholders to develop robust and generally accepted requirements that will in turn support entities in producing relevant disclosures. The requirements also need to be updated as and when appropriate to keep pace with local and international external reporting developments in order to remain relevant.

Our work to embed the new mandatory climate disclosure framework, to support the first time application of the new standard on service performance reporting and the auditing of service performance information, and to commence the development of an ESG reporting framework, is primarily focused on supporting reporting entities to produce information that is and continues to remain relevant to users of this information.

4.4 Integrated

Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

Traditional financial statements are primarily backward looking and they cannot fully explain an entity's long-term strategy. Elements that may be essential to long-term strategy often escape the financial statements, such as information about the entity's business model and intangible resources, the economic environment in which the entity operates, and more forward-looking information. The XRB expects further changes and developments in external reporting resulting from the demand for entities to report more widely about their strategies, business models, risks and impacts, financial capital and other matters (e.g. environmental, social, governance (ESG)). Entities are now expected to provide users with a more comprehensive picture of their performance and impacts by complementing their financial results reporting with non-financial information.

The introduction of a mandatory climate-related disclosure framework for New Zealand in 2021 was a significant step in the progress towards external non-financial reporting. In addition, the extension of the XRB's mandate to also prepare and issue non-binding guidance on a wider range of ESG and other non-financial matters enable us to continue to lead the development of integrated reporting in New Zealand.

We see the development of a framework as an important first step in setting the foundation for the future of ESG reporting in New Zealand. We initiated our framework project and it is called Ngā pou o te kawa ora. Our focus for this project is to deliver a framework that is relevant to New Zealand reporting entities and credible internationally. So rather than relying solely on existing international frameworks, and the emerging international framework being developed by the International Sustainability Standards Board, to guide sustainability decisions in New Zealand, the foundation of our work is based on other New Zealand frameworks that reflect Te Ao Māori. The XRB recognises the importance of and is actively engaging with Māori in developing this reporting framework for Aotearoa New Zealand.

5. Management of functions and operations to meet strategic intentions

Our activities are grouped into five outputs:

1. Develop and implement reporting strategies and frameworks for the Board's standards-setting activities (Output 1)
2. Prepare and issue Financial Reporting Standards (Output 2)
3. Prepare and issue Auditing and Assurance (including Ethical and Professional) Standards and other related services Standards (Output 3)
4. Prepare and issue climate standards (Output 4)
5. Liaise with and influence of international bodies (Output 5) through participation in meetings and making of submissions.

The strategic intentions will be given effect through the delivery of the outputs and the following priority focus areas, and the way in which our outputs are delivered.

5.1 Priority focus areas

<p>Integrated reporting</p> <p>Develop an integrated reporting strategy, framework and guidance which encompass a broad range of stakeholder views. The immediate focus is the development of stage 1 of the ESG reporting framework which will apply to Māori entities, referred to as the Ngā pou o te kawa ora project</p>	<p>Engagement and influence</p> <p>Work with stakeholders (including other regulatory and government agencies) to efficiently and effectively:</p> <ul style="list-style-type: none"> • Embed the new mandatory climate-related disclosure framework in New Zealand • Influence and respond to international developments that impact New Zealand • Understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in New Zealand reporting 	<p>Frameworks, standards and guidance</p> <p>Key standard-setting projects:</p> <ul style="list-style-type: none"> • Climate-related disclosures • For-profit Financial Statement disclosures • PBE Leases • PBE revenue and transfer expenses • Assurance over non-financial disclosures including greenhouse gas emissions • Audit of service performance information
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5.2 How we will deliver our outputs

<p>Lead</p>	<p>Understand, through effective engagement, the issues and challenges faced by entities</p> <p>Develop an overall view of the system (including linkages between relevant agencies and gaps) and how it could develop in the future</p> <p>Influence necessary system changes</p> <p>Ensure stakeholders understand role, purpose and how to use standards through effective communication and enhanced accessibility</p> <p>Anticipate, monitor and respond to major disruptions and developments in the international standard-setting structures and environment, and ensure that stakeholders are well informed</p>
<p>Influence</p>	<p>Enhance stakeholder relationship management processes</p> <p>Develop “influencing strategies” specific to each international board</p> <p>Effective use of communication technologies and platforms</p> <p>Facilitate debate, provide thought-leadership, participate in appropriate forums and generally promote improved reporting processes</p> <p>Maintain and enhance regional relationships</p> <p>Influence the work of the international boards during appropriate stages of standards development to ensure high-quality global standards that are both applicable in New Zealand and in the public interest</p>
<p>Collaborate</p>	<p>Implement engagement strategies to enhance the depth and breadth of stakeholder engagement</p> <p>Awareness raising activities across all participants of the external reporting process, throughout the lifecycle of developing standards, including detailing “why the change”</p> <p>Greater emphasis on engaging with Māori</p> <p>Work with other agencies, including other standard setters, to ensure any external reporting and assurance gaps are identified, understood, researched if necessary and addressed</p> <p>Support other relevant organisations that provide training and professional development</p>

Respond	<p>Ensure transparent and collaborative due process and consultation</p> <p>Maintain an external reporting strategy, frameworks, standards and guidance that are:</p> <ul style="list-style-type: none">• Reliable and require infrequent changes• Responsive to stakeholder input and fast-changing external reporting landscape• Locally relevant and accepted <p>Maintain appropriate policy of international convergence and harmonisation of standards</p> <p>Undertake organised research into information needs of users of standards and developments in external reporting</p> <p>Undertake post-implementation review of pronouncements to assess understanding, use, impact and remaining/new gaps</p>
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6. Assessing performance

Our performance measures and targets are focused on timeliness and quality, and direct stakeholder feedback.

Timeliness measures and targets ensure that new standards and/or amendments to existing standards are issued in line with our convergence and harmonisation policy or to alleviate a known domestic practice issue.

Qualitative measures and targets focus on stakeholder engagement and international influence through participation in international and regional forums, and making of submissions.

We obtain direct stakeholder feedback in respect of the achievement of our overarching strategic intention. At a more detailed level, in respect of each

standard, we obtain direct stakeholder feedback about the achievement of the stated objective of the standard through the responses to consultation documents and post-implementation reviews.

However, it can be challenging to measure the impact through fixed quantitative targets. That is because our strategic intentions are impacted by a range of external factors, including social, economic and financial conditions, as well as the activities of international standard-setting bodies and individual entities. Therefore, the links between our outputs and strategic intentions are not always direct.

7. Organisational health and capability

During 2021 we undertook an efficiency and effectiveness review that confirmed our ability to achieve a great deal with limited resource. However, the review has also highlighted that new capabilities and additional capacity would be needed for us to be successful in our evolving role and we have already made significant progress in this regard.

Management of the XRB's organisational health and capability will be central to the organisational change we have, and will continue to undertake, to protect our culture, connection and shared sense of purpose.

The XRB's strategic ownership priorities for the 2022-2027 period are to:

- Maintain a high-performance culture commensurate with achieving the XRB's strategic intentions. We are challenging ourselves to do things differently. It is not only about promoting continuous improvement in order to be efficient in our delivery, but more about being agile and adaptable.
- We are increasingly employing technology in order to enhance our processes and practices and one of our immediate operational focus areas is to consider how we can make our frameworks, standards and guidance more accessible.
- Maintain the level of human and financial capability needed to deliver the outputs required and the strategic priorities outlined above; and
- Operate in a financially prudent manner including within the fiscal parameters established by appropriation.

Particular focus on our human capital

We are acutely aware that our capability is primarily dependent on our human capital – having the right people to deliver the work, much of which requires a specialised skill set. We intend to maintain the human capital by actively promoting development opportunities to existing staff for example through working across teams or on one-off projects outside their normal team. We are also creating opportunities for the development of future Board members through involvement in our External Reporting Advisory Panel and constituency work groups.

In addition we will continue to expand our capability in order to deliver on our extended mandate as it relates to the broader ESG reporting and as the Ngā pou o te kawa ora project develops. Although this could mean the addition of new or different skill sets, it also affords existing staff the opportunity to retrain. At the same time, we will also consider changes needed to Board and subcommittee structures to ensure projects are delivered in the most efficient ways and with the right mix of people involved.

Workplace policies (including diversity and inclusion, and other good employer policies), remuneration policies, and methods of operation (such as constituency working groups) are all designed to contribute to this human capital maintenance approach. As noted above, we are challenging ourselves to do things differently and this equally applies to the way in which our policies will be maintained, and where appropriate enhanced, over the period of this Statement of Intent.

8. Process to be followed for acquisitions

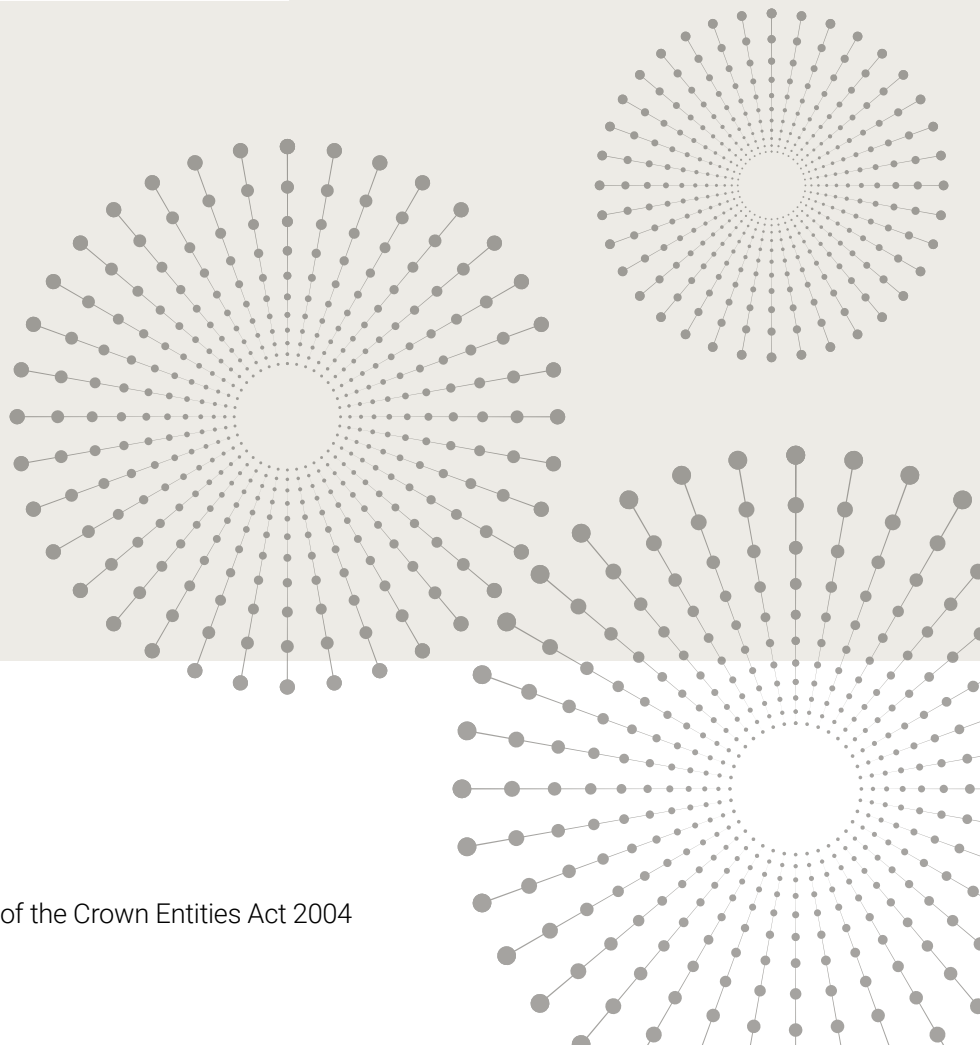
The XRB does not expect to acquire shares or interests in companies, trusts or partnerships or joint ventures during the five-year period. No process is therefore required to be specified in accordance with section 100 of the Crown Entities Act 2004.

Statement of Performance Expectations

For the period 1 July 2022 to 30 June 2023

April 2022

Prepared in accordance with section 149C of the Crown Entities Act 2004



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Statement of responsibility

This Statement of Performance Expectations has been prepared in accordance with the requirements of section 149C of the Crown Entities Act 2004. The purpose of the Statement of Performance Expectations is to promote the public accountability of the External Reporting Board (XRB) by:

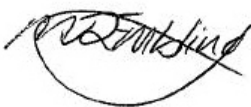
- enabling the responsible Minister to participate in the process of setting the XRB's annual performance expectations;
- enabling the House of Representatives to be informed of those expectations; and
- providing a base against which the XRB's actual performance for the year can be assessed.

The XRB is responsible for the content of this Statement of Performance Expectations, which comprises the reportable outputs (as specified in the Statement of Forecast Service Performance) and the Prospective Financial Statements for the year, including the assumptions on which they are based, and for the judgements used in preparing them.

The Prospective Financial Statements have been prepared in accordance with generally accepted accounting practice in New Zealand, have not been audited and should not be relied upon for any other purposes.

As the XRB is an Independent Crown Entity, the Minister may not direct the XRB to have regard to, or give effect to, a government policy relating to the XRB's standard setting functions and as a result no such matters are included in this Statement of Performance Expectations.

In accordance with section 149I of the Crown Entities Act 2004, the XRB has consulted with the Minister of Commerce and Consumer Affairs in the preparation of this Statement.



Michele Embling
Chair
26 April 2022



Jane Taylor
Deputy Chair
26 April 2022

Our purpose and approach

Why are we here?

Government's overall goal

To improve the living standards and wellbeing of all New Zealanders through sustainable and inclusive growth



Our purpose

We enable high quality, trusted, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.



Our vision

New Zealand prospers through effective decision making for resource allocation informed by high-quality, trusted, and integrated reporting.

We achieve our purpose and work towards our vision by developing reporting strategies, frameworks, standards and guidance. We also ensure that these respond promptly to local and international external reporting developments, the pace of which has significantly increased over the last few years. The range of stakeholders for whom reporting standards are relevant is broadening and users of reports are increasingly demanding richer information well beyond financial reporting.

Through our stakeholder engagement processes and international connections we gain a deeper understanding of issues faced by entities and work with others in the external reporting system (e.g. regulators and policy makers) to have these resolved. Rising to the challenge of an extended mandate to develop standards on climate-related disclosures and non-binding guidance on environmental, social and governance (ESG) and other non-financial matters means we must develop stronger and deeper relationships with a broader group of stakeholders. This work will also recognise and honour the Crown's obligations under the Treaty of Waitangi.

The XRB is well placed to respond to the changing environment. We are a small organisation with the ability to be agile and adapt to events at pace. These actions are critical in maintaining trust, confidence and transparency during a time of disruption and uncertainty.

Reportable classes of output

The appropriation is limited to the funding of one reportable output class.

Description of output class

Financial and climate reporting and auditing and assurance standards and other guidance issued for the purposes of promoting the quality of New Zealand financial and non-financial reporting.

What the Output Class is intended to achieve

The development and issuing of financial, climate reporting and auditing and assurance standards (including ethical and professional standards), and associated and other guidance that engender confidence in New Zealand financial and non-financial reporting; assist entities to better communicate their performance, enhance entities' transparency, accountability and stewardship to stakeholders in the private, not-for-profit and public sectors.

Our strategic intentions will be given effect through activities grouped into five outputs and the below priority focus areas as part of this Output Class and described more fully in the Statement of Forecast Service Performance:

1. Develop and implement reporting strategies and frameworks for the Board's standards-setting activities (Output 1)
2. Preparing and issuing Financial Reporting Standards (Output 2)
3. Preparing and issuing Auditing and Assurance (including Ethical and Professional) Standards and other Related Services Standards (Output 3)
4. Preparing and issuing Climate Standards (Output 4)
5. Liaise with and influence international bodies (Output 5) through participation in meetings and making of submissions

The priority focus areas in the table below are not necessarily limited to the period of this Statement of Performance Expectations. These strategic projects are to be delivered over the short, medium or long term.

Priority focus areas

Integrated reporting Develop an integrated reporting strategy, framework and guidance which encompass a broad range of stakeholder views. The immediate focus is the development of stage 1 of the ESG reporting framework which will apply to Māori entities, referred to as the Ngā pou o te kawa ora project	Engagement and influence Work with stakeholders (including other regulatory and government agencies) to efficiently and effectively: <ul style="list-style-type: none"> • Embed the new mandatory climate-related disclosure framework in New Zealand • Influence and respond to international developments that impact New Zealand • Understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in New Zealand reporting 	Frameworks, standards and guidance Key standard-setting projects: <ul style="list-style-type: none"> • Climate-related disclosures • For-profit Financial Statement disclosures • PBE Leases • PBE revenue and transfer expenses • Assurance over non-financial disclosures including greenhouse gas emissions • Audit of service performance information

	2022/23 Forecast \$'000
Revenue from the Crown	8,627
Revenue from others	25
Cost	9,771
Operating deficit	(1,119)

We forecast to spend more than our appropriation for the 2022/23 financial year. This is due to some projects and activities being carried forward from the 2021 and 2022 financial years because of the limitations of operating under the COVID pandemic. We have also been building, and will continue to build, capacity and capability to support the delivery of our extended mandate.

The XRB does not have any reportable class of outputs for which an exemption has been granted under section 149F of the Crown Entities Act 2004.

The XRB does not intend to supply any class of outputs in the 2022/23 financial year that is not a reportable class of outputs.

Linking our vision to our outputs

Our Strategy

Our Purpose

We enable high quality, trusted, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

Our Vision

New Zealand prospers through effective decision making for resource allocation informed by high-quality, trusted, and integrated reporting.

Our Strategic Intentions



Trusted

High-quality reporting and assurance that maintains confidence in New Zealand's reporting and promotes transparency and accountability across all sectors of the economy.



Informative

Reporting that generates relevant information to support informed decision making and better outcomes for New Zealand.



Integrated

Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

What we will deliver

Reporting strategies and frameworks

Financial reporting standards

Audit and assurance standards

Climate standards

International liaison

How we will deliver

Lead to ensure stakeholders understand the purpose and value of reporting standards and are informed of international developments.

Influence through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest.

Collaborate with stakeholders, with a greater emphasis on Māori, throughout the lifecycle of developing standards and ensure external reporting and assurance gaps are identified, understood, and addressed.

Respond to stakeholder input and the fast-changing external reporting landscape to ensure our frameworks, standards and guidance are robust and sustainable.

Statement of forecast service performance

For the year ending 30 June 2023

Output 1: Develop and implement reporting strategies and frameworks for the Board's standard-setting activities

This output is about engaging with stakeholders, setting and communicating our strategy and the initial work on developing an environmental, social and governance (ESG) framework.

	2022/23 Forecast	2021/22 Estimated actual
	\$'000	\$'000
Crown revenue allocated	1,308	755
Other revenue	25	22
Costs	(1,160)	(453)
Attributed overhead costs	(285)	(150)
(Deficit)/surplus	(112)	174

Performance measure	2022/23 Forecast
Stakeholders agree that the XRB develops and issues financial, climate reporting and auditing and assurance standards, and associated and other guidance that engender confidence in New Zealand financial and non-financial reporting	Issue feedback statement from 2022 survey that includes targets for improvement, where necessary, from baseline established by the survey
Stakeholders agree that the XRB assists entities to better communicate their performance, enhances entities' transparency, accountability and stewardship to stakeholders and supports high performing and accountable organisations in both the private and public sectors.	Issue feedback statement from 2022 survey that includes targets for improvement, where necessary, from baseline established by the survey
Stakeholders agree that XRB consultation documents are clear and understandable	Issue feedback statement based on responses received through consultations and that includes targets for improvement
Develop a framework to support environmental, social and governance (ESG) and other non-financial reporting that is relevant for New Zealand	Initiate, conclude and issue phase 1 report from the Ngā pou o te kawa ora project – a framework for Māori reporting entities

Statement of forecast service performance (continued)

For the year ending 30 June 2023

Output 2: Preparing and issuing financial reporting standards

This output is about the work we do in setting financial reporting standards and guidance, including engaging with our stakeholders on financial reporting topics.

	2022/23 Forecast	2021/22 Estimated actual
	\$'000	\$'000
Crown revenue allocated	1,989	2,391
Costs	(1,785)	(1,434)
Attributed overhead costs	(438)	(475)
(Deficit)/surplus	(234)	482

Performance measure	2022/23 Forecast
Due process requirements and policies followed, including legislative consultation requirements and international convergence and harmonisation policies	100% compliance
Due process documents and standards relating to International Financial Reporting Standards issued in accordance with timeline established by the Board (usually not less than 90 days)	100% compliance
Decision regarding adoption of standard issued by the International Public Sector Accounting Standards Board within 90 days of release of a new/amended standard	100% compliance

<p>Issue domestic standard, guidance and/or consultation document in accordance with agreed work plan</p>	<p>Issue standard on Enhanced Disclosure of Fees paid to Audit Firms</p> <p>Issue final amendments to Tier 3 and Tier 4 Reporting Requirements</p> <p>Issue final standard on Public Sector Insurance</p> <p>Issue exposure draft on PBE Leases</p> <p>Issue exposure draft of amendments to XRB A1 Public Accountability</p> <p>Issue guidance material on applying Tier 3 and Tier 4 Reporting Requirements</p>
<p>Promote awareness of frameworks, standards and guidance throughout life cycle, from development to implementation</p>	<p>Engagement with primary users, reporting entities, relevant government and regulatory agencies, and audit and advisory service providers about:</p> <ul style="list-style-type: none"> • First-time application of PBE FRS 48 <i>Service Performance Reporting</i> • Ongoing considerations when applying NZ IFRS 16 Leases • Importance of going concern disclosures across all sectors • Importance of focusing disclosure on the most relevant and important information

Statement of forecast service performance (continued)

For the year ending 30 June 2023

Output 3: Preparing and issuing auditing and assurance standards and other related services standards

This output is about the work we do in setting auditing and assurance standards and other related services and guidance, including engaging with our stakeholders on auditing and assurance topics. When referring to auditing and assurance standards this also include professional and ethical standards.

	2022/23 Forecast	2021/22 Estimated actual
	\$'000	\$'000
Crown revenue allocated	1,607	1,714
Costs	(1,443)	(1,029)
Attributed overhead costs	(354)	(340)
(Deficit)/surplus	(190)	345

Performance measure	2022/23 Forecast
Due process requirements and policies followed, including legislative consultation requirements and international convergence and harmonisation policies	100% compliance
Issue domestic standard, guidance and/or consultation document in accordance with agreed work plan	Issue standard on assurance over financial information prepared in connection with a capital raising Issue exposure draft on audit of service performance information Issue exposure draft on greenhouse gas assurance engagements

Promote awareness of frameworks, standards and guidance throughout life cycle, from development to implementation

Engagement with assurance practitioners, the public sector and the FMA (as appropriate) on the following key projects:

Final standards:

- Group audits
- Non-assurance services
- Assurance over Financial Information Prepared in Connection with a Capital raising

Exposure drafts:

- Greenhouse gas assurance engagements
- Going concern
- Audit Evidence
- Public interest entity definition
- Audit of Service Performance information

Engage with assurance practitioners, regulators, directors and users to understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in New Zealand reporting and consider how best to respond to international developments regarding governance and audit quality reforms

Statement of forecast service performance (continued)

For the year ending 30 June 2023

Output 4: Preparing and issuing climate standards

This output is about the work we do in setting climate standards and guidance, including engaging with our stakeholders on climate-related topics.

	2022/23 Forecast	2021/22 Estimated actual
	\$'000	\$'000
Crown revenue allocated	2,519	2,815
Costs	(2,399)	(1,747)
Attributed overhead costs	(589)	(578)
(Deficit)/surplus	(469)	490

Performance measure	2022/23 Forecast
Due process requirements and policies followed, including legislative consultation requirements	100% compliance
Standards aligned with international requirements and/or guidance (where appropriate)	Achieved
Issue domestic standard, guidance and/or consultation document in accordance with agreed work plan	Issue exposure drafts of climate-related disclosure framework Issue climate-related disclosure standards, and accompanying non-mandatory guidance
Stakeholders are satisfied with the XRB's engagement in the lead up to and in respect of the exposure draft of climate-related disclosure framework	At least 75% of respondents to the survey agree or strongly agree
Promote awareness of frameworks, standards and guidance throughout life cycle, from development to implementation	Engagement with primary users, climate reporting entities, relevant government and regulatory agencies, and service providers about: <ul style="list-style-type: none"> • the climate-related disclosure exposure draft • the issued climate-related disclosure framework • accompanying non-mandatory guidance

Statement of forecast service performance (continued)

For the year ending 30 June 2023

Output 5: Liaise with and influence international bodies

This output is about the activities we undertake to influence the work of the international boards during appropriate stages of standards development to ensure high-quality global standards that are both applicable in New Zealand and in the public interest.

