

## Board Meeting Agenda

10 August 2022  
9:15 am to 5.00 pm

Apologies: None

Est. Time	Item	Topic	Objective		Page
<b>PUBLIC SESSION</b>					
9.30 am	<b>1</b>	<b><u>Board Management</u></b>			
	1.1	Action list	Approve	Paper	3
	1.2	Chair's report	Note	Verbal	
	1.3	AUASB Update	Note	Verbal	
	1.4	Update from CE	Note	Verbal	
10.15 am	<b>2</b>	<b><u>Environmental scanning</u></b>			
	2.1	International Update	Note	Paper	4
	2.2	Domestic Update	Note	Paper	17
	2.3	UK audit and corporate governance reform update	Note	Paper	20
10.30 am	<b>3</b>	<b><u>Action plan</u></b>			<i>Misha</i>
	3.1	Board meeting summary paper	Note	Paper	30
	3.2	2022/23 Work plan	Consider	Paper	32
11.15 am	<i>Morning tea</i>				
11.30 am	<b>4</b>	<b><u>Climate Exposure draft</u></b>			<i>Amelia</i>
	4.1	Proposed GHG disclosures	Note	Paper	38
12.00 pm	<b>5</b>	<b><u>IAASB update from Lyn Provost</u></b>			
	5.1	IAASB report	Note	Paper	41
12:45 pm	<i>Lunch</i>				
1.30 pm	<b>6</b>	<b><u>GHG assurance</u></b>			<i>Peyman/Anna</i>
	6.1	Board meeting summary paper	Note	Paper	50
	6.2	Engagement issues paper	Consider	Paper	56
	6.5	Ethics issues paper	Consider	Paper	64
	6.6	Quality management issues paper	Consider	Paper	77
3.15 pm	<i>Afternoon tea</i>				
3:30 pm	<b>7</b>	<b><u>Service Performance information</u></b>			<i>Lisa</i>
	7.1	Board meeting summary paper	Note	Paper	82

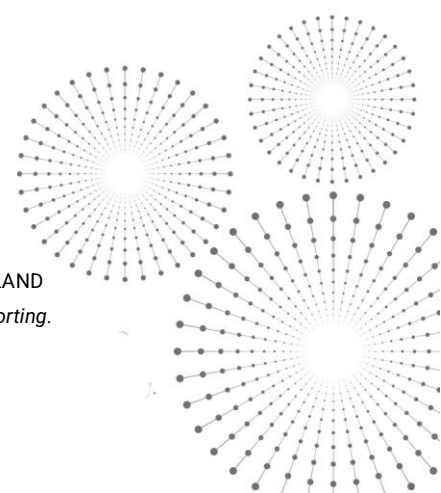
Est. Time	Item	Topic	Objective		Page
	7.2	Issues Paper	Note	Paper	84
4.00 pm	<b>8</b>	<b><u>Public disclosure of PIE independence requirements</u></b>			<i>Tracey</i>
	8.1	Board meeting summary paper	Note	Paper	86
	8.2	IAASB's Exposure draft	Consider	Paper	91
	8.3	Draft comment letter	Consider	Paper	116
4.30 pm	<b>9</b>	<b><u>Conforming amendments PES 1</u></b>			<i>Sharon</i>
	9.1	Board meeting summary paper	Note	Paper	121
	9.2	Draft amendments to PES 1	Approve	Paper	123
	9.3	Draft signing memorandum	Approve	Paper	169

**Next meeting:** 19 Oct 2022, In person (plan for Auckland based meeting)

### NZAuASB Action list

Following June 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 developed 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 - recommend remove from action list as IAASB moves to develop sustainability assurance standard
Dec 2021 Feb 2022	Develop a report on how the XRB auditing standards respond to audit quality matters	Oct 2022	Verbal update Recommend update and issue when FMA issues next audit quality report
June 2022	Consider developing guidance to support consistent reporting in light of the Reserve Bank's revised Orders in Council	August 2022	Verbal update
June 2022	Monitor developments in Australia on non-assurance services	August 2022	Verbal update
June 2022	Engage with FMA to understand and consider developing FAQ on materiality	August 2022	Verbal update



## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 2.1  
**Meeting date:** 10 August 2022  
**Subject:** International Update  
**Date:** 27 July 2022  
**Prepared By:** Anna Herlender

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Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. This Update summarises the significant developments relevant to accounting and auditing from international organisations published since the end of May 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.

### Hot topics

3. The following publications are most relevant to NZAuASB:
  - The IESBA issued [Q&A on the Non-Assurance Services Provisions of the Code](#). In New Zealand these provisions will be applicable from December 2022. The XRB has made these available on the website together with the standard on non-assurance services.
  - [Financial Reporting Council \(UK\)](#) issued several highly relevant publications including following up audit reform, audit quality results, guidance on estimates and judgements.
4. The environmental scan for June Board meeting included developments across different jurisdictions on sustainability and climate related reporting (SEC, EU, ISSB, TNFD). During the period of this environmental scan, international standards setting bodies committed to action on sustainability reporting assurance:
  - IESBA: [IESBA Commits to Readying Global Ethics and Independence Standards Timely in Support of Sustainability Reporting and Assurance](#)
  - IAASB: [Assurance on Sustainability /ESG Reporting](#)
5. There is also increasing number of publications comparing the emerging sustainability frameworks and analysis of trends what companies disclose in relation to sustainability and climate related information. One of the comparisons is included here: [A Comparative Analysis Of Three Proposals For Climate-Related Disclosures](#).

6. European Union reached provisional agreement corporate sustainability reporting directive (CSRD). CSRD introduces more detailed reporting requirements on sustainability matters, introduces a certification requirement for sustainability reporting and requires publication of sustainability information in a dedicated section of company management reports: [New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament](#)

**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)

### **Developments in local jurisdictions**

#### *Australia*

9. Auditing and Assurance Standards Board (AASB)

#### *Europe*

10. European Parliament and Council
11. Accountancy Europe

#### *United Kingdom*

12. Financial Reporting Council (FRC)
13. Institute of Chartered Accountants in England and Wales (ICAEW)
14. Institute of Chartered Accountants of Scotland (ICAS)

#### *United States*

15. Securities and Exchange Commission (SEC)
16. Public Company Accounting Oversight Board (PCAOB)
17. American Institute of Certified Public Accountants (AICPA)
18. Center for Audit Quality (CAQ)

#### *Canada*

19. Canadian Public Accountability Board (CPAB)
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

No significant developments during the period.

## Public Interest Oversight Board (PIOB)

**PIOB published 17<sup>th</sup> Public Report**, July 2022

“To learn more about who we are, what we do, and how we add value, kindly download the report”

[17th Public Report | PIOB - V2 \(ipiob.org\)](#)

**PIOB issued June Update**, June 2022

The report includes summary of the activities carried out by the PIOB since February 2022.

[PIOB Update June 2022 \(ipiob.org\)](#)

## International Auditing and Assurance Standards Board (IAASB)

**Hot topic: status of the project “Assurance on Sustainability /ESG Reporting”**

“At the IAASB June 2022 meeting, the IAASB enthusiastically supported initiating work to develop an assurance standard for sustainability reporting. This immediate action would initially focus on developing an overarching standard that would provide a complete assurance solution covering all areas of the engagement.

While recognizing the standard is in initial development, and decisions may change as work progresses, the overarching standard would:

- Standalone from ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.
- Address both limited and reasonable assurance.
- Be developed using the requirements and principles of ISAE 3000 (Revised), ISAE 3410, Assurance Engagements on Greenhouse Gas Statements, and the IAASB’s non-authoritative guidance on sustainability and other extended external reporting (EER) assurance engagements. In doing so, the requirements and guidance would be enhanced and specified for assurance on sustainability reporting.
- Focus initially on providing specificity to address certain priority challenges.
- Be suitable for assurance engagements across all sustainability topics and information about those topics. The standard would also be framework-neutral and neutral regarding the users or stakeholders of the sustainability information.

The IAASB envisages that future standard-setting action could be undertaken to further develop a suite of standards to meet emerging priorities as reporting and assurance mature, and address other challenges not included as part of the initial standard-setting effort”

[Sustainability Assurance project page.](#)

## Exposure drafts and consultation papers

**IAASB Proposes Narrow Scope Amendments to Operationalize Changes to the IESBA Code that Enhance Transparency about Independence**, 6 July 2022

IAASB released proposed narrow scope amendments to International Standard on Auditing 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* and ISA 260

(Revised), *Communication with Those Charged with Governance*. The proposed amendments will help operationalize recently approved changes to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* related to listed and public interest entities. The changes to the IESBA Code require firms to publicly disclose when the independence requirements for public interest entities have been applied in an audit of financial statements. The NZAuASB will discuss this matter at agenda item 8.

[Proposed Narrow Scope Amendments to ISA 700 \(Revised\), Forming an Opinion and Reporting on Financial Statements and ISA 260 \(Revised\), Communication with Those Charged With Governance | IFAC \(iaasb.org\)](#)

## Survey and reports

### **Key Takeaways from IAASB/S Third Conference on the Audits of Financial Statements Less Complex Entities, 24 May 2022**

“At the beginning of May 2022, the International Auditing and Assurance Standards Board held the third and final Paris conference in collaboration with the Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CNOEC) to discuss and explore how to move forward in progressing the separate standard for audits of the financial statements of Less Complex Entities (LCEs). The event produced great discussions on the feedback to the IAASB Exposure Draft, Proposed International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE), and possible options for moving forward. Over 130 people from more than 30 countries joined the conference either in person in Paris or virtually.”

[IAASB-Audits-of-LCE-Key-Takeaways.pdf \(ifac.org\)](#)

## Other publications

### **“IAASB Digital Technology Market Scan: Natural Language Processing”**

“In this Market Scan, we explore natural language processing (NLP), a technology that has applications within Accessing Information & Data (*NLP and Computer Vision for Digitizing Documents*) and within Assessing Internal Controls (*Optical Character Recognition, NLP and Machine Learning for Intelligent Document and Voice Analysis*). This technology has the potential to impact many areas of the audit—enhancing the way auditors work and providing opportunities for greater insight.”

[IAASB Digital Technology Market Scan: Natural Language Processing | IFAC](#)

### **“IAASB Public Report: Spearheading Change to Enhance Confidence in Audits and Assurance”, 18 July 2022**

“The IAASB Public Report details progress to support the public interest for the year ended December 31, 2021. It explains how the IAASB accelerated efforts in 2021 to serve the public interest in audit and assurance. In doing so, the IAASB focused on topics that have generated the greatest public interest attention, including fraud, going concern, audit evidence, and assurance on sustainability reporting.”

[IAASB-Public-Report-2021-Spearheading-Change-Enhance-Confidence.pdf \(ifac.org\)](#)

### **“IAASB offers support for ISSB proposal and comments on assurability of the two draft sustainability reporting standards”, 26 July 2022**

“The IAASB submitted this comment letter to the International Sustainability Standards Board on its exposure drafts on sustainability- and climate-related disclosures. In its response, the IAASB noted the importance of reliable, high-quality, globally consistent sustainability reporting that investors and



regulators are able to trust. The IAASB also highlighted the value of long-term cooperation between the IAASB and ISSB, as well as the International Ethics Board for Accountants, to strengthen the connectivity between sustainability reporting external sustainability assurance, and ethical standards—especially as standards become increasingly refined and enhanced. External assurance should play a crucial role in enabling organizations to demonstrate that the sustainability information reported is reliable and credible.”

[IAASB Comment Letter to the International Sustainability Standards Board | IFAC](#)

### **Status of IAASB projects:**

[IAASB projects \(iaasb.org\)](#)

## International Ethics Standards Board for Accountants (IESBA)

### **Guidance & Support Tools**

#### **Hot topic: IESBA Staff Releases Q&As to Spotlight Key Changes to the Non-Assurance Services Provisions of the IESBA Code, 11 July 2022**

(IESBA) released a questions and answers (Q&As) publication to explain key revisions to the non-assurance services (NAS) provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

The publication complements the Basis for Conclusions for the final NAS pronouncement and is intended to assist national standards setters, professional accountancy organizations, and professional accountants in public practice as they adopt and/or implement the revised NAS provisions. The Q&As will also assist other stakeholders, including regulators and audit oversight bodies, those charged with governance, investors, preparers, and academics and other educators better understand the key changes to the NAS provisions of the Code. These changes include the new requirements and guidance that:

- Prohibit a firm or a network firm from providing a NAS that might create a self-review threat to an audit client that is a public interest entity.
- Explain how firms are to determine when a self-review threat to independence might be created, including in relation to providing advice and recommendations to an audit client.
- Are relevant in applying the Code’s conceptual framework to identify, evaluate, and address threats to independence that might be created when an audit firm provides a NAS to an audit client.
- Enable and promote more robust communication and engagement about independence matters relating to NAS between audit firms and those charged with governance of public interest entities.