	2022/23 Forecast	2021/22 Estimated actual
	\$'000	\$'000
Crown revenue allocated	1,204	906
Costs	(1,058)	(284)
Attributed overhead costs and other revenue	(260)	(95)
(Deficit)/surplus	(114)	527

Performance measure	2022/23 Forecast
Maintain membership of international boards	<p>Maintain New Zealand membership on appropriate boards including the following and participate in all meetings:</p> <ul style="list-style-type: none"> • International Public Sector Accounting Standards Board (IPSASB) • International Auditing and Assurance Standards Board (IAASB) • Australian Accounting Standards Board (AASB) • Australian Auditing and Assurance Standards Board (AUASB)

<p>Participate in relevant international boards, regional groupings, working groups and task forces</p>	<p>Participate in meetings of:</p> <ul style="list-style-type: none"> • National standard setters • The International Forum of Accounting Standards Setters (IFASS) • The Asian Oceanian Standard Setters Group (AOSSG) <p>Maintain strong working relationship with board members and staff of the International Ethics Standards Board for Accountants (IESBA)</p> <p>Support the New Zealand IPSASB member on the Revenue and Transfer Expenses Drafting Group</p> <p>Share learnings from our climate-related disclosures work with the International Sustainability Standards Board</p>
<p>Submissions on international consultation documents that are relevant to Aotearoa New Zealand</p>	<p>IPSASB Natural Resources</p> <p>IPSASB Concessionary Leases</p> <p>Audit evidence</p> <p>Going concern</p> <p>Implications for the PIE definition</p> <p>Strategy and work plan (IAASB)</p> <p>Strategy and work plan (IESBA)</p> <p>International Sustainability Standards climate standard exposure drafts</p>

Prospective financial statements

For the year ending 30 June 2023

Significant assumptions and explanatory notes relating to the prospective financial statements

1. General

The following assumptions have been used in preparing these prospective financial statements:

- The XRB will continue to operate in its current structure and form.
- The XRB's statutory functions will remain unchanged.
- There will be no change to premises occupancy.
- Externally driven costs will increase by no more than the rate of inflation
- There will be no unexpected external events (such as a natural disaster) that will require significant operating or capital expenditures to be incurred.

2. Revenue from the Crown

The approved Crown appropriation for 2022/23 is \$8,627,000.

3. Board members' fees

The budget includes \$175,000 for additional board time in respect of the climate standards and ESG framework projects.

4. International contributions

With the establishment of the International Sustainability Standards Board, we expect that we will be making a contribution of \$200,000 towards their work consistent with our current contributions to the International Accounting Standards Board and the International Public Sector Accounting Standards Board.

5. Personnel costs

Unlike the 2021/22 financial year, the budget reflects the fact that we will be almost fully staffed for a full year. The remaining vacancies are expected to be filled within the first 6 months of the 2022/23 financial year. The budget also includes \$300,000 for the initial phase of the ESG framework project.

6. Travel costs

Our budget assumes that we will recommence international travel to attend relevant international board meetings from the start of the 2022/23 financial year – no international travel is expected to occur in the 2021/22 financial year. In addition, our budget assumes that there will be no domestic travel restrictions going forward.

7. Other costs

We are planning to commence a project to improve the accessibility of our standards and guidance during the 2022/23 financial year. An amount of \$250,000 is included in General operating costs in respect of this project.

Prospective financial statements (continued)

For the year ending 30 June 2023

Statement of accounting policies

1. Reporting entity

The XRB is an Independent Crown Entity under the Crown Entities Act 2004, established on 1 July 2011. It is responsible for external reporting strategy and preparing and issuing financial reporting, climate and auditing and assurance standards and non-binding guidance on a wider range of environmental, social and governance (ESG), and other non-financial matters.

The XRB has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

The prospective financial statements were approved by the XRB Board on 26 April 2022. The XRB Board is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures.

2. Statement of compliance

These prospective financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The prospective financial statements have been prepared in accordance with Tier 2 PBE Accounting Standards and disclosure concessions have been applied (PBE Standards RDR). This includes PBE FRS 42 Prospective Financial Statements.

The criteria under which the XRB is eligible to report in accordance with PBE Standards RDR are:

- The XRB does not have public accountability as defined in XRB A1 Application of the Accounting Standards Framework; and
- The XRB has total expenses between \$2 million and \$30 million.

These prospective financial statements have been prepared on a going concern basis.

3. Measurement base

The prospective financial statements have been prepared on a historical cost basis, unless otherwise specified.

4. Functional, presentation currency and rounding

The prospective financial statements are presented in New Zealand dollars, which is also the functional currency of the XRB. All values are rounded to the nearest thousand dollars (\$'000) unless otherwise specified.

Prospective financial statements (continued)

For the year ending 30 June 2023

Statement of accounting policies (continued)

5. Significant accounting policies

Revenue from the Crown

The XRB is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the XRB meeting its objectives as specified in the Statement of Intent.

The XRB considers that there are no conditions attached to the Crown funding and as such it is recognised as revenue at the point of entitlement and is measured at the fair value of consideration received or receivable.

Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the Inland Revenue Department, including the GST related to investing activities is classified as net operating cash flows in the Prospective cash flow statement.

Income tax

The XRB is exempt from the payment of income tax. Accordingly, no provision for income tax has been made.

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the XRB are classified as operating leases. Payments are recognised as an expense on a straight-line basis over the term of the lease in the Prospective statement of comprehensive revenue and expense when payable.

Cost allocation

Direct costs are charged directly to outputs.

Attributed overhead costs and other revenues are amounts that cannot be attributed to a specific output in an economically feasible manner. These are charged to outputs based on cost drivers or usage information.

Prospective financial statements (continued)

For the year ending 30 June 2023

Statement of accounting policies (continued)

6. Changes in accounting policies

PBE IPSAS 41 Financial instruments is applicable for periods beginning on or after 1 January 2022 and has been adopted in the preparation of these prospective financial statements. The adoption of PBE IPSAS 41 had no impact on the financial statements.

Other than the adoption of PBE IPSAS 41, the accounting policies set out above have been applied consistently to all periods presented in these prospective financial statements.

Prospective financial statements (continued)

For the year ending 30 June 2023

Prospective statement of comprehensive revenue and expense

	Notes	2022/23 Forecast \$'000	2021/22 Estimated actual \$'000
Revenue from the Crown	2	8,627	8,581
Interest		25	22
Total revenue		8,652	8,603
Board members' fees	3	1,069	864
Communication and engagement		321	296
Depreciation		89	58
Contributions to international bodies	4	538	284
Personnel costs	5	6,062	4,349
Travel costs	6	713	84
General operating costs	7	979	650
Total expenses		9,771	6,585
(Deficit)/surplus and Total comprehensive revenue and expense		(1,119)	2,018

Significant assumptions and explanatory notes underlying the information above are set out on page 17

Prospective financial statements (continued)

For the year ending 30 June 2023

Prospective statement of changes in equity

	2022/23 Forecast \$'000	2021/22 Estimated actual \$'000
Equity as at 1 July	5,235	3,217
Total comprehensive revenue and expense	(1,119)	2,018
Equity as at 30 June	4,116	5,235

Prospective financial statements (continued)

For the year ending 30 June 2023

Prospective statement of financial position

	2022/23 Forecast	2021/22 Estimated actual
	\$'000	\$'000
Equity		
Contributed capital	725	725
Accumulated surpluses	3,391	4,510
Total equity	4,116	5,235
Current assets		
Cash at bank	612	316
GST receivable	43	32
Prepayments	15	10
Investments	3,960	5,266
Total current assets	4,630	5,624
Current liabilities		
Payables	329	247
Employee entitlements	387	298
Total current liabilities	716	545
Non-current assets		
Property, plant and equipment	221	170
Intangible assets	6	11
Total non-current assets	227	181
Non-current liabilities		
Provisions	25	25
Total non-current liabilities	25	25
Total net assets	4,116	5,235

Prospective financial statements (continued)

For the year ending 30 June 2023

Prospective cash flow statement

	Notes	2022/23 Forecast \$'000	2021/22 Estimated actual \$'000
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Revenue from the Crown		8,627	8,581
Interest received		21	17
		8,648	8,598
<i>Cash was disbursed to:</i>			
Payments to employees		5,274	3,510
Payments to suppliers		3,726	2,681
Contributions to international standards boards		538	284
		9,538	6,475
Net cash flow from operating activities		(890)	2,123
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Investments		1,321	-
Sale of office equipment		-	1
<i>Cash was disbursed to:</i>			
Investment		-	3,988
Capital expenditure		135	45
Net cash flow from investing activities		1,186	(4,032)
Net increase/(decrease) in cash		296	(1,909)
Add opening cash balance		316	2,225
Closing cash balance		612	316

NZAuASB 21_22 Implementation Work Plan

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

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

Key:

Green – ongoing activity and on track

Orange – action is work in progress and on track

Red – no action taken

1. Maintaining and enhancing existing standards

Action 1.1 Maintaining New Zealand Auditing and Assurance Standards	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards, related services standards and professional and ethical standards) to ensure that the existing suite of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
<p>a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, as appropriate, and including working with the</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IAASB, which are expected to include: 	<p>Issued four quality management standards (July 2021):</p> <ul style="list-style-type: none"> • PES 3 • PES 4 • ISA 220 (Revised)

<p>AUASB to ensure any changes are appropriately harmonised; and</p>		<ul style="list-style-type: none"> ○ ISA 600 (Revised) ○ Conforming amendments arising from Quality Management standards ○ LCE (ED) ○ Implications of the PIE definition on the IAASB standards (ED) ● Liaise with AUASB in accordance with harmonisation process protocol 	<ul style="list-style-type: none"> ● Conforming amendments to ISAs. ● Conforming and consequential amendments to Other Standards as a Result of the New and Revised Quality Management Standards (April 22) <p>Expected to issue ISA (NZ) 600 (Revised) (pending)</p> <p>Exposed LCE ED in New Zealand</p> <p>PIE implications on IAASB standards expected to be approved in June</p> <p>Convergence and harmonisation policy finalised</p>
<p>b. Incorporating any ethical standards, or amendments to those standards, issued by IESBA, to achieve convergence, as appropriate, and including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> ● Amend standards following due process as documents issued by IESBA, which are expected to include: <ul style="list-style-type: none"> ○ Finalising the NAS and Fees standards for New Zealand ○ Revisions to the PIE definition ○ Technology (ED) ● Interact with APESB staff Chair, and Board as appropriate ● Develop process to work towards trans-Tasman consistency, as appropriate, with APESB 	<p>Issued <i>Objectivity amendments to the Code</i> (July 2021)</p> <p>Issued <i>Fees standard</i> (March 2022)</p> <p>Expected to issue <i>NAS</i> (pending approval)</p> <p>Issued <i>NZ PIE definition</i> ED</p> <p>Issue of <i>QM conforming amendments to the Code</i> will be issued 22/23</p> <p>Exposed <i>technology ED</i> and <i>groups and engagement team definition ED</i> in New Zealand</p> <p>Channa Wijesinghe, Chief Executive APESB joined the NZAuASB <i>NAS</i> discussions in Dec, Feb and April. Chair and Director attended APESB <i>NAS</i> discussions in April.</p>

<p>c. Responding as appropriate to any gaps /issues identified with the current suite of standards.</p>		<ul style="list-style-type: none"> • Develop an appropriate response where such matters are identified. <ul style="list-style-type: none"> ○ Consider request for guidance on example of compliance framework audit report for small NFPs • Utilisation of research and stakeholder engagement where appropriate. 	<p>Ongoing work with OAG on NZ AS 1</p> <p>Not yet started</p>
<p>d. Incorporating any amendments to international auditing and assurance standards to domestic standards where applicable, including liaising with the AUASB.</p>		<ul style="list-style-type: none"> • Amend standards following due process and agreed policy, which are expected to include: <ul style="list-style-type: none"> ○ Conforming amendments to NZ AS 1 ○ Conforming amendments from QM standards. 	<p>Issued a deferral of NZ AS 1 (Dec 2021)</p> <p>Annual improvements and conforming amendments to the Domestic Assurance Standards (April 22)</p>
<p>e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised.</p>		<ul style="list-style-type: none"> • Develop or amend domestic standards following due process and agreed policy. <p>3 domestic standards identified for 2021-2022:</p> <ul style="list-style-type: none"> i. Assurance engagement standard on the performance and reporting of a 	<p>ED on capital raising pending approval June</p>

		<ul style="list-style-type: none"> Corporate Fundraising (refer action 1.4) ii. Review standard on service performance information (refer action 1.5) iii. Engagement standard/guidance for smaller NFPs (refer action 1.6) 	<p>Development of ED on a review standard on hold</p> <p>Development of standard/guidance put on hold until further engagement or opportunity to work with a "tier 5" reporting framework is progressed</p>
f. Ensuring that all due process requirements are satisfied in accordance with section 22 of the Financial reporting Act 2013 and associated XRB guidelines before a new standard (or amendment, authoritative notice, or other pronouncement) is approved for issue.		<ul style="list-style-type: none"> • Approve signing memorandum with approval of standards • Include gazette notice in subsequent agenda following approval 	<p>Signing memo approved with standards</p> <p>Gazette notice for NZ AS 1 deferral (Feb 2022)</p> <p>Gazette notice for Fees (April 2022)</p> <p>Gazette notices for conforming amendments (June 2022)</p>
Action 1.2:	Timing	2021/22 Planned Actions	2021/22 Actual Actions
Monitoring the Assurance Environment			
<p><i>The NZAuASB will monitor the wider assurance environment, liaise with key participants in the financial and non-financial reporting "supply chain", and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			
a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate.	Ongoing	<p>Passive monitoring via media, public sources, and relationship contacts, specifically implementation of recently effective standards:</p> <ul style="list-style-type: none"> • KAM reporting for FMC reporting entities • Auditing of SSPs 	<p>Ongoing monitoring of IAASB PIR on auditor reporting (Technical Advisor to IAASB on working group).</p> <p>Ongoing work with OAG on NZ AS 1 on the audit of service performance in the public sector</p> <p>No other matters identified</p>

		<ul style="list-style-type: none"> • Role and Mindset changes • Identifying and assessing risks of material misstatements <p>Monitor modified auditor reports and report half yearly <u>in Feb each year</u> to Board.</p> <p>Monitoring matters regarding COVID-19 including:</p> <ul style="list-style-type: none"> - ongoing meetings with FMA and with assurance leaders about standards re Covid -19. - Liaising with group of NSS representatives and IAASB staff to discuss possible issues. - Issue guidance as appropriate 	<p>Report to Feb 2022 meeting.</p> <p>Developed video clip on disclaimer of opinions</p> <p>Biggest issue identified, exacerbated in COVID context, is shortage of auditors. XRB Letter of Support for class border exception for auditors (refer to correspondence)</p> <p>No matters identified at NSS regarding COVID-19.</p>
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> • Take action as appropriate as matters arise during the year. 	<p>Ongoing work with OAG on NZ AS 1 on the audit of service performance in the public sector.</p> <p>Updated explanatory guides and website for inflationary changes to audit settings (Dec 2021)</p>
c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB and considering the implications for the New Zealand auditing and assurance standards.	Ongoing	<ul style="list-style-type: none"> • Monitor projects, including: <ul style="list-style-type: none"> - global extended external reporting and assurance developments - academic research 	Ongoing

		- use of data analytics and artificial intelligence in auditing.	
d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards.	Ongoing	<ul style="list-style-type: none"> • Director participate at FMA Audit Oversight Committee meetings and report as necessary to the Board • Analyse results of QA reviews for standards issues. • Liaise with FMA on reviews conducted. 	<p>Ongoing</p> <p>Analysis of QA reviews (Dec 2021)</p> <p>Develop report underway</p> <p>Ongoing</p>
e. Assisting the XRB to contribute to government policy work relating to auditing and assurance standards.	Ongoing	<ul style="list-style-type: none"> • Interact with MBIE and other agencies as requested by them, or as identified as necessary • Follow up with RBNZ regarding auditor reporting. 	<p>Ongoing. Input into Climate Reporting legislation as needed</p> <p>Working with RBNZ to amend the Orders in Council</p>
f. Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group review and major reviews in other jurisdictions, and considering the implications for the New Zealand auditing and assurance standards.		<ul style="list-style-type: none"> • Monitor developments and consider if any action is required. 	<p>Ongoing</p> <p>Specific implications raised to date to explore:</p> <ul style="list-style-type: none"> • PIE definition • Audit fee and audit tenure disclosure
Action 1.3	Timing	2021/22 Planned Actions	2021/22 Actual Actions
Working together with the NZASB			
This action will comprise:			

a. Liaising with the NZASB during the development stage of new or amending accounting standards and any post-implementation reviews, to identify any audit or assurance considerations.		<ul style="list-style-type: none"> Identify projects in collaboration with Chair and Director Accounting Standards Raise awareness of issues on agenda and arrange for discussion when required. 	<p>NZASB Chair and Director update (Feb 2022)</p> <p>Joint Board discussion on Audit fee disclosures</p> <p>Ongoing discussions on PIE definition and public accountability</p>
b. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact.		<ul style="list-style-type: none"> Liaise with the NZASB as appropriate, expected to include: <ul style="list-style-type: none"> IASB's disclosure project IPSASB's Measurement ED 	<p>NZAuASB input on the IPSASB's measurement exposure drafts (Sept 2021)</p> <p>Provided feedback on the disclosure project (June 2021)</p>
c. Periodically meeting with the NZASB and relevant staff to provide an update on the NZAuASB workplan (and vice versa receiving an update on the NZASB work plan).		<ul style="list-style-type: none"> Invite NZASB Chair and Director to meetings to provide update on NZASB workplan. 	<p>NZASB Chair joined the Sept 2021 discussion</p> <p>Joint agenda meeting April 2022</p>
Action 1.4 Developing an Assurance Standard on Corporate Fundraising	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will develop an assurance engagement on the performance of and reporting on a Corporate Fundraising, and consider the need to develop an assurance standard on Prospective Financial Information.</i></p> <p>This action will comprise:</p>			
Developing an assurance standard on the performance and reporting of a Corporate Fundraising in accordance with the due process for	Whole year.	<ul style="list-style-type: none"> Continue development of standard of Corporate Fundraising in 	<p>ED on corporate fundraising under development (pending approval June 2022)</p>

domestic standards, and in collaboration with the AUASB as appropriate.	Approval of ED in October	<p>accordance with the agreed project plan.</p> <ul style="list-style-type: none"> • Liaise with the AUASB staff on the proposed standard. • Liaise further with the OAG and consider the need to develop a standard on Prospective Information. 	
Action 1.5 Developing a review standard on service performance information	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<i>The NZAuASB will develop a review standard on service performance information for Public Benefit Entities (PBEs)</i>			
The action will comprise:			
Developing a review standard on service performance information in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year	<ul style="list-style-type: none"> • New timeline to establish. • New sub-committee to be formed • Update from OAG on status and uptake of NZ AS 1 • Monitor results of NZASB PIR of T3 and T4 standards 	<p>Development of ED on a review standard on hold</p> <p>Work on NZ AS 1 underway with the OAG</p>
Action 1.6: Developing an engagement standard/guidance for smaller NFPs	Timing	2021/22 Planned Actions	2021/22 Actual Actions

The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.

The action will comprise:

Developing an engagement standard/guidance for smaller NFPs in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year.	<ul style="list-style-type: none"> • New timeline to establish to complete in 2021/2022. • Liaise with Charities and other stakeholders to obtain understanding of needs, and if can assist. 	<p>On hold</p> <p>Provided input into developing report (Sept 2021)</p>
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<p>Action 1.7</p> <p>Perform a post implementation review of the Compliance Engagement Standard</p>	Timing	2021/22 Planned Actions	2021/22 Actual Actions
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The NZAuASB will perform a post implementation review of the Compliance Engagement standard jointly with the AUASB to determine if further guidance is needed.

This action will comprise:

<p>Performing a post implementation review of the Compliance standard jointly with the AUASB.</p> <p>Considering if further application guidance is needed.</p>	Timeline to establish with AUASB staff	<ul style="list-style-type: none"> • Liaise with the AUASB and develop a joint project plan for the post implementation review • Perform the post implementation review in accordance with the approved project plan • Consider the results together with the AUASB and decide whether 	<p>Monitoring AUASB post implementation review and will commence NZ review in 22/23 as resourcing allows</p>
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		further application guidance is needed.	
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Action 1.9: Promoting evidence informed standard setting	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p>A key objective of the XRB is to ensure that its standards are based on a user-needs approach, i.e., the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.</p> <p>The XRB has established an Academic Forum to meet with academics once to twice per annum to identify areas for research relating to the XRB's standard setting. The NZAuASB plans to contribute and leverage this collaboration to identify areas for research relating to auditing and assurance standards.</p> <p>This action will comprise:</p>			
<p>a. Identifying applicable user needs research to undertake where appropriate.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> • Monitor developments and provide feedback on possible areas/ topics for research. • Research the effectiveness of KAM reporting during the COVID 19 pandemic and issue a report summarizing the findings. 	<p>NZAuASB Chair presented joint AUASB/NZAuASB session at the AFAANZ conference on:</p> <ul style="list-style-type: none"> • The economic consequences of reporting KAMs in the auditor's report • The impact of different lead auditor instructions to component auditors on the quality of the work undertaken by the component auditor. <p>Commissioned academic research on KAMs (expected report Oct 2022)</p>
<p>b. Taking opportunities through the XRB's academic forum to identify and encourage areas for research related to auditing and assurance standards</p>		<ul style="list-style-type: none"> • Consider and provide feedback on possible areas/ topics for research. • Identify and agree any assurance related research areas for 	<p>Ongoing</p> <p>Tom Scott undertook some research while on sabbatical:</p>

		Academic on sabbatical to XRB in July.	<ul style="list-style-type: none"> state of assurance on greenhouse gas assurance in New Zealand
c. Considering output of research available (including in liaison with the AUASB) and how this can best contribute to the quality of standard setting work.	Ongoing	<ul style="list-style-type: none"> Monitor outputs of research projects conducted on assurance matters Perform search to identify available research on current IAASB, IESBA and NZAuASB projects and consider relevance of research output to the projects 	Academic submission on LCE exposure draft Academic research on non-assurance services (Dec 2021)
Action 1.10 Developing guidance material to support the consistent application of auditing and assurance standards	Timing Ongoing	2021/22 Planned Actions	2021/22 Actual Actions
<i>The focus of the NZAuASB specific actions will be to develop guidance material to support the consistent application of auditing and assurance standards</i>			
This action will comprise:			
a. Developing staff FAQs and other non-authoritative guidance material to support consistent application of new and existing standards (where deemed required)	Ongoing	<ul style="list-style-type: none"> Consider ways to work with NSS and professional bodies as necessary, including a focus on <ul style="list-style-type: none"> Implementation support for the QM standards 	Dedicated QM implementation webpage created. Not yet started – FAQ on auditor reporting for RBNZ orders in council Not yet started - FAQ on materiality considerations and estimates

<p>b. Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Communication plans to include ways to promote awareness through LinkedIn • Consider ways to make BfCs, and other IAASB/IESBA material available through the XRB website • Host events, write blogs or articles to raise awareness of standards and implementation support, including a focus on <ul style="list-style-type: none"> ○ Promotion of EER assurance guidance 	<p>Focus area on website created to promote awareness of implementation support activities for: Quality management, Risk assessment, Fraud, etc.</p> <p>Series of LinkedIn Posts created to raise awareness.</p> <p>Director recorded short video on Risk Assessment Process with AUASB.</p> <p>Director presented at CAANZ conference</p>
<p>c. Considering what further guidance is needed in the New Zealand environment and develop the guidance.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Monitor NZ need for additional guidance and develop as needed. • Consider need for and priority of developing guidance on comfort letter engagements. • Consider need for and priority for guidance relating to technology. 	<p>Ongoing</p> <p>Not yet determined</p>
<p>Action 1.11 Improving the accessibility and usability of auditing and assurance standards</p>			

The focus of the NZAuASB specific actions will be to assist the XRB in exploring opportunities to improve the accessibility and usability of the standards in response to evolving user expectations.