[IESBA Staff Q&A: Revised Non-Assurance Services Provisions of the Code | IFAC \(ethicsboard.org\)](#)

### **Other Publications**

#### **IESBA Comments on the ISSB’s Sustainability and Climate-Related Disclosures Exposure Draft**

“IESBA has submitted a response to the International Sustainability Standards Board (ISSB) on the ISSB’s Exposure Drafts – General Sustainability-Related Disclosures and Climate-Related Disclosures.

The IESBA believes that to meet the sustainability information needs of investors, customers, employees or potential employees, government agencies and other stakeholders, the infrastructure that supports sustainability reporting and assurance must be underpinned by the highest standards of ethical behavior. Fit-for-purpose, globally applicable standards, such as those set out in the IESBA

Code and future, sustainability-related standards that the IESBA has already committed to developing, alongside a robust system of quality management, oversight and enforcement, are essential for consistent, relevant and trustworthy sustainability reporting.”

[Letter from IESBA Chair to the International Sustainability Standards Board \(ISSB\) | IFAC \(ethicsboard.org\)](#)

**Hot topic: IESBA Commits to Readying Global Ethics and Independence Standards Timely in Support of Sustainability Reporting and Assurance, 13 June 2022**

“The IESBA released a statement saying it has tasked its recently established Sustainability Working Group to develop a strategic vision to guide its standard-setting actions in relation to sustainability reporting and assurance. The Working Group will prepare a project plan by December 2022 as a launchpad for commencement of standard-setting work soon after. This work will proceed in tandem with the development of IFRS Sustainability Disclosure Standards by the International Sustainability Standards Board (ISSB), and sustainability-related International Standards on Assurance Engagements (ISAEs) by the IAASB.”

[IESBA Commits to Readying Global Ethics and Independence Standards Timely in Support of Sustainability Reporting and Assurance | IFAC \(ethicsboard.org\)](#)

**Status of IESBA projects:**

[IESBA projects \(ethicsboard.org\)](#)

**International Forum of Independent Audit Regulators (IFIAR)**

No significant developments during the period.

**International Organisation of Securities Commissions (IOSCO)**

No significant developments during the period.

**International Federation of Accountants (IFAC)**

**Publications**

**Executing the Board’s Governance Responsibility for Integrated Reporting, 25 May 2022**

This publication is “the second installment in IFAC’s integrated reporting assurance series, developed together with the Institute of Internal Auditors, with input from the Value Reporting Foundation. It highlights how boards execute their governance responsibility for integrated reporting and integrated reports.”

[Executing the Board’s Governance Responsibility for Integrated Reporting | IFAC](#)

**Stepping-Stones for Connectivity in Financial and Non-Financial Corporate Reporting, Mervyn King, 11 July 2022**

Article exploring emergence of integrated reporting.

[Stepping-Stones for Connectivity in Financial and Non-Financial Corporate Reporting | IFAC](#)

**IFAC calls on global business leadership to drive trust and sustainable value creation by championing an “integrated mindset”, 14 July 2022**

The statement calls on businesses to integrate financial and sustainability information with an integrated mindset to make better-informed decisions that deliver long-term value creation—financial returns to investors while taking account of value to customers, employees, suppliers, and societal interests.

[Championing an Integrated Mindset: Driving Sustainability and Value Creation | IFAC](#)

## Association of Chartered Certified Accountants (ACCA)

No significant developments during the period.

## Auditing and Assurance Standards Board in Australia (AUASB)

Highlights from 7 June 2022 meeting are published: [AUASB Board Meeting Highlights](#)

### Publications

#### **A Literature Review on the Reporting and Assurance of Climate Related and Other Non-Financial Information, 27 May 2022**

“The AUASB have issued a Research Report authored by AUASB Scholar Dr. Shan Zhou, summarising and discussing key studies on the current practice of climate-related and other non-financial information disclosures, and whether this information is subject to assurance, and by whom. This report presents the findings from studies that examine the extent of, and quality of such disclosures, both internationally and in Australia, as well as the impact of reporting on market value. This provides an important ‘snapshot’ of the current practice in reporting and assurance, and points to the need for consideration of regulation to drive consistency.”

[AUASB Research Report 07 \(05-22\)](#)

#### **AUASB Bulletin Auditor’s considerations in times of changing and uncertain economic conditions, 28 June 2022**

“Preparers and auditors of financial reports are facing a challenging 30 June 2022 reporting period arising from the impact of topical and emerging risks, and the changing and uncertain economic conditions. This AUASB Bulletin complements ASIC’s Areas of Focus for 30 June 2022 and highlights how relevant Auditing Standards and existing guidance supports auditors to perform a high-quality audit in the current economic and external environment.”

[AUASB Bulletin](#)

#### **Feedback Statement: Post Implementation Review – ASAE 3100 Compliance Engagements, 30 June 2022**

“The AUASB conducted a post implementation review (PIR) on ASAE 3100 Compliance Engagements (ASAE 3100) in accordance with the AUASB Due Process Framework to gather information about the use and application of the standard since it was issued in February 2017. The PIR noted overall support for the application and use of ASAE 3100 in its current form, and the AUASB agreed at its June 2022 meeting that no changes to ASAE 3100 are required at this time. This Feedback Statement addresses the key findings from the PIR and recommendation to the AUASB in greater detail.”

[Project Advisory Group Project Plan \(auasb.gov.au\)](#)

## European Union (EU)

### **Hot topic: New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament, 21 June 2022**

“The Council and European Parliament today reached a provisional political agreement on the corporate sustainability reporting directive (CSRD)”

CRSD introduces more detailed reporting requirements on sustainability issues, introduces a certification requirement for sustainability reporting and requires publication of sustainability information in a dedicated section of company management reports.

“The European Financial Reporting Advisory Group (EFRAG) will be responsible for establishing European standards, following technical advice from a number of European agencies.”

[New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament - Consilium \(europa.eu\)](#)

## Accountancy Europe

Accountancy Europe issued several publications comparing across Europe countries:

Public Audit Oversight, 29 June 2022: [Public audit oversight - Accountancy Europe](#)

Public interest entity, 21 June 2022: [Defining a public interest entity - Accountancy Europe](#)

Non-audit services, 30 May 2022: [Non-audit services - Accountancy Europe](#)

Mandatory rotation of auditors, 30 May 2022, [Mandatory rotation of auditors - Accountancy Europe](#)

## Financial Reporting Council (FRC)

### **FRC publishes inspection key findings and good practices, 27 May 2022**

FRC published two documents: anonymised key findings and good practices reported by its Audit Quality Review (AQR) team in relation to their 2020/21 audit quality inspections at the seven largest audit firms. This supports FRC objective of being an improvement regulator. The purpose of these documents is to share with auditors, audit committees, investors and other users of audited financial statements the nature of the key findings and good practices reported on the individual audits inspected.

[FRC: Anonymised key findings](#)

[FRC: Good practices](#)

### **FRC welcomes Government plans to bring forward audit and corporate governance reforms, 31 May 2022**

“The Government’s response to its consultation ‘Restoring trust in audit and corporate governance’ sets out the next steps to reform the UK’s audit and corporate governance framework. Long awaited reforms are a once in a generation opportunity to ensure corporate Britain upholds the highest standards of governance and protects those stakeholders who rely on high-quality reporting. Legislation is required to ensure the new regulator - the Audit, Reporting and Governance Authority (ARGA) - has the powers it needs to hold to account those responsible for delivering improved standards of reporting and governance.”

[Government response to consultation on strengthening the UK’s audit, corporate reporting and corporate governance systems \(publishing.service.gov.uk\)](#)

**FRC seeks stakeholders' views on publicly available audit quality indicators to drive audit quality, 22 June 2022**

"FRC issued a consultation on publishing audit quality indicators (AQIs) for the largest UK audit firms. The 11 proposed AQIs would provide stakeholders with a range of comparable indicators on perceived culture within an audit firm, audit quality inspection results, staff workloads, and the level of partners' involvement in individual audits. Currently there is limited available information that compares audit quality between the firms so setting out AQIs to enable discussions between Audit Committee Chairs (ACCs) and audit firms on the drivers of audit quality will help ACCs to make more informed comparisons between firms when appointing external auditors. This increased emphasis on quality by users will further increase audit firms' focus on driving further improvements in the key area of audit quality."

[FRC Consultation Document: Firm-level Audit Quality Indicators](#)

**FRC publishes first of its kind professional judgement guidance for auditors, 23 June 2022**

FRC published professional judgement guidance for auditors to improve how they exercise professional judgement.

[News | Financial Reporting Council \(frc.org.uk\)](#)

**FRC sets out next steps in transition to new regulator, 12 July 2022**

"The paper follows the Government Response to the consultation on strengthening the UK's Corporate Governance, Corporate Reporting and Audit systems, including the creation of the Audit, Reporting and Governance Authority (ARGA), to replace the FRC.

The document published today builds on the areas of the Government Response that fall within the FRC's remit, providing advanced clarity for stakeholders on how the work of reform will be delivered ahead of government legislation.

That work includes revising existing codes, strengthening auditing and accounting standards, setting expectations to drive behavioural change ahead of statutory powers, and the development of guidance to address issues set out in the Government Response."

[FRC Position Paper July 2022](#)

**FRC publishes latest audit quality review results, 20 July 2022**

The report on annual inspection and supervision results of the largest audit firms (BDO, Deloitte, EY, Grant Thornton, KPMG, Mazars and PwC) concludes that overall, 75% of audits inspected were good or required limited improvement (compared to 71% in 2021 and 67% in 2020).

"It is clear that a combination of the FRC's increasingly assertive supervision approach, as well as investment from the firms in their systems, people and capabilities to improve audit quality, is starting to have a positive impact".

[FRC Audit Quality Inspection and Supervision Public Report 2022 - Tier 1 Firms Overview July 2022](#)

There are also individual report for each of the inspected firm available:

[Auditors | Audit Quality Review | Audit Firm Specific Reports | Financial Reporting Council \(frc.org.uk\)](#)

**FRC publishes review of judgements and estimates, 26 July 2022**

The FRC's thematic review has identified some improvement in the overall quality of judgement and estimate disclosures since the 2017 report.

The FRC has, however, identified the following as areas where there is room for further improvement:

- Companies should explicitly state whether estimates have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- Sensitivity disclosures should be provided more frequently and in the way that is most meaningful to readers.
- Companies should assess whether disclosure of climate-related significant judgements or assumptions and sources of estimation uncertainty are required by paragraphs 122 or 125 of IAS 1 and consider whether information about assumptions with a longer-term effect is required.
- Where additional estimate disclosures are provided, such as those carrying lower risk, having smaller impact or crystallising over a longer timeframe, they should be clearly distinguished from those with a short-term effect.

To encourage improvement in the general quality of company disclosures, the review includes examples of good practice, including: quantified assumptions and amounts at risk of material adjustment; detailed explanations of management’s judgements and the nature of the uncertainties relating to significant estimates; and discussion of the effects of climate change on estimates.”

[FRC Judgements & Estimates Thematic Review July 2022](#)

## Institute of Chartered Accountants in England and Wales (ICAEW)

No significant developments during the period.

## Institute of Chartered Accountants of Scotland (ICAS)

**Sustainability assurance: factors to consider**, May 2022

The paper presents sustainability assurance current challenges.

[Sustainability Assurance Paper April.pdf \(icas.com\)](#)

## U.S. Securities and Exchange Commission (SEC)

**The Critical Importance of the General Standard of Auditor Independence and an Ethical Culture for the Accounting Profession**, Statement issued by Paul Munter, Acting Chief Accountant, 8 June 2022

The statement outlines SEC independence framework and names certain recurring issues on independence: regarding the prohibitions listed in SEC Regulations as a checklist and ignoring the general framework, providing non-audit services to affiliates of audit clients, increasing complex business arrangements including an attempt to facilitate these arrangements through restructuring and the use of alternative practice solutions.

[SEC.gov | The Critical Importance of the General Standard of Auditor Independence and an Ethical Culture for the Accounting Profession\[1\]](#)

## Public Company Accounting Oversight Board (PCAOB)

**PCAOB Adopts New Requirements for Lead Auditor’s Use of Other Auditors**, 21 June 2022

The amendments to PCAOB auditing standards strengthen the requirements that apply to audits involving multiple audit firms, by:

- Specifying certain procedures for the lead auditor to perform when planning and supervising an audit that involves other auditors; and
- Applying a risk-based supervisory approach to the lead auditor’s oversight of other auditors for whose work the lead auditor assumes responsibility.

[PCAOB Adopts New Requirements for Lead Auditor’s Use of Other Auditors | PCAOB \(pcaobus.org\)](#)

## American Institute of Certified Public Accountants (AICPA)

No significant developments relating to audit and assurance.

## Center for Audit Quality (CAQ)

### **Audit Partner Pulse Survey, 6 July 2022**

The survey aimed at gathering US public company audit partner observations on a range of topics. CEO of CAQ: “Due to the nature of our work, which necessarily includes risk assessment as part of every audit, auditors obtain unique insights across a broad spectrum of industries. The analysis in this survey provides valuable, independent observations on the state of the economy, economic indicators on the horizon, cybersecurity preparedness, corporate disclosure trends and more”.

[Audit Partner Pulse Survey, Q2 2022 | The Center for Audit Quality \(thecaq.org\)](#)

## Canadian Public Accountability Board (CPAB)

### **Fraud thematic review, 1 June 2022**

CPAB performed fraud thematic reviews in 2019 and 2021 to evaluate the quality of fraud-related procedures in audits of financial statements of public companies.

This report summarizes key takeaways for auditors, provides a results of the 2021 fraud thematic review and includes two case studies, each adapted from examples observed in the inspections of audits, where auditors did not exercise an appropriate level of professional skepticism.

[2021-fraud-thematic-review-en.pdf \(cpab-ccrc.ca\)](#)

## Canadian Auditing and Assurance Standards Board (AASB)

No significant developments relating to audit and assurance.

## Chartered Professional Accountants Canada (CPA Canada)

### **The rise of the social pillar: The ‘S’ in ESG, 7 June 2022**

This report examines why these social factors are increasingly important and how CPAs can lead in this space. The report includes: challenges, opportunities, and the role of the CPA; a case for finance: social and human capital accounting and current disclosure landscape.

[The rise of the social pillar: The ‘S’ in ESG \(cpacanada.ca\)](#)

### **How CPAs can lead ESG initiatives**

The article includes links to several other materials and to help “understand the vital role CPAs can play to help organizations address emerging environmental, social, and governance (ESG) related risks, challenges, and opportunities.”

[How CPAs can lead ESG initiatives \(cpacanada.ca\)](#)

## Insights from practitioners

### **The turning point**, by Deloitte, May 2022

The report finds that “unchecked climate change could cost the global economy US\$178 trillion over the next 50 years, unless global leaders unite in a systemic net-zero transition [...] By contrast, the global economy could gain US\$43 trillion over the next five decades by rapidly accelerating the transition to net-zero”. This publication has also link to individual geography reports.

[The turning point A Global Summary \(deloitte.com\)](#)

### **Banks’ climate-related disclosures. Benchmarking bank’s reporting in 2021**, by KPMG, April and June 2022

“We performed benchmarking of the climate-related disclosures included in the 2021 annual reports and other standalone reports of 35 major, global banks in two phases. We also benchmarked how banks’ disclosures align with the recommended disclosures of the Task Force on Climate-related Disclosures. The banks we have selected span the UK and Europe, Australia, Canada, Asia and the US.”

[Banks’ climate-related disclosures \(Phase 1\) \(assets.kpmg\)](#)

[Banks’ climate-related disclosures \(Phase 2\) \(assets.kpmg\)](#)

## Other articles

### **Audit and Consulting Firms at Odds Over Who Should Verify Climate Data**, by Mark Maurer, The Wall Street Journal, 5 July 2022

[Audit and Consulting Firms at Odds Over Who Should Verify Climate Data - WSJ](#)

### **Hot topic: A Comparative Analysis Of Three Proposals For Climate-Related Disclosures**, by Robert G.Eccles, Forbes, 11 June 2022

A short comparison of SEC, EU and ISSB proposed sustainability and climate related disclosures.

[A Comparative Analysis Of Three Proposals For Climate-Related Disclosures \(forbes.com\)](#)

Link to the full report referred in this article: [comparing-the-sec-efra-and-issb.pdf \(sustainability.com\)](#)

### **FSB Roadmap for Addressing Financial Risks from Climate Change: 2022 progress report**, Financial Stability Board, 14 July 2022

“The increased frequency and intensity of extreme weather and climate-related events, and the intense debate about current and future energy policies in many jurisdictions, highlights that financial risks related to climate change, including transition risks, are not just a long-term issue or tail event.

Effective action continues to rest on strong international coordination. The G20 has asked the FSB to deliver in July 2022 the first of its annual progress reports on the Roadmap. The report summaries the encouraging progress across all four blocks of the Roadmap:

- Firm-level disclosures
- Data
- Vulnerabilities analysis
- Regulatory and supervisory practices and tools

This progress report has been prepared in consultation with standard-setting bodies and other relevant international bodies. The report also serves as input into broader international policy considerations, such as at the G20, G7 and UN, as well as to the work under the G20 Sustainable Finance Working Group (SFWG) roadmap on sustainable finance”

[FSB Roadmap for Addressing Financial Risks from Climate Change : 2022 progress report](#)



**NZAuASB Board Meeting Summary Paper**

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**AGENDA ITEM NO.** 2.2  
**Meeting date:** 10 August 2022  
**Subject:** Domestic Update  
**Date:** 27 July 2022  
**Prepared By:** Anna Herlender

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**Action Required**

**For Information Purposes Only**

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**Agenda Item Objectives**

1. This update summarises the significant developments relevant to accounting and auditing from New Zealand organisations published since May 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)

#### **FMA issued Auditor Regulation and Oversight Plan 2022-2025**, 20 June 2022

FMA has an obligation to publish an auditor regulation and oversight plan by 30 June each year, for a three-year period, setting out the intentions for the regulation and oversight of auditors under the Auditor Regulation Act 2022. The document outlines five focus areas: improve audit quality, ensure auditing and accounting standards are being upheld, thematic reviews, monitor accredited bodies, engage with stakeholder and oversea regulators.

The document includes also note on climate-related risks in an audit of financial statements. FMA expects that the monitoring of audit files will include consideration of climate risks where they impact financial statements.

[Auditor-Regulation-and-Oversight-Plan-2022-2025.pdf \(fma.govt.nz\)](#)

#### **FMA issued “Approach to oversight of financial statements”**, 8 July 2022

The guidance describes areas of interests in 2022-2025 reporting cycle including: significant accounting judgements and sources of estimation uncertainty, related party disclosures, Non-GAAP financial information, climate related matters, accounting records.

Regarding the climate related matters FMA financial reporting review will focus on:

- “• entities’ assessment of climate change and its effect on their financial statements; and, where relevant, entities’ consideration of climate-related matters when applying accounting standards including level of disclosures; and
- • consistency between the information presented outside of the financial statements relating to climate change and the financial statements.”

[Approach\\_to\\_oversight\\_of\\_financial\\_statements.pdf \(fma.govt.nz\)](#)

### The Chartered Accountants Australia and New Zealand (CA ANZ)

#### **Climate-related risks are having an impact**, 30 June 2022

This report outlines the results of a high-level review of annual reports issued in 2021 of listed entities in Australia, New Zealand and globally. It aims to understand how climate-related risks are impacting statutory financial statements and key audit matters (KAM) in auditors’ reports in different entities across different sectors.

The research was performed by CA ANZ, the University of Melbourne and the University of Queensland. Climate-related risks are impacting statutory financial statements, mainly in the areas of impairment of non-current assets, financial risks and to a lesser extent environmental restoration provisions. The energy, materials and financials sectors have seen the biggest impact to financial

statements from climate-related risks. Very few KAM in auditors' reports were in relation to climate-related risks.

[The impact of climate-related risks on statutory financial statements and auditors reports.pdf](#)

### **Insights into key audit matters, 29 June 2022**

“A new joint report released by CA ANZ, the University of Melbourne and the University of Queensland outlines the frequency and nature of the reporting of key audit matters (KAMs) in auditors' reports of all ASX listed entities that issued financial statements in 2021 (i.e., those with reporting periods ending from 31 December 2020 to 30 September 2021).

Some of the key findings are as follows:

- Auditors report an average of 1.84 key audit matters per audit report. The number of KAMs in an audit report range from a low of 0 through to a maximum of 6.
- Most audit reports have one or two KAMs and very few report zero or more than four.
- There were 54 distinct KAM subject matter areas identified, which suggests a broad range of topics are significant to the audit of a financial report.
- The most frequent KAM subject matter was impairment, representing 18% of all KAMs. The next most frequent areas in order were: exploration assets (18%); revenue (12%); business combinations (8%); share-based payments (7%); inventory (4%); intangibles (3%) and provisions (3%).
- Topics such as information technology, (which usually involved the implementation of a new IT system), fraud risk (due to risk of fraud in recognition of revenue), related party transactions and funding & liquidity appear less frequently”

[CAMSMT597 Key Audit Matters KAMs Insights 2021ReportFA.pdf](#)

## **The Institute of Directors (IoD)**

No relevant updates

## **Other publications**

### **How is the impact of climate change reflected in the financial statements of the NZX50?**

PwC, July 2022

PwC reviewed the annual reports of 31 March 2022 NZX50 reporters and examined climate related disclosures in the financial statements and impact of these disclosures on key audit matters section of audit reports.

[auditing-and-accounting-in-the-face-of-climate-change-july2022.pdf \(pwc.co.nz\)](#)

**DATE:** 25 July 2022  
**TO:** Members of the New Zealand Auditing and Assurance Standards Board  
**FROM:** Sharon Walker  
**SUBJECT:** **Trust and confidence in audit and corporate governance – UK Government response**

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### **Purpose and recommendation**

1. The Board is asked to NOTE the UK Government response to the BEIS consultation on strengthening the UK's audit, corporate reporting and corporate governance systems.

### **Background**

2. A series of large corporate failures in the UK causing serious economic and social damage called into question aspects of the corporate reporting and governance system. The UK Government commissioned three independent reviews:
  - Sir John Kingman's [Independent Review of the Financial Reporting Council](#) (published April 2018).
  - The Competition and Market Authority [Statutory Audit Services Market Study](#) (published April 2019).
  - Sir Donald Brydon's [Independent Review of the Quality and Effectiveness of Audit](#) (published December 2019).
3. Drawing on the work of the independent reviews, in March 2021, the UK Department for Business, Energy and Industrial Strategy (BEIS) issued its consultation paper [Restoring trust in audit and corporate governance \(publishing.service.gov.uk\)](#) (the BEIS consultation paper). The BEIS consultation paper made proposals to:
  - Create a more effective and better-constituted regulator, the Audit, Reporting and Governance Authority
  - Improve reporting and directors' accountability at the largest companies, public and private;
  - Improve competitions and choice in the audits of the largest publicly traded companies; and
  - Make audit a more effective tool for giving stakeholders reliable and relevant information about companies.
4. In May 2022, the UK Government published [Restoring trust in audit and corporate governance](#), (the Response) which sets out the Government's plan for action in light of over 600 submissions received. The Response outlines the actions the Government intends to take, including what it intends to ask of the regulator and other stakeholders. The Response does not set out a precise timetable, rather, the timescale for implementation is expected to stretch over several years.
5. A high-level overview of the proposals and the government response is presented below.

## **Definition of PIE**

6. The BEIS consultation paper set out proposals to widen the definition of Public Interest Entities (PIEs) to ensure that large businesses which are of public importance are subject to appropriate regulation. The current definition of a PIE covers predominantly publicly listed companies.
7. The Government intends to extend the PIE definition to large companies with both 750 or more employees and an annual turnover of £750 million or more (750:750 threshold). The Government consider that the 750:750 threshold captures the entities of most public interest, whilst also being a proportionate response. Companies traded on multilateral trading facilities such as AIM are included in the PIE definition only where they meet the same size threshold as for large private companies.
8. The Government does not intend to apply requirements to have an audit committee, to re-tender the audit every 10 years and to rotate auditor every 20 years to entities that are PIEs because of the new size-based threshold.
9. The UK is no longer legally required to follow the EU's PIE definition. This provides an opportunity to review the PIE framework to remove any undue burdens, for example, there is scope for removing duplication between some of the regulatory regimes and the additional requirements applied to PIEs, particularly smaller PIEs under the current definition. The Government will review the existing regulatory frameworks for PIEs to identify further deregulation opportunities.

## **Internal controls, dividends and capital maintenance**

10. In relation to internal controls, the BEIS consultation document sought views on three options, which are not intended to be mutually exclusive:
  - Option A: requiring an explicit statement from the directors about whether they consider internal controls to be effective and the basis for that assessment;
  - Option B: requiring the external auditors to say more about the work they already undertake to understand the company's internal control systems and how that work has influenced the approach taken to the audit – but without requiring a formal attestation of their effectiveness; and
  - Option C: requiring the auditors to provide a formal assurance of the directors' statement about control effectiveness.