The action will comprise:

<p>a. Monitor IFAC and AUASB digital publication projects and contribute as needed. Consider and assess most appropriate action to recommend to the XRB regarding digitisation of XRB standards</p>		<ul style="list-style-type: none"> Monitor IFAC and AUASB digital publication project and report back to NZAuASB as appropriate. 	Ongoing
<p>b. Working with the IESBA to ensure NZ specific provisions can be incorporated into the eCode</p>		Director to continue to assist Working Group and to update Board on progress.	New IFAC ePub launched and eCode will be phased out.
<p>Action 1.12 Contribute to the XRB’s initiative on non-financial disclosures</p>	<p>Timing Ongoing</p>	<p>2021/22 Planned Actions</p>	<p>2021/22 Actual Actions</p>

The implementation of non-financial reporting strategies will be led by the XRB Board with a priority focus to develop a strategy and guidance for climate related disclosures.

The focus of the NZAuASB specific actions will be to play a role in ensuring financial and non-financial reporting standard setting developments remain connected to support an integrated approach to quality and trusted external reporting.

The action will comprise:

<p>a. Actively monitoring XRB led initiatives in relation to non-financial reporting and contributing to the development of reporting guidance as appropriate, and work with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.</p>		<ul style="list-style-type: none"> Monitor demand for and developments in assurance over non-financial reporting. Liaising with the CRD team during the development stage of the climate standards, to identify any audit or 	<p>Ongoing</p> <p>XRB Chair and CE update (Sep 2021)</p> <p>NSS Tour de Table (Oct 2021 and May 2022)</p> <p>Ongoing – CRD team member joined GHG advisory panel</p>
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		assurance considerations.	
		<ul style="list-style-type: none"> Address matters arising as appropriate. 	
b. Contribute to the development of assurance standards and guidance to address the assurance implications of the Financial Sector Climate Related Disclosures Bill, once finalized, and other types of non-financial reporting, as needed.		<ul style="list-style-type: none"> Consider the need for guidance/standard changes to enable non-accountant practitioners to apply XRB auditing and assurance standards, including the quality management and ethical requirements, as needed Consider whether assurance standards are fit for purpose or what amendments or additional standards may be required 	<p>Ongoing</p> <p>XRB led initiative</p>
2. Influencing the development of international standards			
Action 2.1	Timing	2021/22 Planned actions	2021/22 Actual Actions
Maintaining and enhancing relationships with the IAASB	Ongoing		
<i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i>			

The Action will comprise:			
a. Attending relevant meetings and events (including National Standard Setters meetings).	Ongoing	<ul style="list-style-type: none"> Chair and Interim Director to attend NSS meetings Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	<p>Participated at Oct 2021 and May 2022 NSS meetings</p> <p>Participated at LCE Paris/virtual conference (May 2022)</p>
b. Taking opportunities to meet with IAASB members and staff.		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate NZAuASB Chair and Interim Director to attend the NSS meeting. 	Brett James, Deputy technical Director IAASB, presented to NZAuASB on technology (Sept 2021)
c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups.		<ul style="list-style-type: none"> Have high-level discussions with Lyn Provost when appropriate Invite Roger Simnett, IAASB member and Chair of the CUSP Task Force to provide an update on CUSP project. Work with AUASB at chair and staff level to influence international agenda. 	<p>Lyn attended Dec 2021 meeting</p> <p>Pre NSS discussion on sustainability assurance</p> <p>Roger rotated off the IAASB in Dec 2021</p> <p>Ongoing</p>
d. Responding as appropriate to requests for information from the IAASB and any other relevant working groups.		<ul style="list-style-type: none"> Respond to requests for information as appropriate 	Completed request for information on audit evidence, going concern and PIE projects (Nov 2021)
e. Seeking opportunities to present the results of XRB research (and other thought leadership) on		<ul style="list-style-type: none"> Seeking opportunities to partner with international bodies on 	Ongoing

topics of global interest at relevant IAASB events and other international forums.		the XRB's climate work, as it relates to assurance matters. Present on relevant topics at NSS meetings.	
f. Inviting IAASB members and staff to present at NZAuASB meetings and other XRB constituent outreach events.		<ul style="list-style-type: none"> • Invite Task Force Chairs or IAASB staff to present on relevant topics to the NZAuASB and outreach events. Possible topics include: <ul style="list-style-type: none"> ○ Technology ○ QM standards ○ LCE exposure draft ○ Group audits 	September 2021 - Brett James, Deputy Technical Director, presentation on technology.
g. Inviting Lyn Provost to Board meetings and providing high level support for her role.		<ul style="list-style-type: none"> • Invite Lyn Provost to at least 2 NZAuASB meetings. • Monitoring the inputs of the Technical Advisory Group. • Monitor updates on IAASB meetings. 	Lyn attended Dec 2021 meeting Pre NSS call to share views on sustainability assurance Technical advisory reports shared with NZAuASB IAASB reports shared with NZAuASB
NZAuASB Action 2.2: Maintaining and enhancing relationships with the IESBA	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will seek to build and maintain relationships with IESBA members and staff.</i></p> <p>The Action will comprise:</p>			

a. Attending relevant meetings and events (including NSS meetings).	Ongoing	<ul style="list-style-type: none"> Chair and Interim Director to attend NSS meeting. Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	<p>Attended Oct 26-28 NSS meetings</p> <p>Chair has observed IESBA meetings in PIOB role</p>
b. Taking opportunities to meet with IESBA members and staff.		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	<p>Ongoing</p> <p>Discussions on the PIE definition and on intent of NAS wording with IESBA staff</p>
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	<p>Strong relationship with Channa Wijesinghe, Chief Executive APESB who is now an IESBA member. Channa has attended NZAuASB meetings for the discussions on NAS but not in capacity as IESBA member</p>
d. Responding, as appropriate, to requests for information from the IESBA and any other relevant working group.		<p>Respond to requests for information as appropriate</p>	<p>None identified (IESBA sought assistance on their technology initiative to develop non-authoritative material on technology but no resource identified for this purpose)</p>
e. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IESBA events and other international forums.		<ul style="list-style-type: none"> Consider if there are relevant topics to present on at NSS meetings 	<p>None identified</p>
f. Inviting IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events.		<p>Possible topics include:</p> <ul style="list-style-type: none"> NAS and Fees implementation PIE definition Long association PIR Technology 	<p>Consider inviting member to NZ outreach event to discuss PIE definition</p>

NZAuASB Action 2.3: Contributing to International Auditing and Assurance Standards Due Process	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>			
<p>a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Issue alerts when international documents issued • Organise consultation events as appropriate, in accordance with a consultation plan, with a focus on "why" the change • Promote awareness on social media in accordance with the XRB policies. 	<p>Alerts have been issued for all international documents issued.</p> <p>Consultation events held:</p> <ul style="list-style-type: none"> • NAS webinar (Aug 2021) • NAS panel discussion (Sept 2021) • NAS virtual feedback forum (Oct 2021) • LCE webinar (Oct 2021) • LCE feedback forum – users (Oct 2021) • LCE feedback forum – practitioners (Oct 2021) • Ethics Edified (April 2022) <p>Regular Linked-in posts as appropriate.</p>
<p>b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in consultation with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate.</p>		<ul style="list-style-type: none"> • Prepare comment letters • Liaise with AUASB in accordance with established protocol before letters finalised • Liaise with APESB to the extent considered appropriate in each case 	<p>August 2021 – Complete IAASB 2022/23 Work Plan Survey</p> <p>Oct 2021 – Submission on quality management-related conforming amendments to the Code</p> <p>Jan 2022 – Submission on LCE</p> <p>June 2022 – technology related amendments to the Code</p>

			June 2022 – Definition of engagement team and groups
c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.		<ul style="list-style-type: none"> Participate in events in NZ or Australia (or elsewhere on an exceptional basis) and online. 	<p>Assurance staff attend virtual Australian LCE outreach events (Oct 2021)</p> <p>Assurance staff attend virtual APESB outreach events (May 2022)</p>
Action 2.4 Contributing to the development of IAASB and IESBA projects	Timing	2021/2022 Planned Actions	2021/22 Actual Actions
The action will comprise:			
a. Actively monitoring the work undertaken by the IAASB and the IESBA and engaging with staff on matters relevant to New Zealand, including continuing to contribute to the IAASB and the IESBA work as appropriate and achievable.	Ongoing	<ul style="list-style-type: none"> Consider volunteering to assist IAASB or IESBA on topics of strategic significance to the XRB, as appropriate and as needed. These may include: <ul style="list-style-type: none"> Fraud Going concern EER assurance 	Monitoring opportunity to assist IESBA/IAASB working group on non-financial reporting.
Action 2.5: Collaborating with other NASSs to ensure global standards are fit for purpose at jurisdictional levels.	Timing	2020/21 Planned Actions	2020/21 Actual Actions
<i>The NZAuASB will be an active participant in the NASS collaboration project with the AUASB, Canadian and Netherlands NASSs.</i>			

The action will comprise:			
<p>a. Participating in the exploration internationally of how NASSs can work more collaboratively with each other to address issues associated with current and recently released IAASB standards (e.g. the impact of technology on the audit, SMP/LCE audit issues, and the implementation of new or updated standards).</p>		<ul style="list-style-type: none"> • Agree Vision with the wider NASS group at the next in person NSS meeting • Have quarterly phone calls with the NASS G4 group, and in-person meetings alongside the IAASB meetings. • Establish and maintain a NASS communications network • Continue to share and collaborate on work plans and specific projects identified amongst NASS G4 group to collaborate on. 	<p>On hold until in person resumes</p> <p>Ongoing – regular Chair and Director calls and bi-monthly director calls (Canada/Australia/New Zealand)</p> <p>AICPA/AUASB/CAASB/NZAuASB Staff call on LCE (Nov 2021)</p>
<p>b. Identifying and exploring opportunities for the IAASB and National Assurance Standard Setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work.</p>		<ul style="list-style-type: none"> • Liaise with the IAASB staff on NSS matters to work collaboratively on. • Contribute to planning NSS meetings. 	<p>Director Assurance assisted IAASB staff to facilitate LCE virtual breakout rooms (May 2022)</p>
<p>c. Continuing to develop an understanding of how NASS as a stakeholder group can better inform the implementation of the IAASB’s current and future strategies, through global and regional actions that increase the value and perception of the audit.</p>		<ul style="list-style-type: none"> • Participate in NASS meetings • Build relationships with other NASS in the ASIA PACIFIC region. • Develop a database of NASS contacts and invite them to join the 	<p>Mid- year call in December with NASS G4 Chairs</p> <p>On hold until in person meetings resume</p>

		NASS communications network.	
d. Monitoring the implementation of the Monitoring Group's reforms, including consideration of the implications of the Group's new public interest framework for the work of the XRB and the NZAuASB both in New Zealand and internationally.		<ul style="list-style-type: none"> Obtain support for a wider participation at annual NASS meetings Consider implications of the public interest framework, within the context of XRB's operations. 	Harmonisation and convergence policy finalised, incorporates the public interest framework.
3. Maintaining and enhancing constituency engagement and support			
NZAuASB Action 3.1:	Timing	2020/21 Planned Actions	2020/21 Actual Actions
Maintain and Enhancing Due Process Consultation			
<i>The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.</i>			
The Action will comprise:			
a. Contribute to the regular online XRB newsletters, social media posts and alerts to promote an awareness of the NZAuASB's activities of any new standards or guidance issued, and other standard setting developments.	Ongoing	<ul style="list-style-type: none"> Awareness raising to focus on 'why the change' in the public interest 	Pitopito Korero: <ul style="list-style-type: none"> Quality management standards (July 2021) Non-assurance services (Aug 2021) Less Complex Entities (Sep 2021) Perspectives on NAS (Oct 2021) QM standards (Nov 2021) Mixed views on LCEs (Dec 2021) Submission on LCEs (Feb 2022) Independence standards (March 2022) Assurance of GHG emissions (April 2022) Decision on NAS (May 2022) PIE definition (June 2022)

			Ongoing alerts and social media posts
b. Identifying and implementing innovative, targeted consultation methods with a focus on “why” the change, that are high value-added but relatively low-effort from the constituents’ point of view.	Ongoing	<ul style="list-style-type: none"> Continue current due process engagement methods Develop new communications & engagement approach that reflects different target groups and helps to explain “why” changes are needed. 	<p>Communications plans developed for projects (except minor amendments)</p> <p>Stakeholder mapping complete</p> <p>Explore new outreach tools – Miro Board</p>
c. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> Maintain and update a constituent contact list, recognising that our constituents are widening all the time Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences Promote other Topics as arise Identify and engage with relevant groups about major new exposure drafts and standards. 	<p>Stakeholder mapping complete</p> <p>Presentation at CA ANZ conference (Nov 2021)</p> <p>NAS Panel discussion involving IOD and Shareholders association</p>
d. Proactively seeking opportunities to engage with those involved in the external reporting of Maori		<ul style="list-style-type: none"> Participate in XRB engagement with Maori incorporated entities to 	<p>XRB commenced a project to consider how to better incorporate the Te Ao Māori view into the reporting framework. No specific assurance matters identified to date.</p>

incorporated entities – including preparers, advisors and users, as needed.		identify any assurance related matters	
Action 3.2: Undertaking On-Going Dialogue	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i>			
The Action will comprise:			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings.	Ongoing	<ul style="list-style-type: none"> Update and include liaison schedule as a standard agenda item. Organise regular meetings with key stakeholders identified on the liaison schedule 	Practitioners met with NZAuASB (Oct 2021) Staff regular catch ups with CA ANZ, AUASB staff ongoing
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups.	Ongoing	<ul style="list-style-type: none"> Organise seminars & round tables Attend other fora Attend mid-tier forum Participate in Audit Summit meetings arranged by CAANZ and practitioners. Hold discussions with assurance leaders to discuss assurance matters. 	Non-assurance panel discussion (Sept 2021) Assurance practitioners attend NZAuASB meeting (Oct 2021) XRB led discussions with assurance leaders (Sept 2021)
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> Build relationships with key groups identified. 	Ongoing

Action 3.3 Improving engagement with assurance practitioners in small firms			
<p><i>The NZAuASB will seek to improve engagement with assurance practitioners that are small firms and sole practitioners.</i></p> <p>The action will comprise:</p>			
<p>a. Specifically targeting this group when consulting about relevant standards using customised consulting approaches.</p>		<p>Maintain an updated contact list of SMPs and ensure they are included in outreach events targeted to their circumstances and interests.</p>	<p>Stakeholder mapping complete LCE webinar (Oct 2021) – 71 participants LCE virtual feedback forum (Oct 2021)</p>
Action 3.4 Promoting understanding of the auditing and assurance standards and engagements	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><i>The NZAuASB will undertake activities throughout the life-cycle of developing standards to promote an increased understanding of the auditing and assurance standards</i></p> <p>The Action will comprise:</p>			
<p>a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness of:</p> <ul style="list-style-type: none"> • assurance practitioners about new and revised auditing and assurance standards • users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility 		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Targeted meetings with users • Journal articles • Targeted newsletters • Social media notifications 	<p>Massey advanced auditing lecture on Other assurance engagements (July 2021)</p> <p>LCE article for users (Sept 2021)</p> <p>Quality management presentation at CA ANZ audit conference (Nov 2021)</p> <p>LinkedIn Posts on Quality management standards</p> <p>LinkedIn Posts on EER assurance engagements</p>

		<ul style="list-style-type: none"> Joint assurance and accounting update webinar twice annually CAANZ Audit conference AUT auditing 3rd year paper guest lecture 	<p>Quality management and IAASB update at CA ANZ audit conference (Nov 2021)</p> <p>Victoria university presentation (May 2021)</p>
b. Promoting awareness of the IAASB and the IESBA implementation support activities.		<ul style="list-style-type: none"> Make material available on the XRB website Social media notifications 	<p>Quality management focus webpage</p> <p>ISA (NZ) 315 (Revised) focus webpage</p> <p>LinkedIn posts ongoing</p>

4. Supporting the XRB to influence delivery of high-quality audit and assurance services

NZAuASB Action 4.1	Timing	2021/22 Planned Actions	2021/22 Actual Actions
Supporting the XRB to Promote Understanding of the factors that Affect Audit Quality			
<i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i>			
This action will comprise:			
a. Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary.		Attend stakeholder collaboration meetings arranged by CAANZ and report on outcome.	<p>XRB Chair, CE and Director Assurance met with:</p> <ul style="list-style-type: none"> IOD (July 2021) Big 4 and mid-tier firms (Sept 2021)
b. Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the Brydon report and the Australian Inquiry where relevant to New Zealand.		<p>Implement the XRB's strategic direction by:</p> <ul style="list-style-type: none"> considering issues and developing recommendations and 	<p>XRB Chair & CE update to NZAuASB (Sep 2021 and April 2022 joint meeting)</p> <p>Specific standard setting projects identified to date:</p> <ul style="list-style-type: none"> PIE definition

		<p>project plans as appropriate.</p> <ul style="list-style-type: none"> Implementing the agreed actions in accordance with the approved project plans 	<ul style="list-style-type: none"> Audit fee Audit tenure disclosure Non-assurance services project Ways to enhance engagement between users of audit reports and auditors
c. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality.	Ongoing	<ul style="list-style-type: none"> Promote the audit quality framework as opportunities arise Liaise with IOD and do an awareness raising session as part of the director education series 	XRB Chair, CE and Director Assurance met with IOD (July 2021)
d. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality.		<ul style="list-style-type: none"> Speaking engagements as opportunities arise Communicate awareness raising activities as appropriate in accordance with communications plan Promote guidance developed. 	<p>NAS Panel event focus on investors and director awareness of independence (Sep 2021)</p> <p>Ongoing promotion of four factor EER credibility model</p>

NZAuASB Planned actions for 2022-2027

The XRB's overarching strategic intention is to promote and facilitate effective decision making for resource allocation. We enable high quality, trusted, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

The primary purpose of this plan is to establish the NZAuASB's planned actions to support the XRB's strategic intentions and priorities for the period.

The XRB's activities are grouped into five outputs. The NZAuASB's activities relate most specifically to:

- Output 3 – Prepare and issue Auditing and Assurance (including Ethical and Professional) Standards and other related services Standards
- Output 5 – Liaise with and influence of international bodies through participation in meetings and making of submissions

In support of the XRB's Statement of Intent 2022-2027, the NZAuASB's planned actions for the 2022–2027 period are built around four pillars:

1. Lead to ensure stakeholders understand the purpose and value of reporting standards and are informed of international developments.
2. Influence through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest.
3. Collaborate with stakeholders, with a greater emphasis on Māori, throughout the lifecycle of developing standards and ensure external reporting and assurance gaps are identified, understood, and addressed.
4. Respond to stakeholder input and a fast-changing external reporting landscape to ensure our standards and guidance are robust and sustainable.

The key strategic intentions and priority areas for assurance include:

- a. Assurance over non-financial disclosures including Greenhouse gas assurance engagements. With the rise in demand for assurance over reporting of non-financial information the XRB will be working with a broader group of stakeholders to promote and facilitate a common understanding of what "assurance" means in the context of broader non-financial reporting, and to provide the right foundation and tools to those delivering assurance services
- b. Audit of Service Performance Information
- c. Audit quality reforms. There is considerable international and domestic activity examining trust and confidence in external reporting, including audit quality and the independence of audit firms. The XRB will continue to monitor and work with the key stakeholders in the reporting supply chain to consider how the issues identified could impact New Zealand and how best these should be addressed in New Zealand.

Other priority areas include: Non-assurance services, Assurance over Financial Information Prepared in Connection with a Capital raising, Going Concern, Audit Evidence and the Public Interest Entity Definition.

Output 3: Prepare and issue Auditing and Assurance (including Professional and Ethical) Standards and other related services Standards

Lead – ensure stakeholders understand the purpose and value of standards and are informed of international developments

What we plan to achieve	How we plan to go about this /Measure of success
Influence and respond to international developments that impact New Zealand	<ul style="list-style-type: none"> • Anticipate, monitor and respond to developments in international standard-setting structures and environment, and ensure that stakeholders are well informed. • Monitor outcome of stakeholder collaboration on audit quality reforms. • Promote an understanding of factors affecting audit quality by conducting events and developing thought leadership.
Contribute to government policy work relating to audit and assurance to develop overall view of the system and how it could develop as appropriate	<ul style="list-style-type: none"> • Understand, through effective engagement, the issues and challenges faced by various assurance practitioners • Work with regulators and other stakeholders to develop an overall view of the system and how it could develop in the future
Understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in New Zealand reporting and consider how best to respond to international developments	<ul style="list-style-type: none"> • Conduct events as appropriate to understand perspectives and inform all participants in the external reporting supply chain about their role in maintaining trust, the role of assurance and the factors that affect audit quality
Enhance the accessibility of the audit and assurance standards	<ul style="list-style-type: none"> • Complete a feasibility assessment of the costs and benefits of introducing fully integrated digitised standards across all standards issued by the XRB. • Explore other opportunities to increase the accessibility & usability of auditing and assurance standards.

Influence – through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest

What we plan to achieve	How we plan to go about this /Measure of success
<p>Build and enhance strong international relationships with the IAASB, and the IESBA. Refine “influencing strategies” specific to each international board to influence the work of the IAASB and IESBA during appropriate stages of standard development</p>	<ul style="list-style-type: none"> • Attend relevant meetings and events (including NSS meetings) • Meet with IAASB and IESBA members and staff and engage on key matters to New Zealand • Foster relationships with and support Australasian representatives on the IAASB and IESBA and those who are involved in relevant working groups • Respond, as appropriate, to requests for information from the IAASB, IESBA and any other relevant working groups. • Seek opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IAASB or IESBA events and other international forums • Invite IAASB and IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events
<p>Maintain and enhance regional relationships</p>	<ul style="list-style-type: none"> • Attend and contribute to AUASB meetings as required • Identify and prioritize joint AUASB/NZAuASB projects • Identify opportunities to work collaboratively with the Canadian auditing standards board, and other like-minded NSS
<p>Facilitate debate, provide thought-leadership, participate in appropriate forums to enhance audit and assurance quality on priority topics</p>	<ul style="list-style-type: none"> • Facilitate debate, provide leadership and participate in forums on topic including: assurance over non-financial information, audits of service performance information, non-assurance services fraud and going concern

Collaborate with stakeholder with a greater emphasis on Māori, throughout the lifecycle of developing standards to ensure external assurance gaps are identified, understood, and addressed.

What we plan to achieve	How we plan to go about this /Measure of success
<p>Monitor the wider assurance environment, liaising with key participants in the financial and non- financial reporting “supply chain”, and consider the implications of developing issues for New Zealand auditing and assurance standards</p>	<ul style="list-style-type: none"> • Monitor QA review results conducted locally and internationally and respond as appropriate. • Monitor issues arising from the implementation of the current suite of standards via media, public sources and relationship contacts and respond as appropriate. • Monitor modified audit reports and respond as appropriate. • Track research projects and respond as appropriate
<p>Enhance the depth and breadth of engagement with existing and new stakeholders through new and existing communications and events</p>	<ul style="list-style-type: none"> • Specifically target assurance practitioners from small firms, sole practitioners and assurance practitioners who are not accountants. • Broaden our stakeholder base to engage with a larger range of practitioners • Proactively seek opportunities to engage with those involved in the external reporting of Māori incorporated entities as needed. • Identify and implement innovative, targeted consultative methods
<p>Awareness raising activities undertaken throughout the lifecycle</p>	<ul style="list-style-type: none"> • Contribute to regular XRB Pitopito Kōrero, social media posts and alerts and conduct events to raise awareness, with a focus on “why the change”: <ul style="list-style-type: none"> • of assurance practitioners about auditing and assurance standards. • of assurance users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility. • Promoting awareness of the IAASB and the IESBA implementation support activities. • Supporting other relevant organisations that provide training and professional development.
<p>Implement engagement strategies with key stakeholders</p>	<ul style="list-style-type: none"> • NZAuASB to meet with major constituent groups on a rolling basis. • Meet with major constituent groups in other fora, including at events hosted by those groups. • Maintain strong working relationships at the operational level with key stakeholders.