### *Internal controls*

11. A tentative preferred option in the UK would require a directors' statement about the effectiveness of the internal controls, but (unlike the US's approach to internal controls which mandates external auditor attestation in most cases) leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders.
12. The Government intends to take a Code-based, i.e., through the UK Corporate Governance Code, rather than a legislative based approach as the most practical and proportionate way of strengthening boardroom focus on internal control matters. The Government intends to invite the FRC to consult on strengthening the internal control provisions in the UK Corporate Governance Code to provide for an explicit statement from the board about the effectiveness of internal control, and the basis for that assessment.
13. PIEs above the 750:750 threshold will be required to state in their audit and assurance policy whether or not they plan to seek assurance on the directors' assertion.

14. In addition, the FRC will be asked to explore with investors and other stakeholders whether and how the content of the auditors' report could be improved to provide more information about the work auditors have undertaken on the internal controls over financial reporting. A post-implementation review will be undertaken.

*Dividends and capital maintenance*

15. There are also proposals to require additional disclosure in relation to dividends and capital maintenance and proposals to give ARGAs new powers in relation to how companies should calculate their distributable reserves.
16. The Government intends to give ARGAs formal responsibility for issuing guidance on what should be treated as realised profits and losses. This guidance currently rests with the profession. ARGAs will be responsible for enhancing the status of the guidance which would help avoid any perception that the accountancy profession is setting its own rules.
17. The Government also intends to require:
- companies to disclose their distributable reserves, or a figure "not less than".
  - companies to provide a narrative explaining the board's long-term approach to the amount and timing of returns to shareholders and how the distribution policy has been applied in the reporting year.
  - directors to make an explicit statement regarding the legality of proposed dividends and any dividends paid in the year.
18. The Government decided not to proceed with the proposal for a directors' assurance that a dividend would not be expected to jeopardise the future solvency of the company over a period of two years.

**New corporate reporting**

19. In relation to resilience reporting, the BEIS consultation papers sought views on proposed new reporting requirements for directors of PIEs including:
- a. An annual Resilience Statement, setting out how directors are assessing the company's prospects and addressing challenges to its business model over the short, medium and long-term, including risks posed by climate change. This builds on existing going concern and viability statements; and
  - b. A requirement for PIEs to publish an annual Audit and Assurance Policy (AAP), describing directors' approach (over a rolling three year forward look) to seeking internal and external assurance of the information they report to shareholders, including any external assurance planned beyond the scope of the annual statutory audit.

*Resilience Statement*

20. The Government intends to legislate for companies to report on matters that they consider a material challenge to resilience of the short and medium term, together with an explanation of how they have arrived at the judgement of materiality. Companies will be required to have regard to certain matters. Supporting guidance will be developed by the regulator. The Resilience Statement will apply to PIEs that meet the 750:750 threshold.
21. Companies will be able to choose and explain the length of the assessment period for the medium-term section of the Resilience Statement. This replaces the proposed mandatory five-year assessment period.

22. Companies within scope of the Resilience Statement will be required to perform at least one reverse stress test, rather than a minimum of two.
23. The existing viability statement provision in the UK Corporate Governance Code will be incorporated and adapted within the statutory requirements of the Resilience Statement.

#### *Audit and Assurance Policy*

24. The AAP will apply to companies which are PIEs in line with the 750:750 threshold and should be published every three years. Required content of the AAP:
  - Companies must state within the AAP how they have taken account of shareholder views in its development. This is in lieu of a mandator advisory shareholder vote.
  - Whether, and if so how, a company intends to seek independent external assurance over any part of the Resilience Statement or over reporting on its internal control framework.
  - Describe the internal auditing and assurance process
  - Describe the company's policy in relation to tendering for external audit services
  - State whether any independent assurance proposed within it will be 'limited' or 'reasonable' assurance, as defined in the FRC's Glossary of Terms, or whether an alternative form of engagement or review, as agreed between the company and the external provider, will be undertaken.
  - State whether any independent assurance beyond the statutory audit will be carried out according to a recognised professional standard, such as the International Standard on Assurance Engagements (ISAE) (UK) 3000 (covering assurance other than audits of historical financial information)

#### **Supervision of corporate reporting**

25. The BEIS consultation paper included several proposals to strengthen the regulators corporate reporting review powers including:
  - a. ARGA to have powers to direct changes to company reports and accounts, rather than having to seek a court order which is the position now.
  - b. Increased transparency for the existing Corporate Reporting Review process, by enabling ARGAs to publish summary findings following a review and, if necessary, full correspondence.
  - c. An extension of the Corporate Reporting Review process to the whole of the annual report and accounts. This will ensure that ARGAs can review areas that are not currently within the scope of its powers such as corporate governance statements and directors' remuneration and audit committee reports as well as voluntary elements such as the CEO and chairman's reports.
26. The Government intends to proceed with the proposals set out in the BEIS consultation paper, other than in respect of offering pre-clearance service for novel or contentious matters connected with the interpretation of accounting standards.

#### **Company directors**

27. The BEIS Consultation paper recognised that directors are ultimately responsible for the company's reports and have duties in relation to the audit of those reports. However, the regulator currently has no direct powers to act if those duties are

breached. To address this concern, the BEIS consultation paper sought views on proposals to:

- a. Give the audit regulator investigation and enforcement powers in relation to wrongdoing by directors of Public Interest Entities.
  - b. Strengthen malus (to withhold pending awards) and clawback (recover remuneration already paid) provisions within executive directors' remuneration arrangements.
28. The investigation and enforcement powers would apply to breaches of statutory duties relating to corporate reporting and audit of Public Interest Entities. They include the power for the regulator to impose more detailed requirements for how directors should meet these duties. Subject to consultation responses, the Government proposes to invite the FRC to implement these stronger arrangements through changes to the UK Corporate Governance Code.
  29. The Government intends to give ARGA the necessary powers to investigate and sanction breaches of corporate reporting and audit related responsibilities by PIE directors. The scope of the regulator's enforcement will apply to PIEs that are not companies.
  30. An effective enforcement regime should promote compliance with the law and with what stakeholders can reasonably expect of PIE directors. The aim of the new civil enforcement regime is to improve standards of corporate reporting and engagement with audit.
  31. The Government will invite the FRC to consult on how the existing malus and clawback provisions in the Code can be developed to deliver greater transparency and to encourage consideration and adoption of a broader range of conditions in which executive remuneration could be withheld or recovered.

### **Audit purpose and scope**

32. The BEIS consultation paper sought views on proposals for:
  - a. A new corporate auditing profession to operate independently of the professional accountancy bodies;
  - b. New overarching principles for auditors, to reinforce good audit practice;
  - c. A new duty on auditors to take a wider range of financial and non-financial information and information on director conduct into account in reaching audit judgements; and
  - d. New obligations on both auditors and directors relating to the detection and prevention of material fraud.
33. The BEIS consultation paper proposed that the scope of assurance should be market led, with directors to decide what other information should be audited, considering shareholders views.
34. The Government view is that there needs to be a shift in auditor mindset and behaviour. More needs to be done to ensure auditors are considering wider information in reaching their overall judgements more consistently and more effectively. The impact on auditor mindset and behaviour is to be made through changes to standards, additional guidance and enforcement by the new stronger regulator, rather than through additional legislation.



35. The regulator should seek to deliver change through ongoing improvements to auditing standards and guidance, to help ensure auditors are fully and consistently considering wider information in reaching their audit judgements.
36. The regulator should consider the Brydon Review's recommendations to provide users of audit with more meaningful and useful information, whilst also ensuring that reports are clear, concise and accessible. Consultation, as appropriate to any proposed changes in standards, would be undertaken.
37. In relation to fraud, the BEIS consultation paper proposed a set of new reporting obligations for both directors of PIEs and their auditors:
  - Directors to report on their actions to detect and prevent material fraud
  - Auditors to report on their work to conclude that the directors' report of their action to detect and prevent fraud is factually accurate; and
  - Auditors to report on their steps to detect material fraud and assess the effectiveness of relevant controls.
38. The Government intends to proceed with the proposal that directors report on the steps they have taken to prevent and detect material fraud. This requirement will apply to PIEs that meet the 750:750 threshold.
39. The Government has concluded that auditors' existing requirements to identify and report material inconsistencies in directors' reporting will be sufficient in reporting on directors' fraud statements.
40. Recent revisions to auditing standards in the UK clarify the auditor's responsibilities and require that the auditor provide context-specific explanations of the extent to which their audit was considered capable of detecting irregularities, including fraud. No further action will be taken at this stage.
41. Further consideration will be given to enhancing auditor education and continuing professional development, and how an accessible case study register could be taken forward.

### **Widening the scope of audit**

42. The BEIS consultation also made proposals around the future scope of audit and giving a legal and regulatory framework for 'corporate reporting':
  - Regulatory oversight of a new corporate reporting framework;
  - Giving the regulator a new power to set enforceable principles for corporate auditing; and
  - Establishing a new distinct professional body focused solely on audit.
43. The Government will leave the market – companies, directors, investors – to shape the development of an enhanced wider assurance market, stimulated by the requirement to publish the AAP.
44. The Government does not consider that there is a sufficiently strong case for establishing a separate professional body for audit at this stage. However, there is an expectation that the existing professional bodies will make substantial improvements to auditor qualification, training and skills in order to deliver higher levels of scepticism and insights recommended by the Brydon Review, and to further the development of audit as a profession distinct from accountancy.
45. The regulator is expected to work with the professional bodies to establish a suitable timetable for change.

*Other considerations*

46. The BEIS paper also explored:

- Removing **“true and fair”** and referring to “present fairly, in all material respects” in the audit report. The Government proposed to retain “true and fair”.
- **Expanding the scope of audit to cover APMs and KPIs** linked to executive remuneration. The AAP process would empower investors to ask companies to seek assurance on other measures, should they wish to do so. The paper therefore does not recommend any change.
- **Auditor liability** –whether to clarify in law that directors who enter into “liability limitation agreements” with their auditors do not breach their general duties.

47. The Government:

- Will retain ‘true and fair’ as the standard for company financial reporting. There is a general view that this is meant to be functionally identical to the alternative “present fairly, in all material respects”, so any change would be of limited value in practice.
- Will leave directors and investors to decide whether specific assurance on APMs and KPIs is necessary through the AAP. The regulator is invited to consider whether further guidance is required, as part of any wider AAP guidance, for the reporting and assurance of APMs and KPIs.
- Will not make legislative change in regard to auditor liability at this time.

**Audit Committee Oversight and Engagement with Shareholders**

48. The BEIS consultation sought views on:

- Giving ARGA new powers to set minimum, requirements for audit committees in the appointment and oversight of auditors, alongside powers to monitor and enforce those standards. The regulator will continue to issue guidance, including examples of good practice. ARGA will monitor compliance with the new audit committee requirements through a power to require information or reports from audit committees or place an observer on audit committees. The ARGA would also be able to take action against company directors and/or the audit committee for breaching requirements. It was proposed that initially that these requirements would apply to audit committees of FTSE 350 companies
- Giving the regulator an independent ability to appoint an auditor in specific limited circumstances where more serious problems exist with a company’s audits, including when a PIE is unable to find an auditor or where persistent audit quality issues are identified. The government is not persuaded to give independent appointment powers to ARGA at this time.
- New measures to encourage and facilitate more meaningful engagement between a company and its shareholders on matters affecting audit quality. These include:
  - The creation by the audit committee of a formal mechanism by which shareholders of a quoted company can propose additional matters for emphasis within the scope of the company’s external audit, informed by the company’s latest risk report. Where suggestions from shareholders go wider than issues considered as part of the audit, these could be considered as part of the proposed AAP.

- Proposals for better communication to shareholders following the resignation or dismissal of the auditor of a public interest entity.

An Audit User Review Board has been established in the UK to facilitate discussion and ideas on audit quality affecting users of the audit report.

49. The Government intends to proceed with giving ARGA the power to set minimum requirements on audit committees in relation to the appointment and oversight of auditors of FTSE 350 companies. The regulator will be expected to draft clear and concise minimum standards that do not conflict with current requirements in place for audit committees.
50. The Government concluded that it is not appropriate or necessary to provide a power for ARGA to place an independent observer on the audit committee.
51. The Government continues to hold the view not to give ARGA independent ability to appoint an auditor. Rather, the Government will continue to rely on existing legislative provisions.
52. The Government continues to hold the view that a formal mechanism should be established to enable audit committees to gather shareholder views on the audit plan, and that shareholders should have better opportunities to ask questions about the audit at the AGM. The Government believes that the most appropriate way to encourage shareholder engagement with audits is to include appropriate provisions in the audit committee requirements that ARGA will have the power to put in place.
53. The Government intends to introduce legislation to improve notices of auditors ceasing to hold office for PIE audits to require certain positive statements by the auditor relating to their recent relationship with the company and its audit committee.

### ***Competition, Choice and Resilience in the Audit Market***

54. To promote competition, choice and resilience in the audit market, the BEIS consultation paper sought views on proposals for:
  - a. Greater regulatory powers and duties intended to increase choice and competition in the FTSE 350 audit market, initially through a managed shared audit regime and, if needed, taking a reserve power for a managed market share cap.
  - b. Operational separation between the audit and non-audit arms of certain firms, as determined by the new regulator. This will include separate governance, financial statements prepared on an arm's length basis, and regulatory oversight of audit partner remuneration and audit practice governance.
  - c. Statutory powers for the regulator to proactively monitor the resilience of the audit market and audit firms, including powers to require audit firms to address any viability concerns that are identified. The regulator will also have the power to take enforcement action to address anti-competitive practices and an abuse of dominant position within the statutory audit market.

### ***Market opening measures***

55. The Government believes the managed shared audit regime provides a strong foundation to build capability and increase choice in the audit market and is confident the questions raised by respondents can be addressed. ARGA will have the power to set the percentage of "meaningful proportion". Legal subsidiaries will remain the primary basis of the managed shared audit regime, with some flexibility to companies to seek alternative approaches.

56. The Government intends to make powers available to introduce a share cap in future. The Government and regulator will continue to work together to identify further non-legislative opportunities to increase choice in the audit market.

*Operational separation*

57. The Government believes that operational separation will encourage greater professional scepticism and reform the balance of incentives within firms, while maintaining the advantages of multidisciplinary structures. ARGA will be given power to design and deliver an operational separation. Further, ARGA will be given appropriate powers to increase transparency in relation to the financial statements of the audit practice and remuneration policies that set audit partner pay.
58. The Government will not take further action at this stage to mandate separate profit pools within multidisciplinary firms.
59. The Government will seek a power to make regulations to deliver full structural separation if operational separation fails to deliver an increase in audit scepticism, independence and quality.

*Resilience*

60. The Government will extend the FRC's duties to monitor developments in the PIE audit market to the whole statutory audit market. ARGA will be given the power to require information to monitor the health and viability of firms. ARGA will also be given appropriate powers to require audit firms to address any audit quality and resilience concerns identified.
61. ARGA will be equipped with the ability to operate a market share cap in the event of a major audit firm failure.

***Supervision of audit quality***

62. The BEIS consultation paper included proposals to enhance the regulator's role to supervise statutory audits to promote high quality audits. With respect to supervision of audit quality views were sought on:
- a. Plans to make the new regulator responsible for approving statutory auditors of public interest entities, rather than the professional bodies.
  - b. Proposals to improve transparency of the regulator's Audit Quality Review reports on individual audits, while providing safeguards for sensitive information.
  - c. The Government's intention to provide the regulator with new powers to require a UK Group auditor to arrange access to overseas component auditors' working papers, where considered appropriate.
  - d. A request for views on how the regulator might access information covered by an audited entity's legal professional privilege that is needed for the regulator's inspections and investigations of statutory audit.

*Approval and registration of statutory auditors of PIEs*

63. The FRC will reclaim ownership of the function for approval of statutory auditors of PIEs.

*Monitoring audit quality*

64. The FRC is tasked with identifying non-legislative ways of improving the AQR process and continuing to seek consent from audit firms and audited entities where possible before publication. In addition, the regulator is asked to engage with investors and other users to improve the usefulness to them of the information published on the

AQR. ARGA will have broad powers and functions that allow it to publish the information necessary for it to be an effective regulator.

*Regulating component audit work done outside the UK*

65. The Government intends to maintain the existing arrangements on access to overseas component working papers. This will give ARGA access to relevant overseas component working papers where possible.

*Legal professional privilege in the statutory audit*

66. The Government encourages legal and audit professionals to work with the regulator to resolve issues that arise from instances where privileged documents shared with the auditor are not available to the regulator's quality review and enforcement system. Auditors who cannot share key documents will find it hard to demonstrate audit quality.

**A strengthened regulator**

67. The BEIS consultation paper outlined two operational objectives for ARGA, on quality and competition, and several regulatory principles set out in legislation. The consultation paper sought views on additional changes to the regulator's responsibilities:

- a. Proposals for a more pro-active role for the regulator in identifying and assessing serious issues relating to a company's corporate reporting or audit by strengthening the regulator's information gathering and investigatory powers. This includes the power to require an expert review, paid for by the company, to investigate issues in greater depth and explore the underlying causes.
- b. To have a new statutory role in the supervision of accountants and actuaries, replacing more informal arrangements.

*The new regulator*

68. The Government intends to adopt the objectives for ARGA as set out in the BEIS consultation paper and the principles with slight amendment to specifically address the actuarial profession.

69. ARGA will have the power to make rules requiring that market participants pay a levy to meet the regulator's costs of carrying out its regulatory functions. This will provide ARGA with a sustainable and independent basis to carry out its regulatory activities.

70. ARGA's powers have been summarized throughout this report.

*Supervision of accountants and actuaries*

71. The Government intends to proceed with the proposal to introduce a new statutory regime for oversight of accountancy. The new regulatory regime will introduce a greater degree of independent oversight and accountability. The remit of the regime will be extended to include all relevant professional bodies, not only the chartered bodies.

72. ARGA will be able to take enforcement action only in cases that give rise to public interest concerns principally those arising out of corporate reporting by PIEs.

73. ARGA will oversee and regulate the actuarial profession. ARGA's regulatory responsibilities will extend to all individuals that undertake actuarial work in the public interest.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	3.1
<b>Meeting date:</b>	10 August 2022
<b>Subject:</b>	Work plan and prioritisation of NZAuASB projects 2022/2023
<b>Date:</b>	22 July 2022
<b>Prepared By:</b>	Misha Pieters

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. For the Board to AGREE the work plan and prioritisation of assurance related activities and standard-setting projects (including in response to projects by the IAASB, IESBA and domestic projects) for the 2022/2023 year.

### Background

2. In June the NZAuASB noted the XRB's statement of intent 2022-2027, the statement of performance expectations for 2022/23 and planned actions for the 2022-2027 period, and agreed that the more detailed 2022/23 implementation plan would be discussed in August.
3. The NZAuASB has been delegated responsibility for ensuring that the auditing and assurance standards are maintained on an ongoing basis, in accordance with the XRB's strategy. This strategy includes developing and issuing high-quality standards, that are consistent with international standards to the extent appropriate, while retaining local relevance and acceptance.
4. In recent discussions, the NZAuASB has reflected on the need to prioritise resourcing on activities of significance to New Zealand. At the June meeting, the XRB Chair encouraged the NZAuASB to think about what we might stop doing or do differently, in order to focus on key strategic priorities.
5. We have prepared an implementation plan for the 2022/2023 year. Key projects include:
  - a. Assurance over non-financial disclosures including Greenhouse gas assurance engagements
  - b. Audit of Service Performance Information.
  - c. Non-assurance services
  - d. Assurance over Financial Information Prepared in Connection with a Capital raising
  - e. Going Concern
  - f. Audit Evidence
  - g. Public Interest Entity Definition
6. There is also an XRB board led project to promote the value of audit and to change the narrative from "audit quality/reform" to "system quality/reform" to build trust and confidence. The XRB

continue to monitor developments in other jurisdictions, and has held outreach with key stakeholders on NZ issues or perspectives. The XRAP July discussion reflected on the need for a clear vision for assurance, and encouraged the XRB to take a leading role.

7. The implementation plan has been informed by a preliminary priority assessment of projects for the 2022/2023 period to assist with planning. The prioritisation and level of effort may vary overtime and is subject to ongoing consideration. In prioritising the work effort, consideration was given to what domestic projects are key for New Zealand. In terms of international projects, consideration was given to the extent of influence we seek to achieve, guided by any unique aspects that may arise from a NZ context.

#### **Harmonisation with Australia**

8. The AUASB has recently undertaken an agenda consultation process seeking views on the strategic priorities and projects currently on the AUASB work plan. Current priority areas identified by the AUASB include: EER/Sustainability, Audit quality, IAASB agenda items of Going concern, Fraud, Audit evidence and PIE, quality management standards, technology, LCE audits and public sector. Other AUASB projects that are inactive or yet to commence include: scope of KAM reporting, PIR of Performance Engagements and updates to guidance statements.

#### **Recommendations**

9. We recommend that the Board consider and agree on the work plan and prioritisation of projects for the 2022/23 year.

#### **Material Presented**

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	2022/2023 work plan
Agenda item 3.3	Prioritisation of projects



## NZAuASB Implementation Work plan for 2022-2023

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 definition of Public Interest Entity.

**Output 3: Prepare and issue Auditing and Assurance (including Professional and Ethical) Standards and other related services Standards**

<b>Respond to stakeholder input and fast-changing external reporting landscape to ensure standards are robust and sustainable</b>		
<b>What we plan to achieve</b>	<b>2022/2023 Key standard setting activities*</b>	<b>Service Performance Measures</b>
<ul style="list-style-type: none"> <li>Respond to domestic issues</li> <li>Issue all applicable IAASB and IESBA standards and guidance</li> <li>Apply convergence and harmonisation policy</li> <li>Perform post-implementation reviews (PIR)</li> <li>Evidence based research to identify gaps</li> </ul>	<p><i>Domestic standards</i></p> <ul style="list-style-type: none"> <li>GHG assurance (High)</li> <li>Audit of service performance information (High)</li> <li>Assurance capital raising (Med)</li> <li>Conforming amendments to the Code (Low)</li> </ul> <p><i>Domestic guidance</i></p> <ul style="list-style-type: none"> <li>GHG assurance (High)</li> <li><u>Impact of climate reporting on audit (TBD)</u></li> <li>Reporting on RBNZ Orders in Council (Med)</li> <li>Materiality (Med)</li> </ul> <p><i>Expected international standards</i></p> <ul style="list-style-type: none"> <li>PIE implications on ISAs (Low)</li> <li>Audit Evidence (Med)</li> <li>Audits of Less Complex Entities (<u>Low</u>)</li> <li>NZ PIE definition (Med)</li> <li>Group &amp; engagement team definition (Low)</li> <li>Technology revisions (Low)</li> </ul> <p><i>Perform PIR</i></p> <ul style="list-style-type: none"> <li>Compliance engagements (<u>Low</u>)</li> </ul> <p><i>Research</i></p> <ul style="list-style-type: none"> <li>KAM reporting (Med)</li> <li>Identify topics for further research</li> </ul>	<p>Standards are locally relevant and internationally credible</p> <ul style="list-style-type: none"> <li>100% compliance with due process requirements</li> <li>100% compliance with convergence and harmonisation policy</li> </ul>

\* Priority indicated next to activity – links to prioritisation and resourcing outline

**Collaborate** with stakeholders 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	2022/2023 Key standard setting activities	Service Performance Measures
<p>Monitor the wider assurance environment and consider the implications of developing issues for New Zealand auditing and assurance standards.</p>	<ul style="list-style-type: none"> <li>• Monitor QA review results conducted locally and internationally and respond as appropriate.</li> <li>• Monitor issues arising from the implementation of the current suite of standards via media, public sources and relationship contacts and respond as appropriate.</li> <li>• Monitor modified audit reports and respond as appropriate.</li> <li>• Track research projects and respond as appropriate</li> <li>• <del>Monitor</del> <u>Enhance understanding of assurance undertaken by non-accountants</u></li> </ul>	<ul style="list-style-type: none"> <li>• No significant issues raised regarding the quality of the assurance standards by audit reference group or the regulators.</li> <li>• Issues raised are investigated and addressed appropriately and in a timely manner.</li> <li>• No significant assurance application issues identified from the periodic review of modified audit reports</li> </ul>
<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"> <li>• Specifically target assurance practitioners from small firms, sole practitioners and assurance practitioners who are not accountants.</li> <li>• <u>Develop outreach plans for significant projects</u></li> <li>• <u>Monitor and learn from the XRB's engagement processes on the <i>Ngā Pou o te kawa ora</i> project.</u></li> </ul>	<ul style="list-style-type: none"> <li>• Agreed and followed communication and outreach plan</li> <li>• Stakeholder engagement survey results</li> </ul>