Respond to stakeholder input and fast-changing external reporting landscape to ensure our frameworks, standards and guidance are robust and sustainable

What we plan to achieve	How we plan to go about this /Measure of success
Issue all IAASB and IESBA based standards and guidance in accordance with our due process and convergence and harmonisation policy	100% compliance with due process and convergence and harmonisation policy Standards issued before the international effective date allowing for an appropriate implementation timeframe in New Zealand
Seek feedback on IAASB and IESBA standards on local relevance	Ensure that all appropriate due process requirements are satisfied through transparent, collaborative consultation
Issue NZ specific standards and guidance in a timely manner. Priorities include: <ul style="list-style-type: none"> • Assurance over non-financial disclosures including GHG emissions • Audit of service performance information • Assurance over financial information prepared in connection with a capital raising 	100% compliance with due process and convergence and harmonisation policy <ul style="list-style-type: none"> • Issue standard on assurance over financial information prepared in connection with a capital raising • Issue exposure draft on audit of service performance information • Issue exposure draft on greenhouse gas assurance engagements
Seek feedback on NZ standards through transparent, collaborative consultation	Ensure that all appropriate due process requirements are satisfied through transparent, collaborative consultation
Undertake post-implementation reviews to assess understanding, use, impact and remaining/new gaps	Performing a post implementation review on the Compliance Engagement Standard jointly with the AUASB to determine if further guidance is needed.
Undertake or support evidence based research to identify gaps in standards or where guidance is needed	<ul style="list-style-type: none"> • Identify applicable user needs research to undertake • Provide input on possible topics for academic research • Consider output of research available • Commission a research report on Key Audit matters
Develop guidance material to support the consistent application of auditing and assurance standards	<ul style="list-style-type: none"> • Developing Staff FAQs and other non-authoritative guidance material to support the consistent application of new and existing standards (where deemed required); • Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement activities. • Considering what further guidance is needed in the New Zealand environment and develop the guidance.

Output 5: Liaise with and influence of international bodies through participation in meetings and making of submissions

Strategic pillar 2: Influence – through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest

What we plan to achieve and how we go about this	How we plan to go about this /Measure of success
<p>Influence the work of the IAASB and the IESBA during appropriate stages of standards development to ensure high-quality global standards that are both applicable in New Zealand and in the public interest</p>	<ul style="list-style-type: none">• Facilitate debate and ensure assurance practitioners and relevant users of assurance reports are aware of the IAASB and the IESBA due process documents through effective use of communication technologies and platforms including on:<ul style="list-style-type: none">○ Sustainability assurance○ Going concern○ Fraud○ Audit evidence○ Public interest entity definition• Responding, as appropriate, to the IAASB and the IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in consultation with the AUASB and the APESB where appropriate;• Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	1 June 2022
Subject:	Assurance engagements over mandatory greenhouse gas (GHG) emissions disclosures
Date:	19 May 2022
Prepared By:	Peyman Momenan

Action Required

For Information Purposes Only

Agenda Item Objectives

- To inform the Board of the project progress to date and its next steps.
- To receive Board feedback regarding explored issues.
- To receive Board feedback on the outline of the consultation document and bridging documents.

Background

1. *The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021* (the Act) makes it mandatory for climate reporting entities (CREs), to prepare climate statements in accordance with the climate standards issued by the XRB. To the extent that those statements are required to disclose greenhouse gas emissions, the Act requires that every CREs must ensure that the climate statement are, to the extent that those statements are required to include GHG emissions, the subject of an assurance engagement. The Act states that assurance practitioners must, in carrying out such assurance engagement, comply with all applicable auditing and assurance standards.
2. [The metrics and targets consultation document](#) set out the following proposals relevant to assurance engagements over GHG mandatory disclosures
 - a. The intended scope of the assurance engagement includes:
 - i. Scope 1, 2 and 3 GHG emissions.
 - ii. Additional requirements for the disclosure of GHG emissions (e.g., consolidation approach).
 - iii. Requirement to prepare a GHG emissions report and provide a link/cross reference to this report.
 - iv. Confirmation that GHG disclosures have been drawn from the GHG emissions report.
 - b. The minimum level of assurance for GHG emissions proposed is set at Limited Assurance, however this will be revisited once the assurance regime has commenced (from 27 October 2024).

3. We are currently analysing the submissions received in response to the consultation document.
4. In October 2021, the XRB approved a project plan for the GHG assurance project. It is important that the standards the XRB develops for the mandatory assurance engagement over GHG disclosures are accessible to all practitioners including non-accountant assurance practitioners, who may not be familiar with existing XRB standards. To that end, the XRB is committed to developing assurance standards for all assurance practitioners that:
 - a. Are fit for purpose.
 - b. Do not create unnecessary barriers to entry.
 - c. Are freely available and useable.
 - d. Establish a single set of standards for the regime.
5. The project plan splits the workflow into two streams.
 - a. A focus on the requirements for the engagement process.
 - b. Separately consider the appropriate quality management, ethical requirements and possibly competence requirements.
6. The agreed project plan timeline is as follows:

Dec 21	July 22	August 22	Oct 22	Jan 23	March 23	June 23
Fit for purpose review	Feedback on draft ED	First read of ED Consider implications of Climate standard ED	Approve and issue exposure draft of assurance standards for GHG assurance	Submissions close and analysis of issues	1st read	Approve and issue package of GHG assurance standards

7. The project plan recognised that the XRB could not just presume that the existing XRB standards in issue would meet the objectives of the project recognising that internationally and in New Zealand there are various assurance standards that might apply, and that a broader base of assurance practitioner might undertake this work, including practitioners who currently apply standards issued by ISO.
8. Understanding the requirements included in both the ISOs and the extant XRB standards, their similarities and differences, any gaps between them, and their fitness for purpose in the context of assurance engagements over the mandatory GHG emissions disclosures provides a good starting point to inform the XRB assurance standards for this assurance regime.
9. An advisory panel of experienced assurance practitioners, from both ISO and ISAE based assurance practices, was formed in November 2021. The panel comprises of the following members: Marje Russ (NZAuASB member and the panel's chair), Becky Lloyd (Toitū), Karen Tipper (Toitū), Brett Tomkins (Deloitte), Pip Best (EY). To date, the panel has met four times.
10. Our starting point was to compare ISO and XRB standards applicable to the engagement process. These standards include:
 - a. ISAE (NZ) 3410, *Assurance Engagements on Greenhouse Gas Statements* issued in New Zealand by the XRB.
 - b. ISO 14064-3:2019 *Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* issued by the ISO.

11. Both ISO 14064-3:2019 and ISAE (NZ) 3410 require compliance with certain “mother” assurance standards.
 - 1.1. ISO 14064-3:2019 requires compliance with ISO/IEC 17029:2019 - *Conformity assessment — General principles and requirements for validation and verification bodies*, ISO 14065:2020 *General Principles and requirements for bodies validating and verifying environmental information*, and ISO 14066:2011 *Greenhouse gases — Competence requirements for greenhouse gas validation teams and verification teams*.
 - 1.2. ISAE (NZ) 3410 requires compliance with ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

We are yet to finalise our comparison of these mother standards.
12. The comparison of ISO 14064-3:2019 and ISAE (NZ) 3410 showed a high level of alignment between the two standards, and we have confirmed that the two standards have informed one another over time.
13. This alignment makes it possible to bridge between the two standards. We explored the following options for how this may be best achieved with the advisory panel in March 2022:
 - a. Issuing a new standard.
 - b. Starting from ISAE (NZ) 3410 and amend it as necessary.
 - c. Starting from ISO 14064-3:2019 and amend it as necessary.
14. The advisory panel discussed that option b is the most practical starting point for the XRB because:
 - a. The XRB has no ability to amend ISO standards.
 - b. ISO standards are subject to copy-right and are not freely available.
 - c. Developing a New Zealand specific standard is not ideal, as practitioners are seeking alignment with internationally recognised standards.
 - d. ISAE (NZ) 3410 includes extensive application material that will be useful to all practitioners.
15. The XRB Board supported the staff recommendation to use ISAE (NZ) 3410 as the base for developing the XRB standard at its April 2022 meeting.
16. At its most recent meeting, the GHG advisory panel considered a detailed “fit for purpose” analysis of ISAE (NZ) 3410 to explore specific amendments needed to be made to the standard under the following themes: enhancing accessibility for all practitioners, the legislative context for the engagement, and the inclusion of all scope 3 GHG emissions in the reporting. Agenda item 7.2 includes additional information on this analysis.
17. The second workstream that deals with the quality management and ethical requirements is more challenging. The XRB’s existing assurance standards include:
 - a. [PES 1](#) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
 - b. [PES 3](#) *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

The ISO suite of standards have no separate standards for the above areas. Instead, the requirements are scattered across multiple ISO standards and other requirements imposed via by the accrediting body. We have performed a high-level comparison between these requirements.
18. This analysis showed that the two suites of standards:
 - a. Have different methods for structuring such requirements
 - b. Use different terminology (which makes a one-to-one comparison infeasible at times)

- c. Have vastly differing levels of specifications to support their respective requirements.

Our comparison is made more challenging due to: the requirements of the professional bodies the assurance practitioners are a member of, the accreditation criteria applied where assurance practices are accredited by an independent body, applicable laws and regulations and finally the assurance practices own methodologies.

19. Our preliminary conclusion, supported by the advisory panel, is that for the quality management and ethical requirements it will not be possible to bridge between ISAEs and ISOs in the same way it is for the assurance engagement process and that further consideration is needed before a suitable solution is found.
20. We therefore recommended to the XRB Board at its April meeting that in light of the agreed project timeline, that the first formal exposure draft of the assurance standards, due to be approved in September 2022, focus on and propose engagement level requirements. The document could highlight the challenges and matters under consideration relating to quality management and ethical requirements, without proposing a solution, and rather use the opportunity to pose questions to inform the way forward. The XRB Board supported this proposal.

Next steps

21. Given the strategic direction now agreed with the XRB Board, the next steps are:
 - The NZAuASB to provide input into the developing exposure draft and consultation paper (June 2022)
 - The XRB Board to provide feedback on the consultation paper (June 2022).
 - The NZAuASB to provide fatal flaw feedback the consultation paper and ED of requirements for the assurance engagement (August 2022).
 - The XRB Board to provide their feedback on the consultation paper and ED of requirements for the assurance engagement process (August 2022).
 - The XRB Board to approve the consultation document on 21 September 2022.
 - Issue the consultation document in October 2022 with a 90-day consultation period.

Recommendations

22. We recommend that the Board:
 - a. NOTE the project progress and next steps.
 - b. PROVIDE FEEDBACK on the issues explored in Agenda item 7.2.
 - c. PROVIDE FEEDBACK on the skeleton of the consultation document and bridging document in agenda items 7.3 and 7.4.

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Issues paper
Agenda item 7.3	Outline of the consultation document
Agenda item 7.4	Outline of the bridging document

Assurance engagements over mandatory GHG emissions disclosures Issues Paper

1. The objective of this agenda item is to obtain feedback on the following matters:
 - (a) What is the assurance engagement and how best the assurance opinion might be expressed.
 - (b) If and how ISAE (NZ) 3410 might need to be amended.
 - (c) How we can ensure that the XRB standard is appropriately accessible to all assurance practitioners.

What is subject to assurance?

2. The *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021* (the Act) makes it mandatory for climate reporting entities (CREs), to prepare climate statements in accordance with the climate standards issued by the XRB. To the extent that those statements are required to disclose greenhouse gas emissions, the Act requires that every CRE must ensure that the climate statement is, to the extent that those statements are required to include GHG emissions, the subject of an assurance engagement.
3. The [proposed NZ CS 1](#) includes the following GHG disclosures:

Table 8: Intended scope of the assurance engagement

Metrics and Targets disclosure	Description
Disclosure 4(a)	Scope 1, 2 and 3 GHG emissions
Disclosure 8	Additional requirements for the disclosure of GHG emissions under disclosure 4(a)
Disclosure 9	The requirement to prepare a GHG emissions report and provide a link or cross reference (the GHG emissions report is an integral part of the disclosures and will be required to be publicly available)
Disclosure 10	Confirmation that GHG disclosures have been drawn from the GHG emissions report

4. As GHG emissions disclosures are required to be the subject of an assurance engagement under section 461ZH of the Financial Markets Conduct Act, for an assurance opinion to be formed over disclosed GHG emissions the information needs to be prepared and reported in accordance with suitable measurement criteria. This means a GHG emissions report will need to be prepared in accordance with a generally accepted methodology to support the GHG emissions disclosures in the climate statement. Disclosure 9 requires a CRE to prepare a GHG emissions report. This GHG

emissions report is an integral part of the disclosures, will be required to be publicly available, and will be subject to assurance.

Potential options for the subject-matter of the assurance engagement and how assurance conclusions over the subject-matter may be expressed

- We identified two options presented below including indicative illustrative assurance conclusions for each option. All indicative illustrative examples are limited assurance engagements reports.

Option 1: The assurance engagement is over GHG disclosures and integral GHG emissions report

- The assurance report reflects the assurance conclusion as to whether the GHG emissions disclosures are in accordance with NZ CS 1, including that an emissions report is prepared in accordance with the applicable measurement criteria. ISAE (NZ) 3410 provides a base for this engagement.

<p>Information subject to assurance</p> <p>We have performed a limited assurance engagement in relation to XYZ’s Limited’s GHG emissions disclosures for the year ended xx {on page x of the climate statement} and the GHG emissions report, {comprising the emissions report and explanatory notes}, for the year ended xx.</p>
<p>Conclusion</p> <p>"Based on our limited assurance procedures, nothing came to our attention that caused us to believe that XYZ’s GHG emissions disclosures for the year ended xx {as disclosed on page x of the climate statement} and the GHG emissions report for the year ended xx, has not been prepared and presented fairly, in all material respects, in accordance with the {Greenhouse Gas Protocol and NZ CS 1}."</p>

Option 2: The assurance engagement is over whether the GHG disclosures have been derived from the GHG emissions report (similar to a summary financial statement engagement)

- There are two separate engagements and two assurance reports: first an assurance conclusion over the GHG emissions report and separately a report that concludes whether CRE’s mandatory GHG disclosures are appropriately presented in the CRE’s Climate Statement and that they are consistent with the GHG emissions report they are derived from. Additional requirements or a separate standard from ISAE (NZ) 3410, similar to ISA (NZ) 810, may be needed. There is no separate statutory requirement for the assurance report over the GHG emissions report.

<p>STEP 1 REPORT (assurance report over the entity’s GHG Emissions Report)</p>
<p>Information subject to assurance</p> <p>We have performed a limited assurance engagement on the accompanying GHG emissions report of XYZ’s Limited’s for the year ended xx, comprising the Emissions Report and the Explanatory Notes on pages xx–yy.</p>
<p>Conclusions</p> <p>Based on our limited assurance procedures, nothing came to our attention that caused us to believe that the GHG emissions report for the year ended xx, has not been prepared and presented fairly, in all material respects, in accordance with the {Greenhouse Gas Protocol}."</p>

<p>Step 2 REPORT (assurance report over mandatory disclosures extracted from Emissions Report)</p>
<p>Information subject to assurance</p> <p>We have performed a limited assurance engagement in relation to XYZ's Limited's GHG emissions disclosures for the year ended xx {on page x of the climate statement}, prepared in accordance with the NZ CS 1. As required by Disclosure 10 of NZ CS1, the information contained in these disclosures are derived from the assured GHG Inventory Report of XYZ' Limited for the year ended xx (link to the report).</p>
<p>Conclusions</p> <p>Based on our limited assurance procedures, nothing came to our attention that caused us to believe that:</p> <ol style="list-style-type: none"> 1) XYZ's has not prepared and presented all the relevant GHG emissions disclosures for the year ended xx {on page x of the climate statement} in accordance with relevant requirements of NZ CS 1. 2) That the information contained in the disclosures are inconsistent with the assured inventory report of XYZ's Limited for the year ended xx (link to the report).

8. It is clear that some modifications to ISAE (NZ) 3410 are required to address these considerations. The extent and specific details of these changes are currently under further investigations by staff.
9. We have reached out to assurance practitioners to seek their views regarding the merits and drawbacks of each option. We are to meet them on 25 May 2022 and will provide the Board with a verbal update on the received feedback during the meeting.

<p>1. We seek the Board's views on the options for the subject-matter of the assurance engagement and its corresponding assurance conclusion.</p>
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If and how ISAE (NZ) 3410 might need to be amended

10. In addition, we are exploring the possible areas where a need to change ISAE (NZ) 3410 (or ISAE (NZ) 3000 (Revised)) may arise due to:
 - (a) The inclusion of Scope 3 emissions in the scope of the assurance engagement.
 - (b) ISO requirements not addressed by ISAE (NZ) 3410.
11. ISAE (NZ) 3410:
 - (a) Is developed for assurance engagements over GHG emissions reports¹, whereas this assurance engagement is over greenhouse gas emissions disclosures required by New Zealand Climate Standards (NZ CSs) which is only a small part of the climate statement.
 - (b) Explicitly deals with excluding emissions i.e., addresses the exclusion of Scope 3 GHG emissions from the scope of the engagements (due to preparing entities inability to obtain sufficient and appropriate evidence to support measurements of Scope 3 emissions),

¹ ISO 14064-3:2019 is also developed for assurance engagements over GHG emissions reports prepared in accordance with a suitable measurement and reporting criteria.

whereas it is proposed that all scope 3 emissions must be reported by NZ CS 1. As such, it is not possible to exclude scope 3 emissions from the scope of the engagement, and

- (c) ISO 14064-3:2019 includes certain requirements not contained in ISAE (NZ) 3410.
12. The XRB received feedback on specific assurance challenges that may arise from inclusion of Scope 3 emissions from assurance practitioners with experience in undertaking assurance engagements over GHG emissions information in a roundtable event hosted by the CAANZ in March 2022 and a webinar presentation to members of Carbon and Energy Professionals New Zealand (CEP) in April 2022. This feedback informed the analysis presented to the advisory panel in its most recent meeting in May 2022
 13. The key areas for consideration explored to date include:
 - Materiality decisions and judgements required by ISAE (NZ) 3410
 - Availability and reliability of evidence for Scope 3 emissions
 - Using work of others (in particular using the work of assurance experts and other assurance practitioners (e.g., assurance conclusions over GHG emissions information of a supplier)
 - Work effort in limited assurance engagements vs reasonable assurance engagements
 - Site visits.
 14. The staff analysis presented to the advisory panel, included an explanation of identified issues, their corresponding requirements and application material in ISAE (NZ) 3410 and/or ISAE (NZ) 3000 (and where relevant ISO standards) and a recommendation to explore.

Identified issue	Applicable requirements and application material in standards	Staff recommendation and the advisory panel feedback
<p>Planning materiality is often calculated by applying a percentage to the aggregated emissions. Where scope 3 emissions comprise a significant proportion of total emissions, this may result in Scope 1 and Scope 2 emissions appearing immaterial.</p>	<p>ISAE (NZ) 3410 (paragraph A49) prompts practitioners to consider whether there are any cases where use of lesser or greater amounts than overall planning materiality is more appropriate. This “specific materiality” could allow for using different materiality thresholds for specific categories or sources where this is appropriate, for example for Scope 1 and/or Scope 2 emissions that are a</p>	<p>Staff recommendation: No change to requirements or application material is required.</p> <p>Advisory panel supported the staff conclusion.</p>

	<p>small percentage of an entity’s total emissions but are material in the assurance practitioner’s opinion for other reasons.</p>	
<p>The proposed definition of materiality² in Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) may potentially mean any misstatement is material (e.g. as any information may become material over “all time horizon” and “long term”).</p>	<p>Paragraphs A44 and A45 of ISAE (NZ) 3410 clarify that when the criteria discuss the concept of materiality in the context of the preparation and presentation of the GHG statement, such discussion provides a frame of reference to the assurance practitioner in determining materiality for the engagement.</p> <p>However, NZ CS 1 materiality discussions is for all the disclosures included in the climate statement and not specifically for GHG emissions information included in the preparing entity’s emissions report. For GHG emissions information, materiality discussions included in measurement criteria (such as GHG Protocol) is likely to be more relevant.</p>	<p>Staff recommendation: Application material in ISAE (NZ) 3410 could be amended to include more context relevant information.</p> <p>The advisory panel was of the view that changes to the standard must remain as little as possible to keep the alignment with the international standard.</p>
<p>Materiality judgements are based on perceived information needs of intended users. However, it is unclear who the intended user</p>	<p>Paragraph A47 of ISAE (NZ) 3410 provides specific guidance how assurance practitioners may consider information needs of intended users. However,</p>	<p>Staff recommendation: No change to requirements. However, application material could be amended</p>

² Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity’s enterprise value across all time horizons, including the long term.

<p>groups are and what are their information needs.</p>	<p>this application material is generic.</p> <p>The application material could be more useful if it specifically addresses intended users (referred to as primary users in NZ CS 1) of mandatory GHG emissions disclosures by referring to the relevant discussions included in NZ CS 1.</p>	<p>to provide more relevant context to assurance engagements over mandatory GHG emissions disclosures.</p> <p>The advisory panel supported that the standard requirements are appropriate. In relation to application material, the advisory panel was of the view that changes to the standard must remain as little as possible to keep the alignment with the international standard.</p>
<p>ISO 14064-3:2019 require the practitioner to confirm the materiality threshold with the intended users. If no materiality threshold has been specified by intended users, the practitioner is required to set (a) materiality threshold(s) and communicate them to the client. ISAEs neither require, nor prohibit, confirming or communicating materiality thresholds with intended users.</p>	<p>Confirming and/or communicating materiality thresholds with intended users at planning stage for engagements that do not formally involve the intended users (as is expected to be the case for mandatory assurance engagements over GHG emissions) may not be practical.</p>	<p>Staff recommendation: We recommend keeping the ISAEs approach as is. However, our application guidance could encourage (but not require) engagement with intended users.</p> <p>Advisory panel supported that the standard requirements are appropriate. However, in relation to amending application material, the advisory panel was of the view that changes to the standard must remain as little as possible to keep the alignment with the international standard</p>
<p>There are concerns as to whether assurance practitioners will be able to obtain sufficient and</p>	<p>A pre-condition for undertaking an assurance engagement, in both ISOs</p>	<p>Staff recommendation: Standard requirements and application guidance are</p>

<p>appropriate evidence to support their assurance conclusions due to:</p> <ul style="list-style-type: none"> • preparers’ lack of experience in quantifying Scope 3 emissions, potential immaturity of the related information systems and inadequacy of relevant internal controls. • Access to data, especially for entities with global supply-chains and significant overseas operations, may be challenging and at times infeasible. Some industries may have long term supplier arrangements and limited capacity to require additional information while the existing contracts are effective. • Some entities may have relatively mature information systems for measuring and reporting Scope 3 emissions. These entities are also more likely to obtain more information from their suppliers (and where applicable customers). However, these suppliers may themselves be inadequately prepared for reporting reliable emissions information. This in turn would create concerns over reliability and completeness of information they provide. 	<p>and ISAEs, is that assurance practitioner must expect to be able to obtain sufficient and appropriate evidence to form an assurance conclusion. This is a fundamental assurance principle that could not be modified or altered in any form or shape.</p> <p>We see these matters as firstly challenges for the reporting entities. We are in discussion with the climate team to determine how preparing entities may be able to address these challenges. The XRB is currently considering whether there is a need for transitional provisions that allow prepares more time to get ready for reporting full Scope 3 emissions.</p> <p>We also note that NZ assurance practitioners already provide assurance conclusions (in certain cases, reasonable assurance) over full Scope 3 emissions.</p> <p>We notice that none of these assured entities have excluded any significant emissions 3 sources from their emissions report.</p> <p>We also note that all these assurance reports are addressed to directors of</p>	<p>appropriate. Further enhancing the application material would require more specific feedback from practice. The XRB will only be able to collect such feedback and information after preparing entities had a go at preparing and reporting full Scope 3 emissions. This will take time. The transitional provision could provide a window of opportunity for the XRB to gather this information and reconsider whether and to what extent existing application material in ISAE (NZ) 3410 are needed to be modified. Non-authoritative guidance could be developed in conjunction with the climate team.</p> <p>Advisory panel supported the staff conclusion.</p>
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<p>Unless the above matters are appropriately addressed, many reporting entities may receive modified assurance conclusions and undermine the credibility of the reporting framework and the intended users confidence in the reported GHG emissions information.</p>	<p>the entities. Mandatory assurance reports are likely to be required to be addressed to primary users, who may have different information needs as well as a much more limited understanding of the entity specific characteristics and practices than directors (who have first-hand knowledge and experience with the entity).</p>	
<p>Reliance on assurance conclusions of other assurance practitioners (e.g. another assurance practitioner’s conclusion over emissions information of a significant supplier) particularly when other assurance practitioners do not follow the same assurance requirements/standards and/or professional requirements, or if they are from other jurisdictions may have significant implications for the assurance engagement.</p>	<p>Paragraph A72 of ISAE (NZ) 3000 (Revised) stipulates that assurance practitioners may use assurance conclusions of other assurance practitioners as evidence provided that they are adequately involved in the work of the other assurance practitioner. However, the standard does not provide any further guidance as what “being sufficiently involved” in the work of another assurance practitioner may involve.</p> <p>The application material regarding this consideration refers to generic application guidance for using assurance practitioner’s expert.</p>	<p>There are appropriate requirements in existing standard regarding this matter.</p> <p>However, should this be a significant consideration for assurance engagements over mandatory GHG emissions disclosures, there may be a need for more specific application guidance and/or non-authoritative guidance to clarify how the requirements could be applied in practice. Guidance included in auditing standards may be of some help .</p> <p>This is also an area where ISO practitioner may require additional implementation support material.</p>
<p>Some engagements may involve subject-matter experts who are</p>	<p>Paragraph 52 of ISAE (NZ) 3000 (Revised) includes</p>	<p>Staff recommendation: the standard includes adequate</p>

<p>not members of the assurance practitioner firm/organisation. There may be significant challenges for assurance practitioners to evaluate knowledge, credibility and objectivity of these subject-matter experts (e.g. no recognised professional bodies or standards may exist). Such experts may need time to develop capability to prepare reports for an assurance practitioner as part of an assurance engagement. Also, experts may use proprietary sources of data or models limiting the assurance practitioner's ability to perform the required procedures to ensure reliability and completeness of the expert's work.</p>	<p>requirements when using an assurance practitioner's expert including:</p> <ul style="list-style-type: none"> • ensuring that the expert is appropriately competent, capable and objective. • understanding the field of expertise sufficiently to be able to be adequately involved in the work of the expert • agreeing the nature, scope and objectives of that expert's work and finally • to evaluate the adequacy of the assurance practitioner's expert's work for the assurance practitioner's purposes. <p>Application material A121-135 in ISAE (NZ) 3000 (Revised) explains how an assurance practitioner may comply with these requirements. Some of the key considerations cover the difference when using internal experts VS using external experts, the extent of required understanding of the field of expertise and how to evaluate the assurance practitioner's work. However, the application material is</p>	<p>and appropriate requirements regarding using work of experts. However, applying these requirements in practice in the circumstances and context highlighted, may be challenging.</p> <p>These practical challenges are unlikely to be addressed via further application guidance in the standards.</p> <p>Advisory panel supported the staff conclusion.</p>
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	<p>unlikely to be very helpful in addressing the noted challenges.</p>	
<p>There are concerns about whether the work effort required in a limited assurance (LA) engagement is clear. An assurance practitioner undertaking a LA engagement can obtain evidence to support a range of confidence enhancing in the GHG emissions disclosures: from just more than inconsequential to just less than reasonable assurance. This may be confusing to both assurance practitioners and intended users.</p> <p>We also heard from practitioners that they expect to encounter the same assurance challenges (discussed above) regardless of the level of assurance. They also emphasised that LA is not a solution to these challenges and discussed the risk that some preparers may assume that “about there” is good enough because the assurance engagement is a LA. This could in turn undermine user confidence in LA reports.</p>	<p>Both suites of standards address the requirements for reasonable and LA. Requirements for LA engagements are particularly consistent across the suites.</p> <p>ISAE (NZ) 3410 highlights the differences in required work effort between RA and LA by including the required procedures in the same table to contrast what is required.</p> <p>The concept of LA contemplates a range of assurance. Paragraph A5 of ISAE (NZ) 3000 (Revised) states:</p> <p>“Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance.”</p> <p>The assurance practitioner is required by the ISAEs to describe procedures they</p>	<p>In our view the adopted approach in ISAE (NZ) 3410 is sound. ISAE (NZ) 3410 includes extensive application material to address the different work efforts in LA compared to RA engagements.</p> <p>Clear communication of what procedures the assurance practitioner has performed in a LA engagement in the assurance report may be a key to help informed intended users to better understand the level of confidence they can assign to the work of the assurance practitioner.</p> <p>At this stage, non-authoritative guidance to educate users about the differences seems to be the highest priority.</p> <p>Advisory panel supported the staff conclusion.</p>

	<p>performed in a LA to help intended users understand the degree of confidence they could reasonably assign to the LA conclusion. ISAE (NZ) 3410 encourages (but does not require) assurance practitioners to include a comparison between procedures performed in the LA engagement to what they would have performed if the engagement was a RA engagement to help the users understand the level of confidence they could assign to the assured GHG emissions information in the report.</p>	
<p>ISO 14064-3:2019 includes a list of specific procedures that an assurance practitioner should undertake during their site visit.</p> <p>ISAE (NZ) 3410 has application guidance regarding site visits. The application guidance does not address the procedures an assurance practitioner may perform during their site visits.</p>	<p>Including guidance on the nature of procedures that could be performed during site visits could enhance the implementation of the standard in practice and would enable more consistent approach across assurance practitioner groups.</p>	<p>Staff recommendation: Add application guidance to describe the types of procedures to consider performing during a site visit.</p> <p>The advisory panel had mixed views. Some noted that the procedures are a matter of professional judgement (given the diverse nature of sites and risks that may arise) while others agreed inclusion would be helpful.</p>

15. Overall, the advisory panel discussed that most of the above challenges arise primarily for preparers of GHG information and they then flow on to assurance engagements. The panel was satisfied that the existing requirements and application material in the standards are appropriate and fit for purpose, however the identified challenges may result in the assurance practitioner either refusing to accept the engagement or to modify the assurance conclusion where the

preparing entity is unable to adequately address relevant matters. The panel also discussed that there may be a need for educational materials for both assurance practitioners and users on certain issues such as materiality and the differences between limited and reasonable assurance.

16. The advisory panel was supportive including transitional provisions to allow preparing entities additional time to develop the required capabilities and to alleviate some of these challenges. The advisory panel considered this to be the most practical solution for addressing the challenges that may arise for preparers who need to account for full scope 3 emissions. The advisory panel was of the view that this would also allow XRB time to gather more specific evidence from practitioners and preparing entities to inform the XRB of any further necessary actions.

<p>2. We seek the Board's views on a) any excluded significant area b) the advisory panel's recommendation and conclusions c) the transitional provisions.</p>

How to ensure accessibility to all assurance practitioners

17. A key objective of the XRB is to set assurance standards that are accessible to all assurance practitioners. The assurance practices have developed their existing assurance methodologies, underlying support systems (such as quality management, resourcing etc.) in accordance with two different suite of assurance standards (ISAE based practices and ISO based practices). For the XRB assurance standards to be accessible, the assurance practitioners should be able to understand the extent to which their existing assurance methodologies and systems are compatible with the XRB assurance standards and what specific modifications (if any) are needed to ensure that they comply with the relevant XRB assurance standards.
18. A high level of alignment between the ISOs and ISAEs engagement requirements enable the XRB to use ISAE (NZ) 3410 as a starting point. However, this decision will still have significant implications for accessibility of the XRB standards to ISO practitioners. This is because:
 - Different definitions and terminology is used : While the substance of the standards are similar , they often use different terms. For example, what ISAEs describe as an assurance engagement, ISOs describe as “conformity assessment by validation or verification”.
 - Both suites of standards include “mother assurance standards” that their GHG emissions assurance standards are extended from. These mother standards include definitions, requirements and application guidance for matters that are not relevant to an assurance engagement over GHG emissions disclosures and are therefore not considered by the XRB in developing its engagement specific requirements.
 - The suites of standards have a different architecture and use different drafting conventions.
 - ISAE (NZ) 3410 (and relevant parts of ISAE (NZ) 3000) include extensive application material that supplements the requirements. ISO often have limited or no application guidance, and such guidance is often informative.
19. The above issues require the XRB to take additional measures to ensure that its standards are accessible. The key XRB proposed measure to date is to develop a bridging document between

the XRB standards and other relevant standards. The bridging document(s) will provide commentary on what is included in the XRB assurance standard and provides links (reference) to corresponding requirements in ISAEs and ISOs, where needed. The bridging document will show those requirements and application material that have no corresponding requirements in ISOs or ISAEs enabling practitioners to identify any existing gaps in their assurance methodologies and relevant underlying systems. Agenda item 7.4 includes an outline of this bridging document.

20. Expert ISO assurance practitioners are assisting the XRB in developing this document to ensure the validity and accuracy of its content. The bridging document will accompany the consultation paper and the XRB will seek specific feedback on it as part of its consultation.
21. Staff are investigating what other measures may be taken (and will consult with its stakeholders in the consultation document on their merit) to enhance accessibility of the XRB assurance standards. Some initial suggestions include:
 - (a) Issuing a single assurance standard that contains all the relevant requirements (as opposed to the current status where requirements are included in ISAE (NZ) 3000 and ISAE (NZ) 3410).
 - (b) Using technology and digital tools to enhance accessibility (e.g. use of pop-ups to show alternative definitions, to provide navigation capability between requirements and application material etc.)
 - (c) Using non-authoritative guidance.

3. We seek the Board's views on the issue of accessibility to the XRB assurance standards and the proposed measures to enhance the accessibility.

1. Introduction

1.1 Purpose of this Invitation to Comment

1.

1.2 Background

2.

(a) Statutory backdrop and assurance requirements

- i. Short overview of the legislative background
- ii. Regulation and oversight of assurance practitioners yet to be determined
- iii. Explain the XRB role

(b) The XRB standard setting objectives, standards that:

- i. are fit for purpose
- ii. do not create unnecessary barriers to entry
- iii. are freely available and useable
- iv. establish a single set of standards for the regime

(c) Stages of the XRB process to develop relevant assurance standards:

- i. Evaluating existing assurance standards (ISO and ISAEs)
- ii. Determining how the XRB can leverage existing assurance standards to meet its standard setting objectives.

(d) What informed the process

- i. Advisory panel
- ii. Outreach activities
- iii. Mapping between the existing standards.
- iv. International developments (SEC, EU, etc.)
- v. The involvement of the XRB and the NZAuASB boards.

(e) Outcome of the process

- i. Requirements at the engagement level
- ii. Requirements, that cover the assurance practitioners' systems with a focus on quality, ethical and independence/impartiality requirements and competency.

2. The Assurance Engagement Standard

Recap what is proposed to be disclosed (by Climate standard) and level of assurance

(a) Link projects together by recap of what we heard in response to consultation

What is the engagement?

- (a)extracting info from the GHG emissions report or an integral engagement

Details of the process that informed the engagement level standard

1.

- a. Why the XRB decided to use ISAE (NZ) 3000 and ISAE (NZ) 3410 as the starting points for developing XRB assurance standards
- b. What changes to ISAE (NZ) 3410 the XRB is proposing
 - i. ISO inspired changes
 - Requirements added to the XRB standard from the ISO standards.
 - Application guidance added to the XRB standards from the ISO standards.
 - ii. Changes due to legislative framework applicable to the engagement.
 - Scope of the standard and scope of the engagement
 - Content of the assurance report
 - iii. Changes due to complex assurance issues regarding:
 - Materiality (?)
 - Availability and access to sufficient appropriate evidence
 - Using work of others (?)
 - Other
- c. Changes to enhance accessibility of the assurance standards for all assurance practitioners.
 - i. One standard to include all requirements
 - ii. How requirements and application material are presented.
 - iii. Terminology
- d. Need for transitional provisions

3. Exploring the way forward for other applicable XRB standards

- (a) Importance of QM and independence
- (b) Exploring existing ethical requirements including independence other than PES 1 applied by assurance practitioners.
- (c) Exploring quality management requirements and measures by assurance practitioners who are not applying PES 3.
- (d) Exploring competency requirements (?) (could be clarifying that we do not set competency standards?).
- (e) Options for the way forward.

4. Other matters

- a. Exploring ways to enhance accessibility of the assurance standards for all assurance practitioners
 - i. Bridging documents to show the link between the XRB standards and other existing assurance standards (e.g. ISO):
 - Terminologies and definitions
 - Requirements
 - Application guidance
 - ii. Non-authoritative guidance
 - Limited vs reasonable assurance
 - Using work of others
 - Areas where stakeholders would need further guidance
 - iii. Other
 - 1. Webinars
 - 2. Working with others to educate

5. Questions for respondents

This bridging document is at a very preliminary early-stage draft and is likely to change. It is shared for the purposes of obtaining input as we develop the outline in more detail.

Background

- (a) The legislative context for undertaking assurance engagements
 - i. The legislative basis for the engagement.
 - ii. No legislative basis for who is an assurance practitioner
 - iii. No specified requirement for independent accreditation of assurance practitioners and independent monitoring of the quality of their assurance engagements.
 - iv. Only requirement is to comply with the XRB assurance standards.
- (b) The current state of assurance engagements over GHG emission information
 - i. Assurance providers and the assurance standards they use (i.e. ISO based practices and ISAE based practices)
 - ii. An overview of these assurance provider groups
- (c) The XRB standard setting objectives, standards that:
 - i. are fit for purpose: (providing context about the mandatory climate disclosures reporting regime etc)
 - ii. do not create unnecessary barriers to entry (assurance practitioners from different professional disciplines are to use a single suite of standard)
 - iii. are freely available and useable
 - iv. establish a single set of standards for the regime (why a single set of standard is important, consistent quality of engagements, easier to understand for users etc)
- (d) Why and how the XRB has been able to bridge between the two standards
 - i. Similarities (e.g., risk and evidence-based engagements, conveying assurance via a report, etc.)
 - ii. History of standards informing one another
 - iii. The advisory panel

The Objective of the bridging document

- (a) The objectives of the bridging document
 - i. Facilitate the modification of assurance practitioners' existing assurance methodologies by highlighting similarities, differences and gaps between their extant standard and the proposed XRB standard.

- ii. Enhance understandability of the XRB assurance standards by linking the terminology used in the XRB standard to vocabulary and terminologies uses in other standards.
- iii. Enable navigation to existing assurance standards to the extent possible

Outline of the bridging document

- (a) Comparative glossary of terms (focus on assurance terminology and concepts):
 - i. E.g. verification vs assurance engagement
 - ii. Assurance firm vs verification/validation body etc
- b. Overview of other standards that some or all of their content constitutes requirements of the XRB standard:
 - i. Mother assurance standards (e.g. ISAE (NZ) 3000 (Revised))
- c. Mapping of requirements from XRB standard to existing requirements in other standards/authoritative documents (highlighting any requirement that is not addressed in other standards)

XRB standard	3410	ISO	Accreditation requirements and other documents	Commentary
Requirement	-	Clause number		
1) Xxx	- Para 12	Clause f	-	-
2) yyy	-	-	-	This requirement is not included in ISAE and ISO standard because.....

- d. Mapping of the application material in XRB standard to existing requirement/guidance in other standards (or documents)

XRB application material	3410	ISO	Accreditation requirements and other documents	Commentary
1) Xxx	A2	Normative appendix A, clause 2	-	-
2) yyy	A4	-	-	This application guidance does not have a counterpart in ISO standards.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1
Meeting date: 1 June 2022
Subject: IESBA Technology ED Submission Letter
Date: 19 March 2022
Prepared By: Anna Herlender

Action Required **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is for the Board to APPROVE the draft submission to the IESBA on the Exposure Draft *Technology-related Revisions to the Code* (Technology ED).

Background

2. The IESBA issued the Exposure Draft: [Proposed-Technology-related-Revisions-to-the-Code](#) on 18 February 2022. Submissions to the IESBA close on 20 June 2022.
3. We gathered views from Board Members on key aspects of the proposed revisions at the April 2022 Board Meeting.
4. A webinar on ethics related changes to the Code was held in April 2022, including but not limited to the Technology related proposals. Polling was used to seek attendees’ views on the proposed revisions. The polling results are included in Agenda Item 8.2.
5. Submissions to the NZAuASB were requested by 9 May 2022. We have not received any written submissions.
6. We emailed the Privacy Commissioner regarding the proposed revisions on confidentiality and privacy matters. To date, we have not received a response.
7. We attended a virtual roundtable discussion organised by the APESB on 9 May 2022 where the Technology ED was discussed. There was overall support for the revisions with similar comments to those made by attendees of the webinar and during the Board meeting.

Matters to Consider

8. The IESBA proposed revisions impact various parts of the Code. Our draft submission focuses only on the key questions of most relevance to the XRB asked by the IESBA.
9. Following the April Board discussions, an additional matter has been raised as to whether the following proposed revision is clear or if it would benefit from additional explanations. Our draft submission is supportive of the proposed revision. We ask Board Members to provide their views if the draft submission should be adjusted to include comments on the clarity of the proposed paragraph:

Proposed revision – the following additional paragraph is added to the Code:

“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.”

The paragraphs R400.15 and R.400.16 are as follows (they are not subject to proposed revisions):

“R400.15 A firm or a network firm shall not assume a management responsibility for an audit client”

“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.”

Recommendations

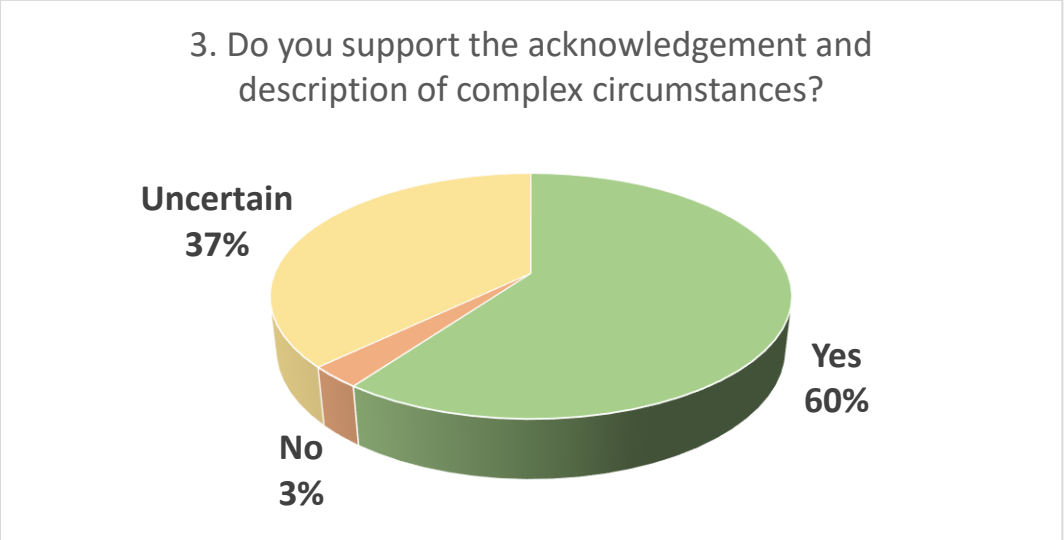
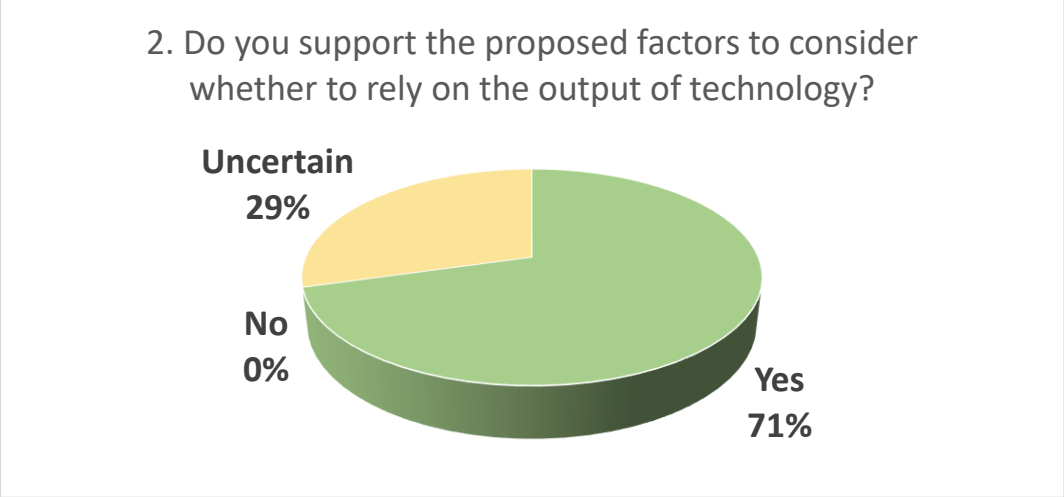
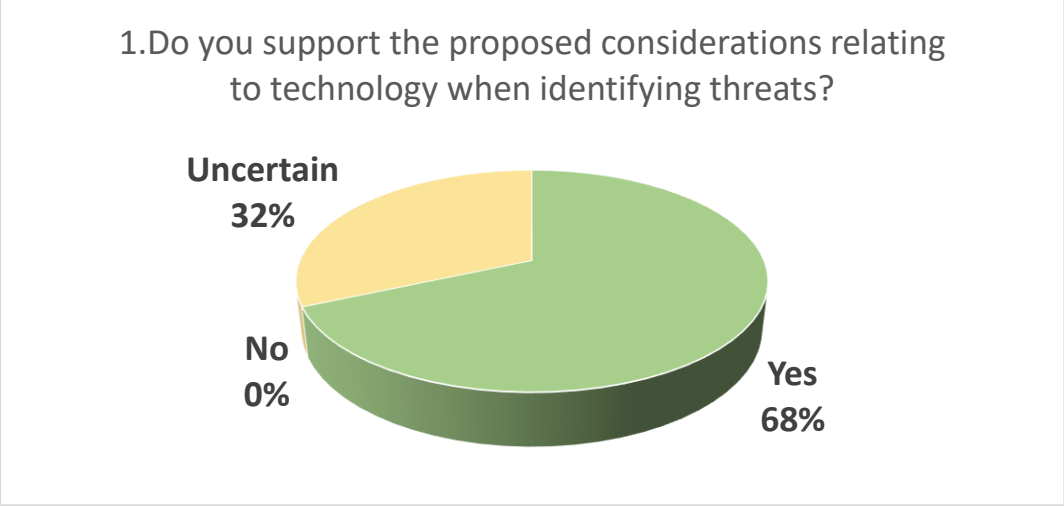
10. We recommend that the Board APPROVES the draft submission to the IESBA.