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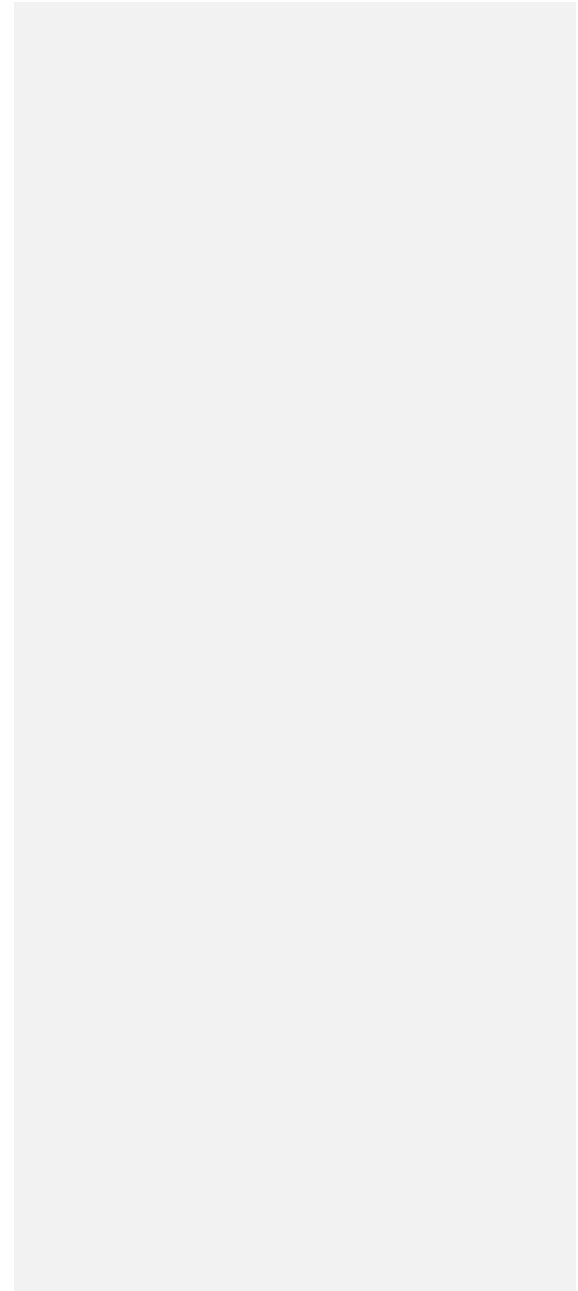
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Lead – ensure stakeholders understand the purpose and value of standards and are informed of international developments		
What we plan to achieve	2022/2023 Key standard setting activities	Service Performance Measures
<p>Influence and respond to international developments that impact New Zealand</p> <ul style="list-style-type: none"> <li>Anticipate, monitor and respond to developments in international standard-setting structures and environment, and ensure that stakeholders are well informed.</li> <li>Monitor outcome of <del>stakeholder collaboration</del><u>engagement</u> on audit <del>quality</del> <u>and corporate governance</u> reforms.</li> <li>Promote an understanding of factors affecting <del>audit</del> quality by conducting events and developing thought leadership.</li> </ul>	<ul style="list-style-type: none"> <li>Report back on international developments</li> <li>XRB Board led initiative to host roundtable discussions with key stakeholders to promote an understanding of factors affecting <del>audit</del> quality and value of assurance if determined appropriate</li> </ul>	<p>Timely and proactive response to issues within the XRB's mandate agreed as priority</p>
<p>Contribute to government policy relating to assurance, to develop overall view of the system and how it could develop</p> <ul style="list-style-type: none"> <li>Understand, through effective engagement, the issues and challenges facing practitioners</li> <li>Work with stakeholders to develop an overall view of the system and how it could develop</li> </ul>	<ul style="list-style-type: none"> <li>Meet regularly with MBIE, FMA, IOD, NZX, CA ANZ, CPA Australia, CEP, practitioners, etc.</li> <li>Respond to queries related to policy development (e.g., oversight of assurance practitioners of climate disclosures, audit of incorporated societies)</li> </ul>	<p>Timely and proactive response to queries</p>
<p>Understand the perspectives of different stakeholders on the role of audit in maintaining trust in New Zealand reporting and consider how best to respond to international developments</p>	<ul style="list-style-type: none"> <li>Consult on <del>if whether and</del> how to adopt <del>audit</del> <u>of LCE standard</u></li> <li>Identify the <del>short and long term</del><u>short- and long-term</u> levers core to future profession and the enablers to that profession to influence the scope and role of assurance in maintaining trust</li> </ul>	<p>Stakeholder survey results</p>

Enhance the accessibility of the audit and assurance standards	<ul style="list-style-type: none"> <li>• Input into XRB's digitisation project</li> <li>• Explore and implement ideas to enhance accessibility</li> </ul>	Stakeholder survey results
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**Output 5: Liaise with and influence of international bodies through participation in meetings and making of submissions**

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	2022/2023 Key standard setting activities	Service Performance Measures
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: <ul style="list-style-type: none"> <li>• Participate in international and regional standard-setter meetings</li> <li>• 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</li> <li>• Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards</li> </ul>	<ul style="list-style-type: none"> <li>• Participate in IAASB and IESBA national standard setters' meetings</li> <li>• NZAuASB Chair participate in AUASB meetings with staff support</li> <li>• Meet regularly with like-minded NSS and share ideas</li> </ul> Respond to due process documents IESBA <ul style="list-style-type: none"> <li>• Strategy and work plan (Med)</li> <li>• Sustainability survey (High)</li> </ul> IAASB <ul style="list-style-type: none"> <li>• ED on PIE (Low)</li> <li>• ED on Audit Evidence (Med)</li> <li>• ED on Going Concern (Med)</li> <li>• Strategy consultation (Med)</li> </ul>	<ul style="list-style-type: none"> <li>• Success of submissions</li> </ul>



## Proposed GHG emissions disclosures

Extracted from the exposure drafts

1

### Extracts from ED NZ CS 1

21. An entity must disclose cross-industry metrics for each of the categories below:

(a) *greenhouse gas (GHG) emissions: gross emissions* in metric tonnes of *carbon dioxide equivalent (CO<sub>2</sub>e)* classified as (see paragraph 23):

- (i) *scope 1;*
- (ii) *scope 2;*
- (iii) *scope 3;*

23. An entity must disclose the following in relation to its GHG emissions (see paragraph 21(a)):

- (a) a statement describing the recognised standard or standards that its GHG emissions have been measured in accordance with;
- (b) the GHG emissions consolidation approach used: equity share, financial control, or operational control; and
- (c) a summary of specific exclusions of sources, facilities and/or operations with a justification for their exclusion.

2

2

## Extracts from ED NZ CS 1

24. Legislation requires that the disclosure of an entity's GHG emissions as required by Aotearoa New Zealand Climate Standards are the subject of an assurance engagement. This [draft] Standard requires that this assurance engagement is a limited assurance engagement at a minimum.

25. For the avoidance of doubt, the following information required by Aotearoa New Zealand Climate Standards is subject to an assurance engagement:

(a) GHG emissions: gross emissions in metric tonnes of CO<sub>2</sub>e classified as (see paragraph 21(a)):

- (i) scope 1;
- (ii) scope 2;
- (iii) scope 3;

(b) additional requirements for the disclosure of GHG emissions (see paragraph 23);

(c) GHG emissions methodologies, assumptions and estimation uncertainty (see NZ CS 3 *General Requirements for Climate-related Disclosures* paragraphs 51 to 53).

3

3

## Extracts from ED NZ CS 2

### First-time adoption provision 5: Scope 3 GHG emissions

18. Paragraph 21(a)(iii) of [draft] NZ CS 1 *Climate-related Disclosures* requires the following disclosure:

greenhouse gas (GHG) emissions: gross emissions in metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) classified as scope 3.

19. Although disclosure of scope 3 GHG emissions is encouraged for all entities on adoption of Aotearoa New Zealand Climate Standards, this [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.

4

4

### Extracts from ED NZ CS 3

51. An entity must provide a description of the methodologies and significant assumptions used to calculate or estimate GHG emissions, and the limitations of those methods. When choices between different methods are allowed, or entity-specific methods are used, an entity must disclose the methods used and the rationale for doing so.

52. An entity must describe significant uncertainties relevant to the entity's quantification of its GHG emissions, including the effects of these uncertainties on the GHG emissions disclosures.

53. An entity must provide an explanation for any base year GHG emissions restatements.

5

5

### Extracts from ED NZ CS 3

#### **Comparatives for metrics**

39. For each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information.

6

6



**DATE:** 27 June 2022

**TO:** External Reporting Board  
New Zealand Auditing and Assurance Standards Board (NZAuASB)

**FROM:** Lyn Provost, IAASB member  
Sylvia van Dyk, Technical advisor

**SUBJECT:** Report on IAASB June 2022 meeting

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## Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) Board meeting held on 13-17 June 2022 in New York. This was the first full in-person meeting following the Covid-19 pandemic. It was great being able to attend in person again, especially with Lyn chairing two of the key topics discussed (fraud and sustainability assurance).
2. Key topics were:
  - An approval of an ED on proposed changes to disclosures in the audit report and communication to those charged with governance (TCWG) on independence requirements for audits of PIEs
  - A discussion on proposed changes in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
  - Consideration of the updated draft of proposed ISA 500 (Revised), *Audit Evidence*
  - Consideration of issues on going concern
  - Discussion of options relating to assurance on sustainability
  - Consideration of feedback and issues on the proposed auditing standard for less complex entities (LCEs).
3. The full June meeting papers can be accessed [here](#).

### Listed Entity and PIEs issues

4. The Board discussed and approved the ED for the proposed revisions to ISA 700 (Revised)<sup>1</sup>. The proposed revisions would provide a mechanism for the firm to operationalise IESBA's transparency requirement to disclose whether the firm has applied the relevant ethical requirements for independence in the IESBA Code for certain entities, such as public interest entities (PIEs.)
5. The proposal requires that, when the relevant ethical requirements require transparency about the specific independence requirements applied, the auditor must disclose this fact in the auditor's report.

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<sup>1</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

6. The Board also approved a proposed amendment to the application material in ISA 260(Revised)<sup>2</sup> that the auditor's communications with those charged with governance may include which independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied.
7. For the next IAASB meeting in September 2022, the PIE task force (TF) intends to present proposals relevant to Track 2 of the IAASB's project on listed entity and PIE, including:
  - The IESBA definitions of "publicly traded entity" and PIE.
  - The objective and guidelines for establishing differential requirements for certain entities in the ISQMs<sup>3</sup> and ISAs.
  - The case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs, including consequential considerations for the application and introductory material.

### Audit Evidence

8. The Board considered and provided input on the updated draft of proposed ISA 500 (Revised)<sup>4</sup>, as well as conforming and consequential amendments, based on Board members' feedback in March 2022.
9. Key matters discussed included the following:
  - i. Overall support for the proposed changes to the Introduction to clarify that proposed ISA 500 provides the overarching requirements and guidance for the auditor when obtaining and evaluating audit evidence in accordance with other ISAs.
  - ii. Support for the revised objective, as follows:
    - to design and perform audit procedures that are appropriate for obtaining sufficient appropriate evidence, and
    - to evaluate information to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence had been obtained.
  - iii. Support for how the audit evidence task force (AETF) has clarified and further explained the sufficiency and appropriateness of evidence, and the link to relevance and reliability and persuasiveness, as well as the revised definition for audit evidence.
  - iv. A robust discussion about the proposed conditional consideration of accuracy and completeness of evidence. Some Board members remain concerned about it being given more prominence than the other

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<sup>2</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>3</sup> International Standards on Quality Management

<sup>4</sup> ISA 500, *Audit Evidence*

attributes, whereas others are of the view that it should always be considered. The AETF will relook at the relevant paragraph for the Board's consideration in September.

- v. Support for how the AETF has clarified that the new stand back requirement is required for every audit procedure and that it also links back to the stand back requirement in ISA 330<sup>5</sup> to provide a basis for the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.
- vi. Suggestions to clarify that designing and performing audit procedures in an unbiased manner applies to both risk assessment procedures and further audit procedures.
- vii. Discussion to clarify the application material to address the meaning of the term "information intended to be used as audit evidence" given concerns about a disconnect with the wording used in the definition of audit evidence.
- viii. There was a good discussion about the proposed procedures when there are doubts about the relevance and reliability of information intended to be used as audit evidence. Lyn raised a comment from the XRB's technical reference group about the need to consider alternative procedures before attempting to obtain alternative information. We were pleased that this was resolved in the turnaround draft, as well as other matters raised by the Board.
- ix. There were mixed views about the way technology had been addressed in the draft, with some Board members wanting more about technology in the standard. The AETF indicated they would welcome specific suggestions on technology, noting that non-authoritative guidance will be developed on technology examples.

10. The AETF will update the draft proposed ISA 500 (Revised) based on Board members' feedback and will provide an updated ED to the Board for approval at the September 2022 meeting. The AETF will also provide the Board with an update on the development of non-authoritative technology examples at that meeting.

### Going Concern

11. At the March 2022 meeting the Board discussed and unanimously approved a project proposal for the revision of ISA 570 (Revised), *Going Concern* and the consequential amendments to other ISAs. The project will focus on standard setting actions to address a targeted revision of ISA 570 (Revised), rather than a comprehensive revision of the standard.