Material Presented

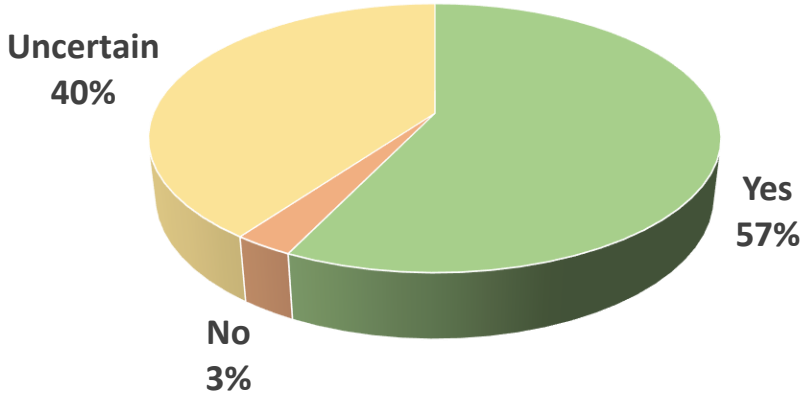
Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Polling Results
Agenda item 8.3	Draft Submission

“Ethics Edified” 12 April 2022

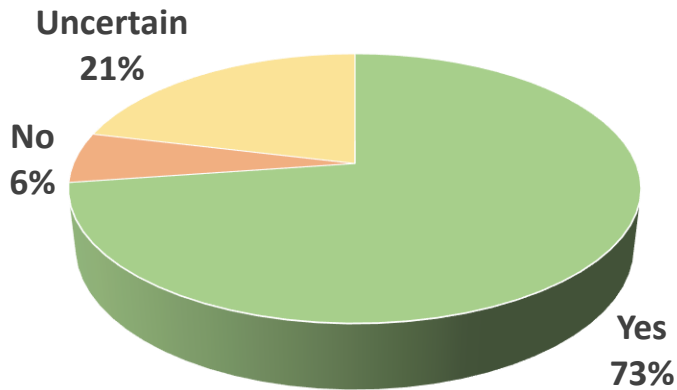
Polling results for technology related questions



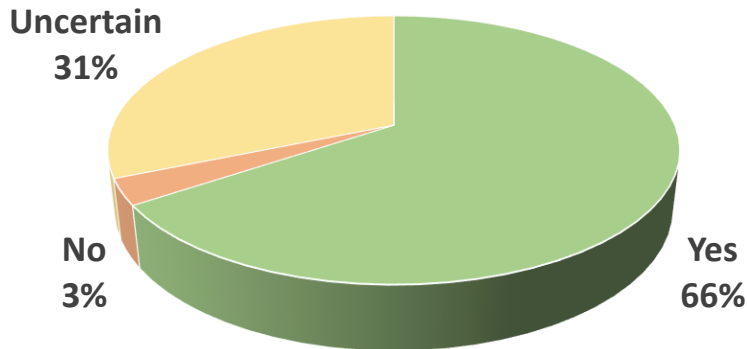
4. Is the application material helpful on how to manage complex circumstances?



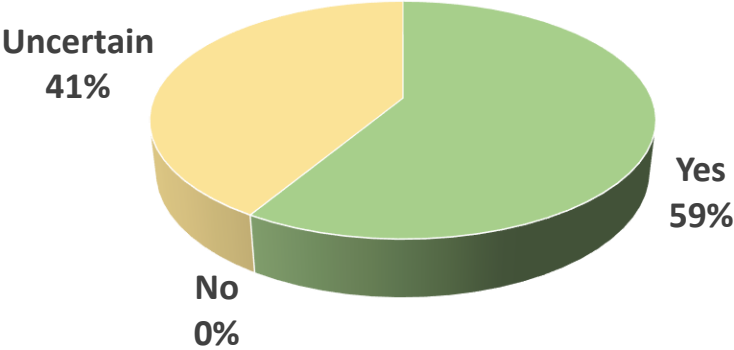
5. Do you support the examples of IT system services that assume management responsibility?



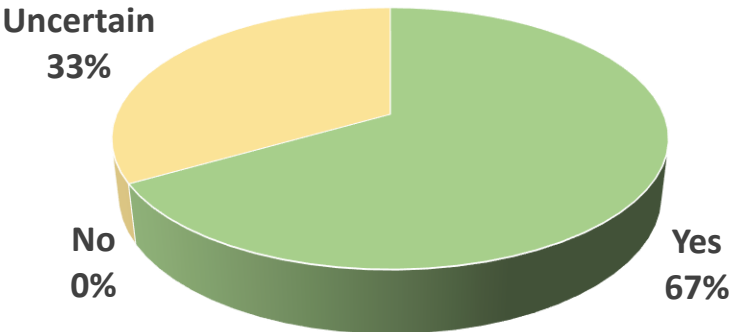
6. Do you support the examples of IT system services that might create a self-review threat?



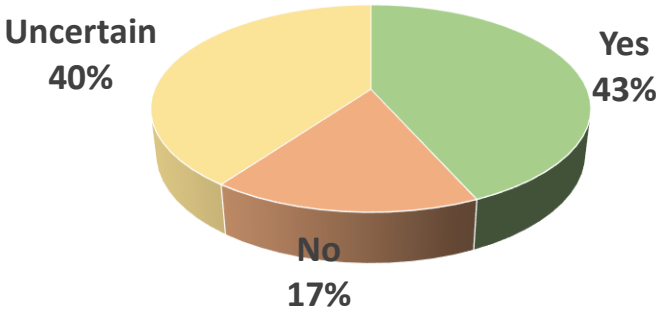
7. Do you support the clarification that NAS provisions apply when providing, selling, reselling, or licensing technology to an audit client?



8. Do you support the revised examples of a close business relationship?



9. Do you agree that any further examples, especially related to technology, would be complex and require a lot of explanations regarding specific nature of the arrangements?



[Date]

Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants
539 Fifth Avenue
New York, 10017
USA

Dear Ms Figueiredo Dias,

IESBA Proposed Technology-related Revisions to the Code

Thank you for the opportunity to comment on the IESBA Proposed Technology-related Revisions to the Code. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the Proposed Technology-related Revisions to the Code in the attachment.

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

The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the Proposed Technology-related Revisions to the Code is limited in this regard.

The NZAuASB supports the IESBA's initiative to enhance the Code's robustness and its relevance in an environment reshaped by rapid technological changes. In formulating our response, we sought input from New Zealand stakeholders and received input from assurance practitioners by way of polling at a webinar and sought feedback through written submissions. There is a general support for the proposed revisions. However, we have identified aspects for further refinement or elaboration, as outlined in our submission attached.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Misha Pieters (misha.pieters@xrb.govt.nz).

Yours sincerely,

Robert Buchanan
Chairman
Email: robert@buchananlaw.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Proposed Technology-related Revisions to the Code

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?

Response:

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

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?

Response:

Yes, the NZAuASB supports the proposed factors to be considered whether to rely on or use the output of technology and so did the majority of the New Zealand stakeholders we polled during our online webinar.

The NZAuASB encourages the IESBA to add emphasis on the following matters:

- a) The need for an accountant to understand what technology is doing.

We support the view that it is not realistic to expect that a professional accountant understands all specific details of how the technology functions. To help an accountant to make a professional judgement regarding reliance on outputs of the technology, it would be helpful to explain that the proposed factors should be considered as a mitigation of the lack of understanding technical details what is “inside” of the technology and providing alternative ways to ensure the technology can be relied upon.

This could be achieved by adding overarching wording before the bullet points in paragraphs 220.7 A2 and 320.10 A2 along the following lines: “It might be impractical for professional accountants to understand the technical details of how the technology functions. Professional accountants might consider all other available and understandable information for the purpose of relying on the output of the technology”.

- b) Technology is tested and evaluated on a continuing basis to ensure it is fit for purpose.

Circumstances in which professional accountants operate are changing, therefore the technology should be tested and evaluated on regular basis if it is to be fit for purpose. We suggest building on the fifth bullet point in paragraphs 220.7 A2 and 320.10 A2: “Whether the new technology has been appropriately tested and evaluated for the purpose intended” and include consideration that after initial testing and evaluation, the technology should be regularly tested and evaluated to ensure it is fit for the purpose.

We suggest that the following additional bullet point would be helpful: “whether the technology that has been relied on, is regularly evaluated to be fit for purpose”.

- c) Role of the employing organisation or the firm

Professional accountants engaged by an employing organisation or a firm usually rely on a dedicated team of technology specialists (employed by a firm or outsourced) who are responsible for maintaining the

technology within the firm, understanding how the technology functions and that it is fit for purpose. Professional accountants in public practice rely on their firm's system of quality management that includes obtaining, developing, implementing and use of appropriate technology resources. It could be clarified in the Code that the factors to consider when relying on output of technology might be performed at a firm level instead of by professional accountants themselves.

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?

Response:

Yes, the proposed application material in paragraph 120.13 A3 includes helpful tips on managing challenges associated with complex circumstances. The NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

However, we have heard several comments that the proposed guidance is too general in nature. There is a need for more examples and guidance. We recognise that this guidance would be quite specific, therefore we recommend that non-authoritative material covering specific examples and guidance would be very useful, to work in tandem with this addition.

- 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?

Response:

No, the NZAuASB has no comments to add on translation.

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?

Response:

Yes, the NZAuASB supports the proposals and does not have further comments.

- 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?

Response:

Yes, the NZAuASB supports the proposals and does not have further comments.

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?"

Response:

Yes, the NZAuASB supports the proposals and does not have further comments.

- 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 subparagraph 36(c) of the explanatory memorandum)?

Response:

Yes, the NZAuASB supports the proposals and does not have further comments.

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.

Response:

Yes, the NZAuASB supports the proposals and does not have further comments.

- 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.

Response:

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

- 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).

Response:

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

- 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)?

Response:

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

The NZAuASB considered if it is appropriate to place the prohibition of these services in application material as opposed to a requirement paragraph. The Code has two different approaches to the prohibition of certain services:

1. Prohibition included in application paragraph, for example in Section 605 Internal Audit Services

Section 605 Internal Audit Services includes a requirement paragraph regarding risk of assuming management responsibility followed by an application material with examples of services that will assume management responsibility. The placement of the application paragraph in this part makes it clear that these are examples of services that are prohibited.

The Exposure Draft proposes the same structure for IT system services. The application paragraph is placed directly under the requirement paragraph regarding what conditions needs to be met to ensure that a service does not assume management responsibility (paragraph R606.3).

2. Prohibition in a requirement paragraph placed in a separate subsection, for example in Sections 609 and 610

Sections 609 and 610 include subsections titled “Recruiting Services that are Prohibited” and “Corporate Services that are Prohibited”. It could be argued that a similar subsection named “IT System Services that are Prohibited” could be created in Section 606 to include hosting services and the operation of an audit client’s network security, business continuity and disaster recovery function.

Overall, we concluded that both approaches result in the same outcome, which is effectively a prohibition of the services.

The NZAuASB also is supportive of proposed paragraph 606.3 A2. The explanation that hosting data for the purpose of performing permissible service is important clarification. It is common practice nowadays, that an audit client copies some client data and transfers it to software managed by the audit firm. The auditor only uses the data for the purpose of an audit or review engagement, and this does not result in assuming management responsibility.

- b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c)18 and the addition of “Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm” as an example of an IT systems service that might create a self-review threat in proposed paragraph 606.4 A3?

Response:

Yes, the NZAuASB supports the proposals and does not have further comments.

- c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3.

Response:

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

- 11) Do you support the proposed changes to Part 4B of the Code?

Response:

Yes, the NZAuASB supports the proposals.

The NZAuASB considered examples where a self-review threat might be created for an assurance engagement. The proposed revision to paragraph 950.10 A1 A includes additional technology-related examples including: “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”. This example relates only to situation where the assurance engagement relates to IT

systems or IT controls themselves. We consider that an example where assurance is provided over subject matter information that is generated by the IT system is also relevant. This situation might become common, for example when new IT systems are developed for ESG reporting purposes. This could be illustrated by the following scenario:

- An audit firm designs an IT system that gathers and computes greenhouse gas emissions data
- A client uses a report from this IT system to prepare its greenhouse gas emissions statement
- The audit firm performs assurance engagement on the greenhouse gas emissions statement.

We consider that a self-review threat is created because the calculation of the input to the non-financial information was performed based on an IT system designed by the firm.

We suggest that the following example be added to paragraph 950.10 A1: “Designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls when they form part of or affect an assurance client’s records or system of internal control over non-financial reporting and subsequently undertaking an assurance engagement on a non-financial information.”

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1
Meeting date: 1 June 2022
Subject: IESBA Strategy Survey
Date: 18 May 2022
Prepared By: Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the board to CONSIDER and AGREE the response to the IESBA strategy survey.

Background

2. The International Ethics Standards Board for Accountants (IESBA) is seeking the views of stakeholders on key environmental trends, developments or issues the IESBA should consider as it begins the process of developing its next Strategy and Work Plan for the periods 2024-2027. Responses to the survey are requested by Friday 8 July 2022.

Matters to Consider

3. Our draft response to the survey is included in the attached paper. Our responses have been informed by what we have heard at recent outreach events, e.g., our consultation on the revisions to the NAS provisions, engagement with assurance practitioners on climate reporting and participation at the NSS meetings.

Recommendations

4. We recommend that the Board APPROVE the response to the IESBA strategy survey.

Material Presented

Agenda item 9.1 Board Meeting Summary Paper
Agenda item 9.2 IESBA Strategy Survey and Response

IESBA Strategy Survey 2022

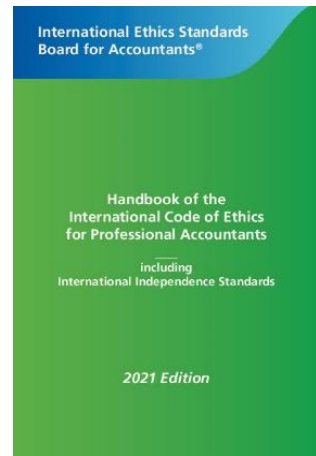


Survey on the IESBA's Future Strategy and Work Plan

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 (PAs), 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).



About the Survey

This survey seeks views from stakeholders on key environmental trends, developments or issues the IESBA should consider as it begins the process of developing its next Strategy and Work Plan (SWP) for the period 2024 – 2027.

This survey comprises three sections:

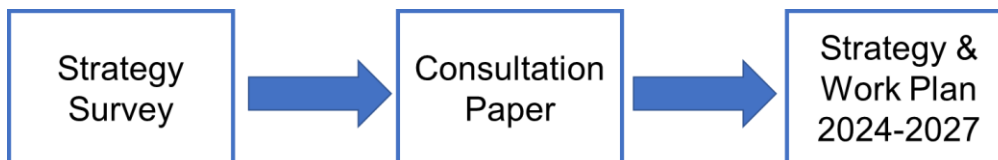
[Section A – Demographic information about the respondents](#)

[Section B – Strategic direction and priorities](#)

[Section C – Possible future standards-related projects or initiatives](#)

Respondents are asked to provide views or suggestions in response to the questions in Sections B and C. If a respondent has no response to a particular question, the respondent may skip that question. Respondents' submissions will be made available on the IESBA's website after the close of the survey.

This survey is the first step in the IESBA seeking input from its stakeholders as part of the due process for developing its SWP. Following a full review of the input received, the IESBA will develop a consultation paper on its SWP 2024-2027, including its proposed strategic themes, priorities and work plan.



The IESBA anticipates approving the SWP consultation paper for public comment in Q1 2023. Respondents will have an opportunity to comment on a full description of the IESBA's proposed strategic direction and future work plan when it issues its SWP consultation paper.

Responses to the survey are requested by Friday, July 8, 2022.

Section A: Demographic Information

Personal and organizational information

Your name: Sharon Walker

Your Organization (if applicable): External Reporting Board

Your role: Senior Project Manager – Assurance Standards

Email address: sharon.walker@xrb.govt.nz

Stakeholder Group

Please specify the stakeholder you/your organization represents

- Academia
- Accounting/Audit firm or network
- Audit oversight body
- IFAC member body or other professional accountancy organization
- Investor or analyst
- National standard setter
- Other users of financial statements/Environmental, Social and Governance (ESG) information (e.g., customer, creditor/supplier, lender), please specify: _____
- Preparer of financial statements/ESG information
- Firm (other than an accounting/audit firm) that provides assurance on ESG information
- Public sector
- Regulator
- Those charged with governance
- Other, please specify: _____

Geographical location

Please specify the geographical region where you or your organization is based:

- Global
- Africa-Middle East
- Asia
- Oceania
- Europe
- Latin America
- North America

Section B: Strategic Direction and Priorities

BACKGROUND

In the aftermath of the global financial crisis of 2008-2009, public expectations rose significantly for more robust regulatory supervision and oversight of, and a higher bar of ethical behavior for, financial and corporate professionals alike.

In response to those heightened expectations, the IESBA took steps to significantly strengthen the Code through the release of the revised and restructured Code in 2018. The revisions, amongst other matters, enhanced the conceptual framework for identifying, evaluating and addressing threats to compliance with the fundamental ethical principles and, where applicable, to independence, including the safeguards-related provisions of the Code; strengthened the provisions relating to inducements; introduced a new standard on addressing pressure to breach the fundamental principles; strengthened the independence standard addressing long association of audit firm personnel with an audit client; and introduced a new standard on responding to non-compliance with laws and regulations (NOCLAR). At the same time, the IESBA took decisive action to restructure the Code to enhance its usability and accessibility.

With the revised and restructured Code in place, the IESBA released its current [SWP](#) (2019-2023) in April 2019, setting out three strategic themes:

Working to advance these three strategic themes, the IESBA continued to place a high priority on strengthening the International Independence Standards (IIS). So far, within this strategy period, the IESBA has issued revised standards containing strengthened provisions addressing the permissibility of [non-assurance services](#) (NAS) to audit clients, and [fee-related matters](#). These enhanced

provisions focus particularly on public interest entities (PIEs) in light of stakeholders' heightened expectations regarding independence with respect to the audits of the financial statements of these entities. At the same time, responding to stakeholder concerns about the need to ensure that the appropriate entities are scoped in as PIEs and working closely with the International Auditing and Assurance Standards Board (IAASB), the IESBA also recently finalized an expanded definition of a PIE to include more mandatory categories of entities as PIEs. These projects were supported by the vast majority of stakeholders, recognizing that they addressed a number of important issues in the public interest.

Since the release of the restructured Code in 2018, the IESBA has also worked closely with the International Federation of Accountants (IFAC) to promote adoption and implementation of the Code through various activities including the publication of awareness-raising materials, global webinars and outreach to stakeholders. To coincide with the effective date of the restructured Code and to make the Code even more accessible and easier to navigate, the IESBA launched the eCode in 2019 in collaboration with IFAC. The eCode is now part of the electronic International Standards ([eIS](#)) platform developed by IFAC.

IESBA SWP 2019-2023 STRATEGIC THEMES

Advancing the Code's Relevance and Impact through (i) maintaining a global Code fit for purpose in the evolving environment; and (ii) further raising the

Deepening and Expanding the Code's Influence through increasing global adoption and effective implementation of the Code

Expanding the IESBA's Perspectives and Inputs through proactively engaging and seeking cooperative avenues with stakeholders

As the IESBA begins to contemplate its strategic direction for the new SWP and develops the next cycle's work plan, it will take into account the new organizational structure, governance and processes that will be implemented for both the IESBA and the IAASB over the next few years as a result of the Monitoring Group's (MG) July 2020 recommendations, [Strengthening the International Audit and Ethics Standard-Setting System](#).



The MG recommendations aim to support and enhance the development of high-quality auditing and ethics standards by the two Standard Setting Boards (SSBs)

through the achievement of a multi-stakeholder structure, reinforcement of public interest considerations within the standards development process, and enhanced responsiveness to an accelerating pace of change.

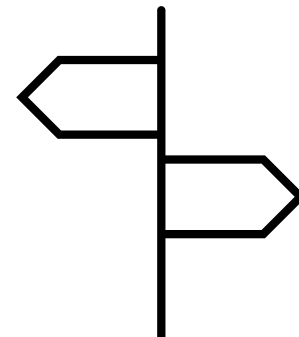
The MG recommendations also reinforce the importance of close coordination between the IESBA and the IAASB on topics within their respective strategic work plans that are of mutual interest. With this in mind, the IESBA is proposing to align the period of its next SWP with that of the IAASB's next SWP, i.e., the four-year period 2024-2027. Within their agreed framework of coordination, the two SSBs will also work closely to identify future projects or work streams that address topics or issues that overlap their standard-setting remits. Such coordination will enable the IESBA and the IAASB to deliver global standards that are consistent with each other and interoperable.

POTENTIAL STRATEGIC FOCUS AREAS

The IESBA will prioritize a range of longer-term and shorter-term projects or initiatives that it believes would best support the strategic themes for its next SWP, balancing factors such as the benefits to the public interest, the pervasiveness of the particular matters, global operability and relevance, the degree of urgency and resources available. During the strategy period, the IESBA will also consider whether any new developments in the external environment, or issues arising from existing work streams or identified by the Public Interest Oversight Board (PIOB) or stakeholders, call for a reassessment of its strategic priorities.

For purposes of this survey, the IESBA is seeking stakeholders' views on the following four broad strategic focus areas that may help guide the IESBA in setting the direction and priorities for its new SWP 2024-2027:

1. [Responding to developments relating to reporting and assurance of sustainability information](#)
2. [Raising the bar of ethical behavior for professional accountants in business](#)
3. [Strengthening independence standards for audit engagements](#)
4. [Promoting timely adoption and effective implementation of the Code](#)



1. Responding to developments relating to reporting and assurance of sustainability information

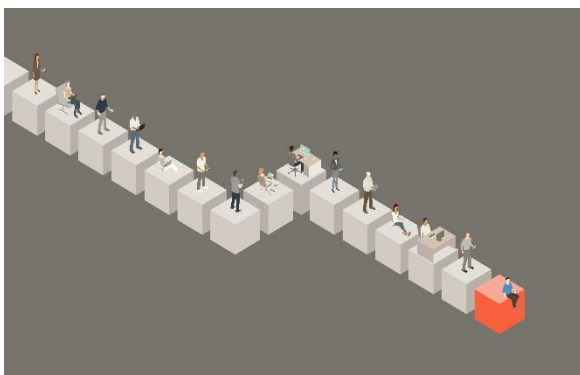
Backdrop

Over the last few years, financial markets have seen an accelerated growth in the disclosure of sustainability information driven largely by a major shift in investors' capital allocation to businesses perceived as more sustainable, viewed through the environmental, social and governance (ESG) prism. Along with the market demand for more sustainability data, there has been an increasing call for assurance to be provided on such information. Regulators in a number of major jurisdictions are prioritizing as a matter of urgency the development of new regulations governing sustainability disclosures and assurance thereon. Further, in November 2021, the IFRS Foundation established the new International Sustainability Standards Board (ISSB) to develop IFRS Sustainability Disclosure Standards. On March 31, 2022, the ISSB issued its first two proposed standards, one setting out [general sustainability-related disclosure requirements](#), and the other specifying [climate-related disclosure requirements](#).

These developments respond to a rapidly evolving landscape where there is a high degree of fragmentation and inconsistency in terms of frameworks and standards for sustainability reporting, levels of assurance provided and who is engaged to provide such assurance.¹ As market demand for sustainability information continues to expand rapidly, there is a pressing public interest need to ensure that such information is reliable and comparable, and therefore subject to assurance.

Role of the Accountancy Profession

The accountancy profession stands to play a major role in the sustainability reporting supply chain and the provision of assurance on sustainability information. The profession brings to this domain its wide and deep competencies in the preparation and presentation of information and the provision of assurance thereon. Most importantly, public trust in the profession in those crucial roles for sustainability is underpinned by the robust and global ethics standards by which it must abide.



Starting with the sustainability reporting supply chain, the IESBA believes it is essential that it gathers a full understanding of the various roles and responsibilities of professional accountants in business (PAIBs) in this supply chain. This understanding will inform a thorough assessment of whether Part 2 of the Code, which sets out provisions specific to PAIBs, remains comprehensive, adequate and fit-for-purpose with regards to sustainability reporting. As a case in point, while the role of a CFO can be expected to draw on a PAIB's skills and expertise in financial reporting or

management accounting, it may also be evolving rapidly into a more dynamic, more complex "mission control" role requiring orchestration, coordination and oversight of the information supply lines across the multi-disciplinary and interconnected ESG ecosystem.

¹ See [The State of Play in Sustainability Assurance](#), a global benchmarking study published in June 2021 by IFAC, AICPA and CIMA.

Turning to the assurance side, the IESBA recognizes that the Code (including the International Independence Standards (IIS) contained in Part 4B²) already applies to accounting firms that perform assurance engagements in accordance with the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised).³ However, the IESBA acknowledges that the major shift towards sustainability reporting and assurance has raised a number of questions regarding the robustness and sufficiency of the IIS in Part 4B. Some of these questions include, for example, whether there is a need to consider the relevance of the PIE concept as it applies to assurance engagements related to sustainability information, the independence provisions that should apply to network firms and other firms participating in such engagements, the meaning of materiality where sustainability regulation or standards require its consideration beyond traditional financial statement materiality, and independence provisions that should apply to external experts involved in sustainability assurance engagements.

Anticipating the need to act promptly, the IESBA established a Sustainability Working Group in Q1 2022 to begin fact finding work on sustainability reporting and assurance. While the IESBA recognizes the need to move with a sense of urgency and will continue to monitor any global regulatory and standard-setting developments in this regard, it also believes the fact-finding work must precede, and will help circumscribe the scope and direct the focus of, any standard-setting work in order to achieve the greatest possible impact. The IESBA envisages that this fact-finding work will be completed within the current strategy period. The IESBA will then determine the timing of any new standard-setting work based on the recommendations of its Sustainability Working Group and in consultation with the IESBA CAG and the PIOB.

At the same time as the Sustainability Working Group earnestly lays the groundwork for the IESBA's standard-setting response in the sustainability area, the IESBA has also commissioned IESBA Staff to develop non-authoritative guidance to highlight the relevance and applicability of the Code in relation to a number of ethics and independence concerns in relation to PAs' involvement in sustainability reporting and assurance. One such concern is the reporting of information that gives a false or misleading impression about how well a business or investment aligns with its sustainability goals ("greenwashing").

More broadly, as the IAASB is prioritizing its own focus on sustainability assurance, the IESBA will coordinate closely with the IAASB on any standard-setting work so that matters of mutual concern to the Boards' stakeholders are addressed promptly and the Boards' standards will be mutually consistent and interoperable. An important area of focus will be to understand the IAASB's approach to developing any new standards addressing sustainability assurance as this might impact the extent and direction of the IESBA's own standard-setting work. Further, the IESBA will prioritize engagement and dialogue with the International Organization of Securities Commissions (IOSCO) and other relevant international bodies as well as regulatory bodies in major jurisdictions, including the EU and major G20 countries, that are developing or actively considering policies or regulations addressing sustainability reporting and assurance.

Beyond assurance, there is also a need to consider the evolving nature and growing extent of the advisory services PAPPs are providing to entities as those entities respond to market pressures for more transparency about their sustainability goals, key performance indicators and accountability metrics.

² Part 4B of the Code addresses independence for assurance engagements other than audits and reviews of financial statements. In January 2020, the IESBA issued revisions to Part 4B to align its provisions with the revised assurance terms and concepts in ISAE 3000 (Revised).

³ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Involvement of Other Assurance Service Providers

Given the IESBA's expectation that PAs will play a major role in sustainability reporting and assurance, the IESBA envisages that a large part of its standard-setting work under the new SWP will be focused on maintaining the robustness and relevance of the Code's ethics and independence provisions as these apply to PAs. The IESBA, however, recognizes that there is a wide range of professional firms outside of the accountancy profession that are providing assurance services with respect to sustainability information. This diversity of assurance service providers reflects not only the reality that sustainability reporting covers a much wider spectrum of disciplines and topics than financial information, but also the fact that regulations continue to lag behind the natural demand-supply evolution of sustainability reporting and assurance. Further, regulations being developed in some major jurisdictions expressly contemplate that the market for sustainability assurance services will not be limited to providers within the accountancy profession. This is part of a broader trend away from a provider-centered regulatory approach towards a service-centered one.

ISAE 3000 (Revised) is designed to support the performance of assurance engagements by all providers of assurance services including PAs in public practice (PAPPs). Whilst the Code governs PAPPs ethical conduct or independence on assurance engagements, it appears that there are currently no comprehensive or globally accepted standards that govern the ethical conduct or independence of these other assurance service providers, or standards as comprehensive as those in the IESBA Code.⁴ Accordingly, the IESBA recognizes that there is an open question as to whether the public interest will be better served if the scope of the Code — as a body of ethics (including independence) standards that is already globally recognized and trusted — were to be enlarged to cover assurance service providers that are not PAPPs. Underpinning this question, which appears simple but might have complicated ramifications and far-reaching consequences, is a proposition that is difficult to challenge from a public interest perspective, namely that all providers of sustainability assurance services should be held to the same high ethics (including independence) standards, regardless of the profession to which they belong. One ramification for the Code if its scope were to be expanded along those lines is whether its provisions should cover other providers outside of the accountancy profession who supply similar services provided by individual PAIBs or PAPPs, such as tax planning and related services.



In posing the question of whether there would be merit in broadening the scope of the Code, the IESBA is not prejudging what the final answer should be, or how such a scope enlargement might be achieved,⁵ but merely seeking thoughts and reactions from stakeholders as to how compelling this proposition would be from a public interest perspective. The IESBA recognizes that a related fundamental question is how to achieve the authority of binding standards for non-PAs and the associated need for enforcement. In this

⁴ ISAE 3000 (Revised), paragraph 20, requires the practitioner to comply with the provisions of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. However, the Code currently applies only to PAs.

⁵ This survey is not seeking to open a broad discussion on the mechanisms for achieving a scope enlargement for the Code. This is a matter the IESBA would explore more fully as part of a separate work stream if it determined there was sufficient ground and stakeholder support to proceed with developing this notion of scope enlargement in more concrete terms.

regard, the IESBA sees that there would be a clear need for the support of, and complementary action by, the regulatory community.

1. What level of importance do you believe the IESBA should place on dedicating strategic focus to responding through standard-setting action to the developments in sustainability reporting and assurance in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

- The XRB considers this should be a dedicated strategic focus area of the highest possible importance. This is an evolving area where leadership and inclusivity of a broader range of subject matter expertise is needed. The pace of change in both sustainability reporting and assurance demands an urgent response from a standard setting perspective.

In NZ, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act introduces mandatory climate-related disclosures (CRD) for most New Zealand listed issuers and large banks, non-bank deposit takers, insurers, and investment managers. Climate reporting entities (CREs) will be required to disclose CRD for accounting periods that start on or after 1 January 2023.

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act also has assurance implications, in that the disclosures relating to greenhouse gas (GHG) emissions will be required to have independent assurance, performed in accordance with the XRB's assurance standards. The XRB's assurance and professional and ethical standards are not limited to professional accountants, rather the XRB's mandate extends to non-professional accountants providing assurance in this space.

We consider that work on this initiative cannot wait until the next strategy period. Work should commence immediately.

2. Do you believe the IESBA should explore the concept of expanding the scope of the Code to cover assurance service providers other than PAPPs? What preconditions would need to be in place and what potential challenges or drawbacks do you foresee if the Code's provisions were scoped to the nature of the assurance services provided as opposed to who is providing the assurance services?

- There is a need for ethical standards for a broader type of assurance practitioner, not limited to professional accountants, without compromising on competence, independence and quality.
- We support the IESBA exploring how to open the Code up. A challenge for the IESBA will be to get buy-in/acceptance from other players in this area. The IESBA cannot assume that other professions will adopt the Code.
- In New Zealand we are exploring ways to be more inclusive, and recognise the ethical requirements of other professions, recognising that increasingly this space will include a number of subject matter professionals.
- The wording "at least as demanding" in ISAE 3000 is challenging as it is unclear who makes that assessment. Comparing ethical requirements across professions is no easy task, and it is not possible to make a statement that one profession's requirements are better or worse than

another. However, it is in the public interest that there is a level playing field, and a clear understanding by users of either what those requirements are or how they differ if there are to be multiple players in this space. We encourage an inclusive approach, that recognises and respects other professions' requirements.

3. Are there other matters the IESBA should consider with regards to this strategic focus area?

- With the trend towards reporting and assurance of ESG information, we believe there is a need for the IESBA to consider the concept of PIE in this context.
- We also encourage the IESBA to consider the implications of the definition of engagement team and the independence of experts in the context of this evolving landscape, recognising that going forward there will be an increasing need for a broader range of expertise.

2. Raising the bar of ethical behavior for professional accountants in business

The IESBA sees another potential area of strategic focus is raising the ethical bar for PAIBs beyond issues of sustainability reporting. Over half of the world's PAs are PAIBs working on their own or in organizations other than public accounting practices. PAIBs are a very diverse constituency, and can work as employees or consultants in commerce, industry, education, and the public and not-for-profit sectors. Many are in a position of strategic or functional leadership, or are otherwise well-placed to collaborate with colleagues in other disciplines to help their organizations toward long-term sustainable success.

Given that many PAIBs play a fundamental role in the financial reporting supply chain and facilitate effective governance in organizations, it is in the public interest that the provisions of the Code applicable to PAIBs are appropriate and robust. During the previous strategy period, the IESBA completed a two-phase project that significantly enhanced the Code's provisions relating to the ethical behavior of PAIBs. The enhancements included revisions to the provisions on inducements and the preparation and presentation of information, as well as a new standard on dealing with pressure to breach the fundamental principles.

As part of the current strategy period, the IESBA has introduced new provisions in the Code that promote the role, mindset and behavioral characteristics expected of all PAs when performing their professional activities. The IESBA has also issued for exposure [proposed technology-related revisions](#) to Part 2 of the Code which applies to PAIBs. In addition, the IESBA has a separate [working group](#) that is carrying out fact finding to further understand the broader technology environment, including the ethical implications for PAs of developments such as blockchain, cybersecurity and cloud-based services.



4. Beyond sustainability reporting which is covered under the first strategic focus area above, do you believe the IESBA should dedicate strategic focus on further raising the bar of ethical

behavior for PAIBs in its next strategy period (2024-2027)? Please be as specific as possible in terms of specific trends, developments or issues⁶ and explain your reasoning.

- As described in the previous section, we consider sustainability reporting to be the area of highest priority. Ethical considerations for sustainability reporting will extend to the PAIB.
- We recognise that PAIBs are an important part of audit quality – i.e., the quality of an audit is linked to the quality of the information prepared.
- Part 2 of the Code is outside the remit of the XRB. Accordingly, we have no further comment on this topic.

3. Strengthening independence standards for audit engagements

Recurring headlines about collapses of large public companies due to fraud as well as other financial scandals across the globe have continued to draw much public attention to the role of auditors as corporate guardians of public trust and confidence in entities' financial statements. Some of these events have called into question not only the quality of the audits but also the independence of the auditors. In addition, there continues to be heightened regulatory scrutiny not only on aspects of the performance of an audit, such as the exercise of professional skepticism and professional judgment, but also on broader considerations relating to auditor independence and the audit firm multi-disciplinary business model.



As highlighted in the Background subsection above, the IESBA has continued to dedicate strategic effort to addressing aspects of the issues in the current strategy period through its three major inter-related independence-focused projects on NAS, fees, and the definitions of listed entity and PIE. In this regard, the IESBA believes that the revisions to the Code as a result of the [NAS](#) and [Fees](#) projects represent a major public interest contribution towards addressing some of the concerns about the business model of firms.

Within the current strategy period, the IESBA also continues to place high priority on projects that will further enhance auditor independence. These include the [Engagement Team – Group Audits Independence](#) and [Technology](#) projects. These two projects are ongoing, with Exposure Drafts issued in February 2022. In addition, as a result of its [PIE project](#), the IESBA has committed to undertaking a holistic review of collective investment vehicles and other “non-corporate” legal structures such as mutual funds, private equity funds, pension funds and trusts to assess whether the independence provisions in the Code appropriately cover audits of such vehicles or structures, or whether they need to be clarified and expanded.

The IESBA will also consider the findings of Phase 1 of its [Benchmarking](#) initiative to determine whether there are independence matters that would warrant specific attention from a standard-setting perspective. Phase 1, which was completed in March 2022, compared the IIS as applicable to PIEs to the relevant

⁶ Section C in this survey sets out a few specific matters or concerns that have come to the IESBA's attention as these relate to PAIBs.

independence requirements of the US Securities and Exchange Commission (SEC) and the US Public Company Accounting Oversight Board (PCAOB).

Section C also sets out a number of specific topics that the IESBA has identified from previous or current work streams, or which were otherwise brought to its attention. Subject to stakeholder input to this survey, the IESBA may consider prioritizing some of these topics from the perspective of further strengthening the IIS relative to auditor independence.

5. Do you believe the IESBA should continue to dedicate strategic focus on strengthening the IIS for audit engagements in its next strategy period (2024-2027)? If so, what specific developments or issues do you believe the IESBA should focus on beyond the matters outlined above and in Section C? Please be as specific as possible and explain your reasoning.

- The IIS and independence of auditors should always be front of mind for the IESBA. We recognize that there have been significant changes in the IIS in the past few years and we consider that there is a need to allow time for the new provisions to come into effect and to embed in order to understand what impact the revisions will make. We therefore consider that dedicated strategic focus on strengthening the IIS for audit engagements in the next strategy period is not the highest priority for the IESBA.
- We do however support the IESBA undertaking a holistic review of the collective investment vehicles and other “non-corporate” legal structures such as mutual funds, private equity funds, pension funds and trusts to assess whether the independence provisions in the Code appropriately cover audits of such vehicles or structures. We note that in New Zealand such entities are caught by our definition of PIE.
- We further consider that implementation support on non-assurance services is necessary to add clarity to the revised provisions in the Code and to drive consistency in practice.

4. Promoting timely adoption and effective implementation of the Code

Prior to the release of the restructured Code in 2018, the Code had been adopted or had been used as a basis for national ethics standards or the ethical codes of professional accountancy organizations (PAOs) in over 120 jurisdictions around the world, including 16 among the G-20. As of January 2022, over 85 jurisdictions have adopted, or committed to adopt, the restructured Code. In addition, the 31 largest international networks of firms that comprise the [Forum of Firms](#) have also aligned their policies and methodologies to conform to the restructured Code for transnational audits.



The IESBA dedicates significant effort to promoting the adoption and effective implementation of the Code, including new revisions to the Code, through various initiatives and activities, an important part of which is stakeholder outreach. Beyond these, the IESBA considers it a high priority to conduct post-implementation reviews (PIRs) of significant revisions to the Code to assess how effectively the implementation of those

revisions is meeting the original objectives of the revisions. So far, within this current strategy period, the IESBA has completed Phase 1 of the Long Association PIR. The IESBA plans to initiate the PIRs of the restructured Code and the NOCLAR provisions as well as Phase 2 of the Long Association PIR in the remaining two years of the current strategy period (2022-2023).

As part of the new strategy period, the IESBA expects to prioritize PIRs of the revisions to the Code relating to the NAS, Fees and PIE projects.

6. Do you believe the IESBA should devote strategic focus on promoting timely adoption and effective implementation of the Code in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

- The XRB supports the efforts of the IESBA in promoting timely adoption and effective implementation of the Code.

7. Are there specific operability issues or concerns with respect to the Code you believe the IESBA should be made aware of?

- Through our outreach and consultation on the NAS provisions we are aware of concerns about the operability and consistency of interpretation of the provisions, specifically, around tax services. Concerns included the distinction between what is tax return preparation and what is tax planning and advice – tax return preparation rarely involves simply taking audited numbers and dropping them into a tax return form without the use of professional judgement. Similarly, how much can the PAPP advise the audit client on the tax return treatment of past transactions before such advising becomes a tax planning and advisory service, and therefore subject to the self-review threat prohibition for a PIE audit client? In addition, concerns were raised about consistency of interpretation of the “confident is likely to prevail” wording. We consider that there is a need for global consistency and encourage the IESBA to provide guidance to support consistency via non-authoritative guidance.

OTHER KEY ENVIRONMENTAL TRENDS OR DEVELOPMENTS

8. Are there key environmental trends or developments, beyond those already noted above, you believe the IESBA should focus on in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

- In New Zealand there are significant pressures on audit firms in terms of attracting and retaining staff. There is a role for the Code in attracting auditors to the profession.
-

Section C: Possible Future Standards-Related Projects or Initiatives

The following table lists topics that the IESBA may consider as potential future projects or initiatives in the 2024-2027 strategy period. The IESBA has identified these topics through various means, including ongoing and recently completed work streams, and the previous strategy consultation process.



When the IESBA reviews these topics as part of the development of the SWP consultation paper, the IESBA will take into account:

- Respondents' input on the strategic direction and priorities for the next strategy period (Section B).
- The level of importance of each topic based on a number of factors.
- Input received from respondents to this Section (Section C).

Please note that this section provides only a high-level overview of each topic noted in the table below. Respondents will have an opportunity to comment on a full description of the IESBA's proposed strategic work plan when it issues the consultation paper in due course.

	Topic
INDEPENDENCE TOPICS – PAPPs	
1.	Independence of external experts
2.	Audit firm – audit client relationship
3.	Business relationships
4.	Definition of “audit client” for PIEs
5.	Matters arising from Quality Management (QM)-related conforming amendments to the Code
PAIB-SPECIFIC TOPICS	
6.	Familiarity threat in relation to Part 2
TOPICS ADDRESSING PAs MORE BROADLY	
7.	Professional appointments
8.	Breaches of the Code
9.	Definitions and descriptions of terms
OTHER TOPICS	
10.	Non-authoritative material

IESBA Strategy Survey 2022

The IESBA is seeking respondents' assessment of the level of importance of each of these topics (on a scale of 1-5) and a brief rationale for those that have been assessed as high importance (Rating: 4-5).

Factors for Rating the Topics

When assessing the level of importance, respondents are asked to consider the following factors:

- Public interest benefits
 - The level of public interest in undertaking the project or initiative.
 - The extent to which the action will enhance public trust in the Code and the profession.
 - The extent to which the action will raise the bar on ethical behavior for PAs.
- Relevance
 - Pervasiveness of the matter or issue to the global profession.
 - Relevance of the topic at a global level.
 - Relevance of the topic to the ethical behavior of PAs or independence.
- Urgency
 - The degree of urgency in addressing the issue(s) identified.
 - The extent of the impact on the public interest and the profession if action is not taken or is delayed.
- Achievability
 - Feasibility of achieving an effective outcome within a reasonable timeframe, taking into account the resources required.

Please rate each topic listed below on its level of importance as a priority for the IESBA's SWP 2024-2027 on a scale of 1 to 5 (1 = lowest level of importance). Please refer to the factors for rating the topics above when assessing each topic.

For those topics that you rated either a 4 or 5 (i.e., the highest levels of importance), please provide a brief explanation for your rating.

Independence of External Experts

Under the Code's and the IAASB's definitions of "engagement team," an auditor's external expert is not a member of the engagement team for an audit or other assurance engagement. As such, they are not scoped in for the purposes of the IIS. They are, however, subject to objectivity requirements under ISA 620⁷ in the context of an audit of financial statements.

A potential project on this topic would consider whether external experts used on audit and other assurance the expected increase in involvement of external experts under ISA 540 (Revised)⁸ and sustainability

⁷ International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*

⁸ ISA 540, *Auditing Accounting Estimates and Related Disclosures*

assurance standards. This matter arose during the IESBA's and IESBA Consultative Advisory Group's (CAG) discussions on the [Engagement Team – Group Audits Independence](#) project. Such a project would require coordination with the IAASB.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 5

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We consider the need for the IESBA to consider the implications of the definition of engagement team and the independence of experts in the context of sustainability reporting is a high priority, recognising that going forward there will be an increasing need for a broader range of expertise

Audit Firm – Audit Client Relationship

As part of its [Fees](#) project, the IESBA concluded that the Code should recognize the inherent self-interest threat in the audit client payer model whereby the party responsible for the subject of an examination directly pays the examiner. The IESBA, however, agreed that the inherent risk related to the audit client payer model is part of a broader issue of the “audit firm–audit client” relationship, which was outside the scope of the Fees project.

A potential project on this topic would therefore consider whether the Code should address the inherent threats arising from the client relationship more broadly. It may also address a related matter which is whether it continues to remain appropriate for the Code to use the term “audit client” as opposed to the “audited entity” or “entity subject to audit.” This recognizes that the ultimate beneficial client is not the entity itself but the entity’s owners or shareholders.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 1

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We do not consider this area to be a high priority.

Business Relationships

Section 520 of the Code addresses threats to independence arising from business relationships between an audit firm and an audit client or its management, with the provisions focused on “close business relationships.”

The Code does not define or describe the term “business relationship.” Whilst the concept of “close business relationship” in Section 520 focuses on a “mutuality of interests” such as joint ventures and combining services or products with those of an audit client, there is a view that “business relationship” is a broader concept, i.e., consisting of any commercial arrangement.

A potential project on this topic would therefore consider revisiting Section 520 more comprehensively to deal with threats to independence from a broader business relationship context. This matter was identified as part of the current Technology project but is deemed to be outside the scope of that project.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 1

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We do not consider this area to be a high priority.

Definition of Audit Client for PIEs

The extant Code contains only one reference to “listed entity” in the IIS that is separate from its treatment as a PIE. This reference, in extant paragraph R400.20, specifies which related entities are included in the definition of an audit client depending on whether the audit client is a listed entity or not.⁹

As part of the [PIE](#) project, the IESBA agreed to replace the reference to listed entity in extant paragraph R400.20 with the new term “publicly traded entity.” As part of its deliberations, the IESBA also considered whether to replace the reference to listed entity in paragraph R400.20 with PIE, thereby enlarging the scope of the related entities included with the audit client when it is a PIE. However, the IESBA agreed that addressing the relevant issues such as the corporate structures of private equity complexes and sovereign wealth funds as well as the flow of information within those structures were beyond the scope of the PIE project.

A potential work stream on this topic would undertake further research to gain a better understanding of the ramifications of extending the whole universe of related entities for listed entities in extant paragraph R400.20 to apply to all PIE audit clients.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 2

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We do not consider this area to be a high priority.

Matters Arising from Quality Management (QM)-Related Conforming Amendments to the Code

There were a number of substantive matters of alignment that arose during the project to develop the [limited conforming amendments to the Code](#) as a result of the finalization of the IAASB’s QM projects. These matters were beyond the scope of the conforming amendments project. This limited scope project, which was finalized in December 2021, focused on the relevant provisions of the Code that refer to ISQM 1¹⁰ or ISQM 2,¹¹ or terms and concepts used or defined in those two QM standards.

⁹ Extant paragraph R400.20 states: “As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control.”

¹⁰ 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*

¹¹ ISQM 2, *Engagement Quality Reviews*

The matters raised include:

- Whether networks can be defined by common requirements or services as opposed to common policies and procedures.
- Whether references to network firm in the Code, including in the definition of “audit team,” should be extended to include “the network,” given that ISQM 1 contemplates that there is the network, other firms in the network, and other structures or organizations within the network.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 3

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We consider consistency between IAASB and IESBA standards to be a priority.

Familiarity Threat in Relation to Part 2 of the Code

During the Long Association project, it was noted that the extant definition of “familiarity threat” contains a reference to “employing organization.” However, the Code has only a few examples of familiarity threats with respect to PAIBs in the context of their employing organizations.

Currently, extant paragraph 200.6 A1(d) provides two general examples of familiarity threats for a PAIB when undertaking a professional activity; and paragraph 250.11 A3 provides one example of a familiarity threat that might be created when an inducement is being offered or accepted even if the PAIB has concluded there is no actual or perceived intent to improperly influence behavior.

A potential work stream on this topic would consider whether there is a need to provide additional guidance in the Code or in non-authoritative material regarding how PAIBs should address familiarity threats in the context of their work for employing organizations.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 1

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Part 2 of the Code is outside the remit of the XRB.

Professional Appointments

In the context of a change in professional appointment, paragraph R320.6 of the Code requires a proposed PA to take other reasonable steps to obtain information about any possible threats if the PA is unable to communicate with the existing or predecessor accountant. Paragraph 320.5 A1 provides that a proposed PA will usually need the client’s permission to initiate discussions with the existing or predecessor accountant.

Paragraph R320.8 deals particularly with changes in audit or review appointments. It provides that if a client

fails or refuses to grant the existing or predecessor accountant permission to discuss the client's affairs with the proposed accountant, the existing or predecessor accountant shall disclose this fact to the proposed accountant, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

A potential project on this topic would consider whether the Code should require a proposed PA to decline an appointment if the client fails or refuses to give permission to the existing or predecessor PA to communicate with the proposed PA, unless there are certain exceptional circumstances.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 2

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We do not consider this area to be a priority. There are many factors that go into the firm's decision to accept/decline an appointment, of which ethical considerations is one. The role of the Code is to establish ethical principles which the firm applies.

Breaches of the Code

Extant paragraphs R400.80 to R400.89 and R900.50 to R900.55 of the Code address a breach of a requirement in Parts 4A and 4B, respectively. These provisions require a firm to take certain actions upon concluding that a breach has occurred, such as addressing the consequences of the breach, determining whether to end the audit or assurance engagement, and communicating with those charged with governance. These provisions also provide guidance on matters such as actions a firm might consider to address a breach satisfactorily.