12. At the June meeting the Board discussed several key issues, including transparency about the auditor's responsibilities and work related to going concern. The Board broadly supported the following proposals:

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<sup>5</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

- i. A new requirement for the auditor to determine whether law, regulation or relevant ethical requirements require reporting to an appropriate authority outside of the entity when a material uncertainty related to going concern (MURGC) is included in the auditor's report or when the auditor issues a qualified, adverse or disclaimer opinion in respect of matters relating to going concern. Where not required by law etc., the auditor uses professional judgement to consider if it may be appropriate in the public interest to report to an appropriate authority outside the entity, unless precluded from doing so.
- ii. To increase the timeline over which the going concern assessment is made from 12 months from the balance date of the financial statements to 12 months from the date the financial statements are approved.
- iii. When management is unwilling to extend its assessment:
  - A new requirement for the auditor to consider whether the period used by management to make its assessment is reasonable, based on the nature and circumstances of the entity.
  - A new requirement to strengthen the dialogue between the auditor and management and if appropriate, TCWG, related to discussion of this matter.
  - To strengthen the existing requirement for the auditor to determine the implications for the audit.
- iv. To further develop and modify the proposed new requirement for circumstances when the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, to explicitly state that in the audit report under a heading of Going Concern.
- v. A new differential requirement that would apply to audits of listed entities to report on "close calls" in the Going Concern section of the audit report, including a description of events and conditions that may cast significant doubts on the entity's ability to continue as a going concern, and a description of how the events or conditions were addressed in the audit
- vi. Proposals to enhance the informational content of MURGC paragraphs to include how the auditor addressed the events or conditions in the audit.

13. The Board also approved draft FAQs on topical areas that respond to points raised by respondents, particularly explaining:

- The purpose of MURGC and key audit matters (KAM) sections and emphasis of matters (EOM) paragraphs in the auditor's report.
- The applicability of MURGC, KAM and EOM.
- The implications for the auditor's opinion and the auditor's report of MURGC, KAM and EOM.
- The interrelationship between MURGC, KAM and EOM in the auditor's report.
- Going concern matters that may be communicated as a key audit matter in the auditor's report, when no MURGC exists.
- Going concern matters that may be reported as an EOM in the auditor's report, when no MURGC exists.

- The FAQs also provide an example that includes a decision-tree to assist the auditor in deciding the relevant ISAs that are applicable when the auditor is reporting on “close call” situations.

14. The Going Concern Task Force (GC TF) will continue to discuss issues based on feedback received from the Board. In September 2022, the GC TF intends to bring to the Board its initial views and recommendations in relation to certain other proposed actions of the project proposal to address key issues, such as risk identification and assessment, terminology, management’s assessment of going concern, and professional scepticism.

## Fraud

15. The Board discussed the topics highlighted in the March 2022 IAASB meeting as well as selected new topics.

16. Matters discussed included the introduction section, definitions, the requirements related to journal entries, specialised skills and the presumption of fraud risk in revenue recognition, and the related application and other explanatory material, including drafting proposals for certain of these topics.

17. A summary of the discussions are as follows:

- i. Overall support for the proposed structure of ISA 240 (Revised), which has been based on the layout, including headings and related content of recently revised ISAs, namely ISA 315 (Revised 2019)<sup>6</sup>, ISA 540 (Revised)<sup>7</sup> and ISA 600 (Revised)<sup>8</sup>.
- ii. Support for the introduction, with some concern raised about defining fraud as actual and suspected fraud, and the need to ensure the auditor’s response is appropriate where the term fraud is used in the standard. There were also some comments about the need to improve linkages in this section and to clarify some words.
- iii. Overall support for the description of the term “forensic skills” and the new requirement to “determine” the need for specialised skills. However, to further clarify scalability and proportionality in the application material in respect of the term “determine”.
- iv. Caution not to duplicate what is already in ISA 315 (Revised 2019) and to focus on what is incremental in respect of consideration of fraud.
- v. Overall support for the proposed changes to the requirement in ISA 240 to shift the focus from the auditor developing a rebuttal to fraud risk in revenue to emphasising the importance of performing robust risk identification and assessment. However, to clarify what action the auditor needs to take if the risk of fraud in revenue is not rebutted, and to emphasise more strongly when it is inappropriate to rebut the risk of fraud in revenue. Also, to try to work some of the fraud risks in the Appendix into the standard as well.

<sup>6</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>8</sup> ISA 600 (Revised), *Special Considerations – Audits of Group financial Statements (Including the Work of Component Auditors)*

- vi. Overall support for the proposed enhancements to provide the auditor with a robust framework to testing journals, including the requirement to test the completeness of the population of journal entries. There were some calls for a closer link back to the risk assessment about what journal entries to test, to strengthen why it is important to use journal testing and to emphasise the use of technology more.
- vii. Overall support for the new requirement emphasising the ongoing nature of two-way communications about fraud related matters with management and TCWG, with a suggestion to place that requirement earlier in the standard. Other comments included to consider using “discuss” versus “communication” and that it would be helpful to indicate what matters to discuss with whom.

18. The Task Force is performing targeted outreach with users of audit reports about different alternatives on the way forward for transparency in reporting on fraud during June to July 2022 and report back to the Board any issues at the September meeting. We will be obtaining feedback from the XRAP on the various disclosure options at its July meeting.

## Sustainability

19. At the March 2022 meeting the Board discussed in breakout groups their views on the proposals and questions presented by the Sustainability Assurance Consultation Group.

20. Staff provided the Board with an overview of the feedback from the Board breakout groups in March 2022, and the challenges the sustainable assurance working group (SAWG) identified as the most critical to consider as part of the initial standard setting effort, which are:

- Limited and reasonable assurance
- Suitability of the reporting criteria
- The scope of the assurance engagement
- Evidence
- Materiality

21. The Board overall supported pursuing the development of a standard for assurance on sustainability / ESG reporting as the immediate action. The Board further agreed with the five challenges identified as priorities to address, and to add reporting to the list.

22. The Board discussed the following options for developing a standard for assurance on sustainability/ESG reporting:

- Option 1: A “greenfield” approach.
- Option 2: A standalone standard consistent with ISAE 3000 (Revised)<sup>9</sup>, tailored for assurance on sustainability/ESG reporting through adding enhancements and specificity.

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<sup>9</sup> ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

- Option 3: ISAE 3000 (Revised) plus approach – will require compliance with ISAE 3000 (Revised) with a similar approach to other subject specific standards such as ISAE 3410<sup>10</sup>.
23. Given ISAE 3000 (Revised) is already used and not broken, the Board agreed a greenfield approach would be too complicated and take too long, which would not be in the public interest. A preferred approach is to use the principles in ISAE 3000 (Revised).
  24. Some members preferred option 3 and raised concerns that there could be a risk having another standard similar to ISAE 3000 (Revised). After a good discussion the Board on balance supported pursuing option 2 and to create an overarching standard that will provide a baseline for a global assurance solution, as well as the building blocks for further assurance standards on sustainability / ESG reporting in the future. An "overarching standard" in this context refers to a standard that addresses the conduct of an assurance engagement in its entirety, dealing with all topics and types of information encompassed by sustainability / ESG reporting, and addressing both limited and reasonable assurance.
  25. The Board agreed to remain flexible in developing the standard as issues are encountered, to use principles in ISAE 3000 (Revised) and the EER guidance, as well as ISAE 3410, but to also be creative and add "greenfield" content as required, specified for assurance on sustainability reporting.
  26. The Board acknowledged the importance to act quickly whilst meeting due process. The Board will consider the final project plan in December 2022 as well as an updated structure of the standard.
  27. The sustainability standard is a significant step and a key challenge going forward.

## LCE

28. The Task Force Chair provided the Board with an overview of the overarching matters in the feedback received on the Exposure Draft of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE).
29. Given the broad nature of the feedback received from 145 respondents, the Board's discussion focused on the overarching matters that will affect the draft standard more pervasively. The remaining feedback from respondents, generally more targeted to specific areas or of a more focused nature, will be brought to the Board for discussion as revisions to ED-ISA for LCE are progressed to finalise the proposed standard.
30. A summary of the discussions are as follows:
  - i. There was overall support to provide a description of what a "typical LCE" is to tighten the scope to avoid confusion, rather than describing what entities are not within scope. However, there were mixed views about whether a typical LCE should be described using quantitative measures, for example,

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<sup>10</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

entities with a small key management team (less than 5) and less than 250 employees.

- ii. There was significant feedback that the draft standard is too similar to the ISAs, and the Board broadly supported the Task Force's recommendation that the draft standard needs to be further differentiated from the ISAs through the use of less granular, principles-based requirements, where appropriate (focussing on targeted areas, for example risk identification and assessment, including the understanding of the entity's system of internal control, accounting estimates, responsibilities for quality management and documentation). However, to proceed with caution as to not deviate from reasonable assurance or simplify the standard too much.
- iii. The draft standard should continue to include limited Essential Explanatory Material (EEM), with any changes to the EEM to address more targeted comments (i.e., rather than change in overall approach). However, less granularity in the requirements may require more guidance to be added to the EEM.
- iv. The draft standard should continue to be a standalone "self-contained" standard, with no ability to "top-up" with ISA requirements for specific circumstances (the ISAs may be used as an additional source of guidance). The Task Force to continue to carefully explore how procedures for 'more complex' accounting estimates can be included in the draft standard.
- v. The title of the draft standard should not change.
- vi. The approach to the Authority should continue to describe a list of prohibited entities and qualitative characteristics to determine whether the standard is appropriate to use or not.
- vii. The Authority should be updated to make clearer what the intended scope is by making changes to the list of prohibited entities, as appropriate, and incorporating the description of a typical LCE into the qualitative characteristics.
- viii. There were mixed views about the proposal to require jurisdictions to set quantitative thresholds. Some members believe that quantitative thresholds should be set in the standard, whereas others consider that jurisdictions should be encouraged to do so, rather than it being a requirement. The Board asked the Task Force to continue to explore how to introduce quantitative threshold(s).
- ix. Agreement that the scope of the draft standard should include group audits, but mixed views about whether it should be included as a separate Part of the standard. Overall support that the characteristics of a less complex entity generally also apply to a less complex group (including any quantitative indicators), but mixed views about whether and how the involvement of component auditors may affect the use of the draft standard. The Task Force will continue to explore how the inclusion of group audits will impact the scope and the Authority of the draft standard.
- x. At the end of the discussions the Board agreed that the project to develop a separate standard for audits of LCEs should be continued. The Task Force will use the direction provided to commence the drafting of updates in targeted



areas identified as in need of more significant revisions, as well as a separate part containing requirements for group audits.

31. The LCE Task Force will continue to analyse responses to the ED-ISA for LCE and commence developing revised drafting in priority areas. In September 2022 the LCE Task Force plans to bring to the Board for discussion the revised Authority of the draft standard, proposed content and requirements addressing group audits, along with other targeted topics.

### **Future meetings** .

32. The next IAASB meeting is scheduled for 12 – 16 September 2022 in New York.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	6.1
<b>Meeting date:</b>	10 August 2022
<b>Subject:</b>	Greenhouse Gas (GHG) Assurance
<b>Date:</b>	22 July 2022
<b>Prepared By:</b>	Misha Pieters, Peyman Momenan and Anna Herlender

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### Agenda Item Objectives

1. The objective of this agenda item is to:
  - Agree the recommended approach to developing the assurance standard informed by recent outreach events.
  - Obtain input into the developing exposure draft on key matters.

### Background

2. The XRB's [project](#) to develop an assurance standard for the assurance engagement over GHG disclosures required by the XRB's climate reporting standards had the objectives of developing a standard that is fit for purpose for the statutory regime, does not create unnecessary barriers to entry and is freely available and useable.
3. To date our work has been focussed on developing an understanding of other international based assurance standards (i.e., the ISOs) currently applied by carbon energy professionals and comparing these to the existing XRB requirements. Historically the XRB has adopted the international standards issued by the IAASB but we are now reconsidering this approach given that the XRB standards will be applied by a broader range of assurance practitioner.
4. The GHG advisory panel has explored a "detailed fit for purpose review" of the existing assurance standards to identify 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. The objective explored with the panel was to prepare a bridging document between ISO 14064-3<sup>1</sup> and ISAE 3410<sup>2</sup>, the two international assurance standards in place to assure Greenhouse Gas statements.
5. At the June NZAuASB meeting the Board received an update regarding the GHG assurance project reflecting on the idea of a standard with a limited shelf-life, that may depart from the traditional standard setting approach of adopting IAASB standards, mindful of the input heard to date that

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<sup>1</sup> ISO 14064-3:2019 *Greenhouse gases -Part 3: Specification with guidance for the verification and validation of greenhouse gas statements*

<sup>2</sup> ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements*

identifies two internationally credible frameworks for undertaking this engagement and a desire to align with those frameworks.