Extant paragraphs R100.8 – 100.8 A1 currently provide a requirement and application guidance to address a breach of any other provisions of the Code. A potential project on this topic would consider other matters some stakeholders have raised, such as:

- In addition to requiring a PA to address the consequences of the breach and determine whether to report it to the relevant parties (paragraph R100.8), whether the Code should address actions to stop the activity that caused the breach.
- Whether there should be any optionality in reporting a breach under paragraph R100.8 (b).
- Whether the conceptual framework in Section 120 should specifically address the disclosure required when a breach occurs and when the professional accountant is unable to end a service.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 3

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We do not see this area as a high priority. We do believe that there should be consistency between the various parts of the code. Should the IESBA decide to prioritise this topic in its future strategy, we encourage it to consider the consistency within the Code, particularly the inter-play between breaches of the Code by the professional accountant and breaches of laws and regulations. For example, the

NOCLAR provisions do not require the professional accountant to report a breach; rather, they provide the professional accountant with the right to report the breach.

Definitions and Descriptions of Terms

There are certain differences between the definitions of some terms in the Code and the definitions of the same terms in the IAASB standards. These terms include: financial statements; firm; independence; review engagement; and special purpose financial statements.

In addition, during the Structure of the Code project, the IESBA received a number of suggestions from respondents to reconsider how certain terms are currently defined in the Code, including:

- Audit team – Whether the definition of “audit team” should be broadened to include individuals within the firm who may be in a position to influence the conduct or outcome of an audit by removing references to individuals in a position to ‘*directly* influence’ the outcome of an engagement. It was argued that such a broadening of the term would better reflect the complexity of organization and influence within audit firms. There was also a view that the change would address the risk that an ability to influence is seen purely as a structural consideration (related to the position of an individual in a firm), instead of driving the assessment through a consideration that captures all those who have the ability to influence and are relevant to the engagement.
- Employee – Whether the term “employee” should include individuals who may act in the capacity of an employee, such as a contractor of an audit client, instead of only covering actual employees of an audit client.
- Engagement Period – Whether it remains appropriate to limit the concept of “engagement period” to the date the audit report is issued as the auditor has further responsibilities under auditing standards, such as addressing the effect on the opinion of matters that come to the auditors’ attention after the conclusion of the audit.
- Firm – Whether the term “firm” is too narrowly defined and whether a firm could have non-member employees, as well as clarifying the responsibility of PAs for employees other than PAs.
- Network Firm – Whether the concept of a “network firm” should place more focus on the exercise of judgment instead of being circumscribed by a list of examples of situations that might indicate the existence of a network. There is also a view that borders between associations and networks are increasingly diffuse, and there is therefore a need to consider any potential Code implications that might impact the definition of a network firm. It has also been noted that while the definition of “network firm” is sufficiently broad in the Code, the definition of “firm” is potentially narrow in its references to structures known to exist today and that this might become limiting for the future.
- Professional Accountant – Whether the definition of “professional accountant” should include retired or inactive professional PAs.

The IESBA’s Applicability project addressed the applicability of Part 2 of the Code to PAPPs. As part of this project, there were suggestions as to whether the definitions of a PAPP and a PAIB should be revised. The Code defines a PAPP to be a PA, irrespective of functional classification, in a firm that provides professional services. It has been brought to the IESBA’s attention that there is no clear limitation in the definition of a PAPP to those who actually provide professional services. The extant definition, however, appears to

include any PA in a firm that provides professional services. This could be interpreted to include PAs in roles other than providing professional services, such as in finance or IT.

Conversely, the Code defines a PAIB to include any PA employed or engaged in a variety of areas including service. If it is intended that a firm providing professional services is in a “service” industry, then prima facie any PA working in that service organization, including those providing professional services, is also a PAIB.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 3

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We have not identified this a high priority, however, we do believe that consistency in the definitions and descriptions used in standards issued by the IAASB and IESBA is important.

Non-Authoritative Material (NAM)

Potential work streams would consider developing NAM in relation to the following topics:

Several respondents to the *Alignment of Part 4B of the Code with ISAE 3000 (Revised)* Exposure Draft suggested that users of the Code would benefit from more practical examples of how Part 4B is to be applied, such as:

- Graphical illustrations of the different independence requirements as between a direct and an attestation engagement, in particular where more than one responsible party or party responsible for the subject matter information is involved.
- Practical guidance on determining the nature of the data that represents the underlying subject matter of the assurance engagement
- Practical guidance or case studies on identifying the parties from which independence is required, particularly in new and emerging areas that will assist practitioners to better evaluate and comply with the independence obligations.

In finalizing the [revisions to Part 4B](#), the IESBA also agreed that non-authoritative guidance material to illustrate the application of Part 4B in different situations according to the various parties involved and by type of assurance engagement should be developed in due course.

Relationship Between the Concepts of “Inquiring Mind” and “Professional Skepticism”

As part of the [Role and Mindset](#) project, the IESBA introduced the concept of “having an inquiring mind” as a new element of applying the conceptual framework in the Code. It also provided guidance on what it means to have an inquiring mind. In considering the relationship between having an inquiring mind and exercising professional skepticism in the context of an audit or other assurance engagement, the IESBA made clear that, in addition to having an inquiring mind (which is required for all professional activities), PAs undertaking engagements to which auditing, review and other assurance standards apply are also required to exercise professional skepticism, which includes a critical assessment of evidence.

The IESBA also concluded that further explanation of the relationship and differences between these two concepts should be addressed through NAM rather than in the Code.

Types of Biases

As part of the Role and Mindset project, the IESBA also introduced new application material in the Code to illustrate eight common forms of bias that a PA might encounter, such as availability bias, automation bias, confirmation bias and groupthink. Given the principles-based nature of the Code, there was only a brief description of each type of bias.

There was a suggestion from some respondents to the Exposure Draft as well as from the IESBA discussions that the IESBA should consider developing NAM that provides expanded explanation of those examples of bias as well as other types of biases that may also be relevant to the exercise of professional judgment. There would also be consideration of exploring through NAM how biases affect a PA's professional judgment and the application of the conceptual framework.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 2

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

We consider non-authoritative material should be developed on a user needs basis.

9. *Are there specific ethics or independence-related topics not otherwise covered in this Section or this survey that you believe should be given a high priority by the IESBA?* If so, please explain and be as specific as possible.

We have not identified other high priority areas.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 10.1
Meeting date: 1 June 2022
Subject: International Update
Date: 18 May 2022
Prepared By: Anna Herlender

Action Required

For Information Purposes Only

Agenda Item Objectives

1. This Update summarises the significant developments relevant to accounting and auditing from international organisations published since the end of March 2022.

Background

2. The structure of the update reflects the nature and structure of the international organisations and is complemented by insights from global practices and other publications of interests.
3. Due to the rapid development of sustainability related publications, a separate section was created for sustainability topic.

Hot topics

4. The following publications are most relevant to NZAuASB:
 - Monitoring Group issued a publication "[The Value of High Quality Audits and the Importance of Funding an Independent Multi-stakeholder International Standard-setting Structure](#)". The publication calls on all stakeholders to financially support the international audit and ethics standard setting system.
 - The IESBA compared US SEC/ PCAOB and the Code's independence frameworks in the publication "[Benchmarking International Independence Standards](#)". The report finds that the Code and the SEC/PCAOB frameworks address similar key issues in a comparably similar manner. The differences between the frameworks mainly result from the different circumstances in which the frameworks operate and, in some areas, might result in different outcomes in practice.
 - IFAC published "[Audit Fees Survey](#)" that encompassed US, Canadian and European companies. The results show differences across jurisdictions and industries, while demonstrating that fees for non-audit services appear to be on a flat or declining trend.

Sustainability topics

5. There have been several significant developments on sustainability reporting, including:

- Task Force on Nature Related Financial Disclosures released the first beta version of its [nature-related risk-management and disclosure framework](#) on 15 March 2022.
 - SEC issued Proposed [Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#) on 21 March 2022.
 - The International Sustainability Standards Board (ISSB) launched [a consultation on its first two proposed standards](#) on 31 March 2022.
 - European Financial Reporting Advisory Group (EFRAG) launched [draft European Sustainability Reporting Standards \(ESRS\)](#) for public comments on 29 April 2022.
 - International Public Sector Accounting Standards Board (IPSASB) launched [Consultation Paper: Advancing Public Sector Sustainability Reporting](#) on 9 May 2022.
6. An article exploring differences, similarities and convergence challenges of ISSB and EFRAG standards: [“How European and global sustainability standards for corporate reporting can and will converge”](#) by Richard Howitt, Reuters.

Recommendations

7. This agenda item is for information purposes of the Board.

Contents (structure of the update)

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. Association of Chartered Certified Accountants (ACCA)

International Sustainability Reporting

9. International Sustainability Standards Board (ISSB)
10. Task Force on Nature Related Financial Disclosures (TNFD)

Developments in local jurisdictions

Australia

11. Auditing and Assurance Standards Board (AASB)

Europe

12. European Financial Reporting Advisory Group (EFRAG)
13. Accountancy Europe

United Kingdom

14. Financial Reporting Council (FRC)
15. Institute of Chartered Accountants in England and Wales (ICAEW)

United States

16. Securities and Exchange Commission (SEC)
17. Public Company Accounting Oversight Board (PCAOB)
18. American Institute of Certified Public Accountants (AICPA)
19. Center for Audit Quality (CAQ)

Canada

20. Canadian Auditing and Assurance Standards Board (AASB)
21. Chartered Professional Accountants Canada (CPA Canada)

Insights from practitioners and other publications

22. Insights from practitioners
23. Other articles

Monitoring Group

Hot topic: “The Value of High Quality Audits and the Importance of Funding an Independent Multi-stakeholder International Standard-setting Structure”, 8 April 2022

“The Monitoring Group (MG) is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit-related standard-setting and audit quality. This publication is part of its ongoing global effort to promote high-quality international auditing and ethical standards.”

“Many important steps have already been taken to implement the MG Recommendations, which have improved the independence of the international audit and ethics standard setting structure. Key to maintaining these improvements is a sustainable long-term multi-stakeholder funding mechanism that supports the independence of the standard-setting structure. It is in the public interest that all stakeholders in the financial reporting ecosystem who benefit from a single set of high-quality international auditing and ethics standards contribute to support long-term financial stability of the standard-setting system.”

“The Monitoring Group calls on all stakeholders, who individually and collectively benefit from the high quality work of the IAASB, IESBA and PIOB, to financially support the international audit and ethics standard setting system. An independent, inclusive multi-stakeholder standard-setting structure must balance the intellectual contributions and benefits received from involvement in the standard-setting process with financial contributions needed to diversify the funding of the structure in the public interest.”

[The Value of High Quality Audits and the Importance of Funding an Independent Multi-stakeholder International Standard-setting Structure \(iosco.org\)](https://iosco.org)

Public Interest Oversight Board (PIOB)

No new publications since February 2022.

International Auditing and Assurance Standards Board (IAASB)

Guidance & Support Tools

Non-authoritative guidance: The Fraud Lens – Interactions between ISA 240 and other ISAs, 5 May 2022

“This non-authoritative guidance illustrates the relationship between International Standard on Auditing (ISA) 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, and other ISAs when planning and performing an audit engagement and reporting thereon. It also illustrates how ISA 240 is currently applied in conjunction with the full suite of ISAs”

[IAASB Non Authoritative Guidance The Fraud Lens Interactions Between ISA 240 Other ISAs.pdf](#)

Status of IAASB projects:

[IAASB projects \(iaasb.org\)](https://iaasb.org)

International Ethics Standards Board for Accountants (IESBA)

Publications

Hot topic: Benchmarking International Independence Standards, Comparison of IESBA and US SEC/ PCAOB Independence Frameworks, 6 May 2022

The IESBA Staff determined that the Code and the SEC/PCAOB frameworks address similar key issues in a comparably similar manner. The differences between the frameworks mainly result from the different circumstances in which the frameworks operate and the global applicability of the Code. The IESBA Staff identified examples of areas where differences between the Code's provisions and the SEC/PCAOB independence rules might result in different outcomes in practice, especially in relation to prohibited services and relationships for audit clients:

- Evaluating compliance with overarching principles.
- Assuming management responsibility/ acting as management.
- Determination of related entities/ affiliates of the audit client.
 - Specific fee-related provisions, in particular contingent fees.
- Requirements related to the provision of litigation support services and legal services to an audit client.
- Specific provisions relating to providing non-assurance services/ non-audit services to certain related entities/ affiliates of an audit client.
- Approval of provisions of non-assurance/non-audit services to parent entities.
- Accepting loans and guarantees from an audit client.
- Engaging in certain business relationships with an audit client.

The IESBA published full report (73 pages), summary report (17 pages) and a pdf update (3 pages), all three are available here:

[Benchmarking International Independence Standards | IFAC \(ethicsboard.org\).](#)

Report on IESBA Accomplishments, 2022-2021, Elevating Ethics and Independence Standards for a Complex World, 4 May 2022

This publication "Summarizes the IESBA's accomplishments for 2020 and 2021. The Report includes the final message from Dr. Stavros Thomadakis in his role as IESBA Chairman and showcases the significant progress that the IESBA has made on behalf of the public interest. It also provides an overview of the IESBA's extensive stakeholder outreach efforts and information about the Board's partnership with IFAC to promote awareness, adoption, and effective implementation of the Code."

[IESBA-Report-on-Accomplishments-2020-2021.pdf \(ifac.org\).](#)

Status of IESBA projects:

[IESBA projects \(ethicsboard.org\)](#)

International Forum of Independent Audit Regulators (IFIAR)

2021 Inspection Findings Survey, 25 March 2022

The survey collects data about inspection findings arising from IFIAR Member regulators' individual inspections of audit firms affiliated with the six largest global audit firm networks (the Global Public Policy Committee networks, or "GPPC networks"). The recurrence and level of findings reflected in the

survey continue to indicate a lack of consistency in the execution of high quality audits and the need for a sustained focus on continuing improvement.

[Annual Inspection Findings Survey – IFIAR](#)

International Organisation of Securities Commissions (IOSCO)

No significant developments during the period.

International Federation of Accountants (IFAC)

Publications

Hot topic: Audit Fees Survey 2022: Understanding Audit and Non-Audit Service Fees, 2013-2020, 25 April 2022

“The new study details information about audit-related, tax-related, and other non-audit professional services in the US, Canadian, and European markets across mega-cap, large-cap, mid-cap, small-cap, and micro-cap exchange-listed companies in nine industries.

The data clearly shows differences across jurisdictions and industries, while demonstrating that fees for non-audit services appear to be on a flat or declining trend, said IFAC CEO Kevin Dancey. As audit quality and reform continue to be a focus for the global accountancy profession, this data provides necessary transparency and fosters understanding about the quality, cost and value of the professional services that public practice firms provide to their clients.

This study updates an analysis first published by IFAC in 2019. IFAC also plans to update this study with fiscal year 2021 data later this year.”

[Audit Fees Survey 2022 | IFAC](#)

Guidance & Support Tools

Auditing Accounting Estimates: ISA 540 (Revised) Implementation Tool, 5 April 2022

This tool should help auditors implement ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* by providing an overview of steps practitioners could take and related considerations. It contains “what”, “why” and “how” suggestions. The implementation tool also works in conjunction with the IAASB’s previously published ISA 540 (Revised) flowcharts showing the requirements flow.

[Implementation support for ISA \(NZ\) 540 \(Revised\) » XRB](#)

Articles

Redefining Accounting for Tomorrow, Garry Carnegie, Lee Parker, Eva Tsahuridu, 6 April 2022

The authors are following other calls to define the “accountant of tomorrow” and propose that accounting can play a major role in answering the planet’s “big questions” and solving its “wicked problems”. They propose a definition: “Accounting is a technical, social and moral practice concerned with the sustainable utilisation of resources and proper accountability to stakeholders to enable the flourishing of organisations, people and nature”.

[Redefining Accounting for Tomorrow | IFAC](#)

Association of Chartered Certified Accountants (ACCA)

Accounting for a better world: priorities for a transforming profession, 11 April 2022

The accountancy profession can play an essential role in transforming the world to deliver a more equitable, green and inclusive future. This latest report from ACCA identifies seven key priorities for the future of the profession, where accountancy will play an indelible role looking ahead. Using case studies and personal stories to bring to life this emerging opportunity, the report outlines why the profession is central to building a more prosperous global economy and business environment.

[Accounting for a better world - Full Report](#)

International Sustainability Standards Board (ISSB)

The International Sustainability Standards Board (ISSB) launched a consultation on its first two proposed standards, 31 March 2022

Consultation period closes 29 July 2022. The two proposed standards are: Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures. The exposure drafts build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from SASB Standards.

[IFRS - ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures](#)

Task Force on Nature Related Financial Disclosures (TNFD)

Task Force on Nature Related Financial Disclosures released the first beta version of its nature-related risk-management and disclosure framework, 15 March 2022

The framework comprises three components:

- Foundational guidance, including key science-based concepts and definitions, to help a wide range of market participants understand nature, and nature-related risks and opportunities;
- Disclosure recommendations aligned with the approach and language of the climate-related guidance developed by The Task Force on Climate-related Financial Disclosures (TCFD); and
- Practical guidance on nature-related risk and opportunity analysis for companies and financial institutions to consider incorporating into their enterprise risk and portfolio management processes.

A further three iterations of the beta versions are planned for release in June 2022 (v0.2), October 2022 (v0.3) and February 2023 (v0.4). This will culminate in the final release of the TNFD's recommendations (v1.0) planned for September 2023.

[Welcome to the TNFD Nature-Related Risk & Opportunity Management and Disclosure Framework » TNFD](#)

Auditing and Assurance Standards Board in Australia (AUASB)

Highlights from 27 April 2022 meeting are published: [AUASB Board Meeting Highlights](#)

Publications

Quality Management Standards - Enhancing Audit Quality, May 2022

[AUASB Bulletin - QMS Enhance AQ \(5/22\)](#)

European Financial Reporting Advisory Group (EFRAG)

European Financial Reporting Advisory Group (EFRAG) launched draft European Sustainability Reporting Standards (ESRS) for public comments, 29 April 2022.

Consultation period closes on 8 August 2022. The exposure draft will be reviewed by EFRAG Sustainability Reporting Board and EFRAG Sustainability Reporting Expert Group in parallel to public consultation. Basis for Conclusion will be finalised in May 2022 and Cost Benefit Analysis will be managed parallel to the consultation period. This process was adopted to allow EFRAG submit the first set of draft ESRS to the European Commission by November 2022.

Proposed ESRS are grouped into “cross-cutting” general standards (two standards) and topical standards: environment (five standards), social (four standards) and governance (2 standards).

[Public consultation on the first set of Draft ESRS - EFRAG](#)

Accountancy Europe

Sustainability assurance under the CSRD. Key matters to respond to the upcoming CSRD requirements, Discussion paper, 10 May 2022

The discussion paper explores some commonly asked questions on sustainability assurance and provides professional accountants perspective on: 1) information subject to assurance, 2) assurance level, 3) assurance of forward-looking information, 4) high quality, 5) assurance standards, 6) preconditions for assurance engagement, 7) content of the assurance report.

[220401-Sustainability-assurance-under-the-CSR-1.pdf \(accountancyeurope.eu\)](#)

Audit Quality Indicator. A global overview of initiatives, Factsheet, 5 May 2022

This paper presents an overview of selected recent initiatives on audit quality indicators (AQIs) in Europe and beyond. These have been initiated by different types of organisations, including regulators, oversight bodies, professional bodies, and independent forums.

[220401-Factsheet-Audit-Quality-Indicators.pdf \(accountancyeurope.eu\)](#)

Financial Reporting Council (FRC)

FRC publishes ground-breaking report which finds Boardrooms must still do more to eradicate modern slavery, 25 April 2022

“The research looked at a sample of 100 major companies’ modern slavery statements and their strategic and governance reports. One in ten companies do not provide a modern slavery statement despite it being a legal requirement. Where companies did comply, only one third of these statements were considered clear and easy to read.

The majority of modern slavery statements reviewed were fragmented, lacked a clear focus and narrative, and often contained boilerplate language. Disclosures about key performance indicators (KPIs) which measure the effectiveness of steps to minimise modern slavery risks were particularly poor. Only a quarter of companies disclosed KPI results and just 12% confirmed they have made informed decisions based on those KPIs.

The review suggests that too many companies appear not to view human rights issues in their workforce and supply chain as a principal source of risk for their business, and that modern slavery considerations are still not a mainstream concern for many boardrooms.”

[News | Financial Reporting Council \(frc.org.uk\)](#)

New Audit Firm Governance Code Published, 13 April 2022

The new Code is for the Big Four audit firms and firms that audit FTSE-350 companies and significant numbers of public interest entities (PIEs).

The new Code separates the roles of the board chair and senior partner/chief executive, clarifies the role played by partnership boards in holding management to account and introduces criteria for board composition, reinforcing the position of independent non-executives within audit firms. For the largest audit firms, it sets out a clearer distinction between the role of Independent Non-Executives (INEs) and Audit Non-Executives (ANEs). The new Code also more closely aligns with the UK Corporate Governance Code, emphasising the importance of long-term sustainability, culture and employee engagement.

[News | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/news)

Institute of Chartered Accountants in England and Wales (ICAEW)

No significant developments during the period.

U.S. Securities and Exchange Commission (SEC)

SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors, 21 March 2022

The proposed rule changes would require SEC registrants to disclose certain climate-related information, including climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. There is also requirement for disclosure of greenhouse gas emissions (GHG) and attestation report on GHG – with transition period regarding scopes of GHG disclosures and moving from limited to reasonable assurance. The proposed rules and a fact sheet can be found here:

[SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors](https://www.sec.gov/SEC-Proposes-Rules-to-Enhance-and-Standardize-Climate-Related-Disclosures-for-Investors)

Public Company Accounting Oversight Board (PCAOB)

Spotlight: 2021 Conversations with Audit Committee Chairs, March 2022

Each year, the PCAOB reaches out to audit committee chairs at U.S. public companies whose audits it inspects, inviting them to connect with staff from its Division of Registration and Inspections for substantive conversations covering a range of topics related to oversight of external auditors. In 2021, the PCAOB conducted more than 240 conversations with audit committee chairs. The Spotlight presents high-level observations and takeaways from those conversations.

[Public Company Accounting Oversight Board to Form Two New Advisory Groups to Enhance Engagement With Investors and Other Stakeholders | PCAOB \(pcaobus.org\)](https://www.pcaobus.org/spotlight)

American Institute of Certified Public Accountants (AICPA)

Audit quality indicators show importance of tone at the top, by Ken Tysiac, Journal of Accountancy, 22 April 2022

“Tone at the top and appropriate deployment of personnel are among the most important indicators of a quality audit, according to a survey of CPA firms performed by the AICPA”

[Audit quality indicators show importance of tone at the top - 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 practitioners

Ethical technology in the workforce, by Deloitte, May 2022

“All organizations have the power to advance the responsible and ethical use of technology. That’s why we’re making a coordinated effort to prioritize ethical technology practices in our work and workforce. We’re also sharing our experience to help shed some light on what it can take, what often works, and what’s expected next.”

[Prioritizing Ethical Tech in the Workforce | Deloitte US](#)

Other articles

How European and global sustainability standards for corporate reporting can and will converge, by Richard Howitt, Reuters, 13 April 2022

Article exploring differences, similarities and convergence challenges of ISSB and EFRAG standard.

[How European and global sustainability standards for corporate reporting can and will converge | Reuters Events | Sustainable Business](#)

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 10.2
Meeting date: 1 June 2022
Subject: Domestic Update
Date: 18 May 2022
Prepared By: Anna Herlender

Action Required

For Information Purposes Only

Agenda Item Objectives

1. This update summarises the significant developments relevant to accounting and auditing from New Zealand organisations published since 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)
4. Other publications

The Financial Market Authority (FMA)

No updates

The Chartered Accountants Australia and New Zealand (CA ANZ)

Climate risk is back on the agenda, 12 May 2022

The annual CA ANZ Climate Survey asked members about their involvement in climate action and their views on what governments and the membership body are doing.

The majority of members work for organisations that have integrated climate action into strategy and risk frameworks.

Members are becoming more aware of how climate risk is impacting their organisation.

[Climate risk is back on the agenda | Acuity \(acuitymag.com\)](#)

The Institute of Directors (IoD)

No updates

Other publications

New Zealand Governance – Trends & Insights, Chapman Tripp, 11 May 2022

The publication tracks developments in the board composition of the NZX Main Board Top 75 and discusses hot topics for corporate governance in New Zealand.

[2022-nz-corporate-governance-trends-insights.pdf \(chapmantripp.com\)](#)