6. During June we held two assurance focussed events to gain input into the developing climate reporting and assurance standards, exploring the extent to which a GHG inventory report was needed and if and how this would impact on the assurance engagement required by the legislation, the need for transitional reporting/assurance requirements given challenges of reporting scope 3 emissions and options for ethical and quality management requirements.
7. The key messages from the CA ANZ hosted event included:
  - Mixed views on the need for transitional provisions for scope 3 emissions, recognising the need for a “runway” but concern that we don’t just “kick the can down the road”.
  - Mixed views on the need to prepare and publicly report a GHG emissions report, with two themes emerging: process/good governance and what information do users need.
  - Consider reporting of key audit matters (KAMs) or use of Emphasis of Matter paragraphs in the context of this regime, to highlight areas of uncertainty or concerns around data quality, to avoid an even larger expectation gap on this type of information.
  - Many tools in ISAE (NZ) 3000 that are useful in this context, i.e., longer form reporting – focus on material emissions, estimation approach.
  - Mixed views on how to articulate a conclusion, if and where an assurance engagement has been separately undertaken on the GHG emissions report.
  - The importance of independence, the robustness of the existing Code of ethics, concerns that not all practitioners will be held to the same standard, for example, concerns that some practitioners are providing tools that calculate GHG emissions and then providing assurance over the result (seen to be assuring their own tool)
8. The key messages from a second feedback forum targeting Carbon Energy practitioners included:
  - The need to enable a whole new profession and capability to emerge, an approach that builds capability over time in a systematic way.
  - Similar mixed views on the need to prepare and publicly report a GHG emissions report.
  - Support for an approach that recognises both ISAE and ISO.
  - The importance of the perception of independence, especially in New Zealand given we are so small, with limited supply of consultants/assurance providers. The discussion highlighted a lack of awareness by the preparer/client, in requesting services from an assurance practitioner that might create a conflict of interest, e.g., involvement as an employee or providing consultancy services.
9. The Climate team will provide an update to the NZAuASB on the proposed GHG disclosures that will be subject to assurance during the August NZAuASB meeting.

### **Recommended way forward**

10. At the June XRB meeting, the XRB board supported the recommendation that we develop a “stop gap” interim solution standard, recognising that the reporting requirements, the scope of assurance and the oversight regime is expected to change significantly within the next few years.

11. An interim solution recognises the need to build capacity in the system, and for a new profession to emerge in the context of this regime. We recommend that the standard is applicable from the commencement of the mandatory assurance regime, until 2027.
12. We also recommend that the standard have a very narrow scope, limited to engagements that cover the disclosures required by the law to be assured. Extracts from the Act, specific to the assurance requirements are included in the appendix to this summary paper.
13. We consider that the requirements in the two existing international standards that are currently used in New Zealand to assure GHG statements, i.e., ISAE 3410 and ISO 14064-3, provide a substantively similar basis for gathering evidence to support a conclusion on a GHG statement. For this reason, we recommend that in the interim, the XRB assurance standard allow use of either ISAE 3410 or ISO 14064-3. The XRB will not issue the ISO equivalent, but we intend to cross reference to ISAE 3410 and ISO 14064-3 within the standard.
14. We recognise that neither of these international standards were developed in the context of an assurance engagement over GHG emission disclosures reporting in the context of a climate statement. Without reinventing or repeating the requirements of ISAE 3410 or ISO 14064-3, building on a requirement to apply either of these standards, we recommend developing a short assurance standard that layers any additional specific requirements relevant to this regime.

#### **Issues to consider**

15. The attached issues papers explore key matters we are planning to include within an exposure draft.

#### *Performing the engagement*

16. We recommend the interim XRB assurance standard require compliance with either ISAE 3410 or ISO 14064-3. We do not intend to include additional engagement requirements.
17. We have consistently heard the view that there are challenges in assuring scope 3 GHG emissions. We have also heard the view that both ISAE 3410 and ISO 14064-3 are not broken in this regard.
18. We have especially been encouraged to reflect on all the “tools in the assurance practitioners’ toolkit” to report to users, given challenges around a lack of understanding as to limited versus reasonable assurance, concerns around uncertainty, completeness, data availability and reliability. While the developing standard will be focussed on the narrow scope, it is recommended that the standard reflect and highlight the legislative requirement for separation if the engagement is broader than the GHG emission disclosures.
19. We have considered the extent to which the XRB standard should be prescriptive in the content of the assurance report, to ensure that users receive a consistent report. Or should the standard encourage longer form reporting given feedback especially given the inclusion of scope 3 emissions. Additional reporting requirements should be compatible with ISAE 3410 or ISO 14064-3, if the standard requires compliance with these standards.
20. We seek feedback on the recommended assurance engagements requirements in agenda 6.2.
21. To facilitate a discussion on the reporting requirements, we have prepared a flowchart of possible tools and an illustrative report, at agenda item 6.3 and 6.4.

#### *Independence matters*

22. We recommend that the interim standard exclude application of PES 1<sup>3</sup> for the specific limited

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<sup>3</sup> PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

scope statutory engagement, but include principle-based ethical and independence requirements specifically relevant to this regime with the objective of building capacity in the system, enabling a new profession to emerge, while not compromising independence.

23. We seek views on the approach to achieving this outcome as explored in agenda item 6.5.
24. We will continue to monitor developments by the IESBA as they consider extending the scope of the international Code of ethics beyond professional accountants and continue to explore a longer-term solution. We will also continue to monitor developments in other jurisdictions and any developments in ISO if and as they relate to ethical matters.

#### *Quality management matters*

25. We recommend that the interim standard exclude application of PES 3<sup>4</sup> for this regime in acknowledgement that not all carbon energy professionals are familiar with the requirements applied by “accountants”. In the interim, we recommend including high level principle-based quality management requirements within the standard so as not to compromise on quality. An outline of how proposed requirements might be developed is explored in agenda item 6.6.
26. We will continue to monitor developments by the IAASB as they explore developing a sustainability standard separate from ISAE 3000, and how they embed quality and ethical requirements within such a standard to explore a longer-term solution.

#### **Next steps**

27. The GHG advisory panel meet on 4th August to explore these same matters. We will provide a verbal update during the NZAuASB meeting on the key messages.
28. The plan for approval of the exposure draft is as follows:
  - On 5th September seek input from SteerCo.
  - GHG advisory panel meet on 8th September to provide additional input.

The climate consultation on the proposed disclosure requirements will close on 26th September.

- Seek fatal flaw feedback at the 19th October NZAuASB meeting.
  - Update the XRB Board at its meeting on November 4th.
  - Seek approval and sign off at the December NZAuASB and XRB meetings.
29. This is a delay to our target of issuing an exposure draft in October 2022 but will enable the finalisation of a standard before the mandatory assurance regime commences in October 2024.

#### **Recommendations**

30. We recommend that the Board consider the recommended way forward on key matters identified in the attached issues papers.

#### **Material Presented**

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues paper on reporting requirements
Agenda item 6.3	Flowchart of possible reporting tools (supplemental paper)
Agenda item 6.4	Illustrative limited assurance report (supplemental paper)
Agenda item 6.5	Issues paper on ethical requirements
Agenda item 6.6	Issues paper on quality management

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

## Extracts from Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

**461ZH Assurance engagement required for parts of climate statements relating to greenhouse gas emissions**

- (1) Every climate reporting entity must ensure that the climate statements or group climate statements that are required to be prepared under any of sections 461Z to 461ZC are, to the extent that those statements are required to disclose greenhouse gas emissions, the subject of an assurance engagement.
- (2) None of the following persons may carry out the assurance engagement:
  - (a) a director, an officer, or an employee of the climate reporting entity;
  - (b) a person who is in partnership with, or in the employment of, a person specified in paragraph (a);
  - (c) a liquidator or a person who is a receiver in respect of the property of the climate reporting entity;
  - (d) a person who, by virtue of paragraphs (a) to (c), may not carry out an assurance engagement under this Part for a related body corporate of the climate reporting entity.
- (3) In the case of a climate reporting entity that is a public entity under the Public Audit Act 2001, the only person who may carry out the assurance engagement is the Auditor-General or any other person who may act as the CRD assurance practitioner under that Act in respect of the assurance engagement.

**461ZHA Assurance engagement must be carried out in accordance with auditing and assurance standards**

An assurance practitioner must, in carrying out an assurance engagement under this Part, comply with all applicable auditing and assurance standards.

**461ZHB Assurance practitioner's report**

- (1) The assurance practitioner's report on the climate statements or group climate statements prepared by an entity under any of sections 461Z to 461ZC must comply with the requirements of all applicable auditing and assurance standards.
- (2) If the assurance practitioner's report indicates that the requirements of this Part have not been complied with, the assurance practitioner must, within 20 working days after signing the report, send a copy of the report, and a copy of the climate statements or group climate statements to which it relates, to—
  - (a) the FMA; and
  - (b) the External Reporting Board; and
  - (c) in the case of a climate reporting entity that is an issuer of debt securities or a manager of a registered scheme, the supervisor.
- (3) An assurance practitioner who contravenes subsection (2) commits an offence and is liable on conviction to a fine not exceeding \$50,000.

**461ZHC Assurance engagement may cover other parts of climate statements**

- (1) Section 461ZH does not prevent the assurance engagement from covering the whole, or other parts, of the climate statements or group climate statements.
- (2) If an assurance engagement does cover the whole, or other parts, of the statements,—
  - (a) the assurance practitioner's report must separately identify the matters that are required to be the subject of the assurance engagement under section 461ZH; and
  - (b) this subpart applies, with any necessary modifications, in relation to the whole of the assurance engagement.
- (3) In this section, other parts, in relation to climate statements or group climate statements, means any part or parts of those statements that are not required by section 461ZH to be the subject of the assurance engagement.

*Assurance practitioner access to information*

**461ZHD Climate reporting entity must give assurance practitioner access to information**

- (1) Every climate reporting entity must ensure that an assurance practitioner appointed for an assurance engagement under this Part has access, at all times, to—
  - (a) the CRD records of the climate reporting entity or scheme; and
  - (b) any other documents of the climate reporting entity or scheme that are relevant to the assurance engagement.
- (2) If a climate reporting entity contravenes subsection (1), every director of the entity commits an offence and is liable on conviction to a fine not exceeding \$50,000.
- (3) In any proceeding against a director for a contravention of subsection (1), it is a defence if the director proves that—
  - (a) the climate reporting entity took all reasonable steps to ensure that subsection would be complied with; or
  - (b) the director took all reasonable steps to ensure that the climate reporting entity complied with that subsection; or
  - (c) in the circumstances, the director could not reasonably have been expected to take steps to ensure that the climate reporting entity complied with that subsection.

**461ZHE Assurance practitioner may require information and explanations from director or employee**

- (1) An assurance practitioner appointed for an assurance engagement under this Part is entitled to require from a director or an employee of the climate reporting entity the information and explanations that the assurance practitioner thinks necessary for the performance of their duties as assurance practitioner.
- (2) A director or an employee who fails to comply with a requirement to provide information or an explanation under subsection (1) commits an offence and is liable on conviction to a fine not exceeding \$50,000.
- (3) In any proceeding against an employee for failing to comply with a requirement to provide information or an explanation under subsection (1), it is a defence if the employee proves that—
  - (a) the employee did not have the information required in their possession or under their control; or
  - (b) by reason of the position occupied by the employee or the duties assigned to them, they were unable to give the explanations required.

## Agenda item 6.2 Issues paper on engagement level requirements

1. We recommend that the interim standard require compliance with ISAE 3410 or ISO 14064-3. Building on this requirement, we aim to develop a short assurance standard that layers any additional specific requirements relevant to this regime only when such additions are needed<sup>1</sup>.

### **Where the XRB standard may need to be “layered”**

2. We explored whether application of ISAE or ISO standards needed to be supplemented in terms of the assurance process over the GHG disclosures in the climate report. We explored two specific topics:
  - a. Challenges in assuring scope 3 GHG emissions and whether existing standards are adequate. The feedback received from the panel, and in our consultations to date, indicate that ISAE 3410 and ISO 14064-3 are not broken in this regard. We therefore recommend that no additional specification is needed at this stage.
  - b. Differences between the two standards. Staff consider that ISAE 3410 and ISO 14064-3, provide a substantively similar basis for gathering evidence to support a conclusion on a GHG statement. Areas of difference identified included (but are not limited to):
    - i. Absence of requirements in ISO relating to reliance on work of others (e.g., reliance on management expert, reliance on the work of other assurance practitioners who are not engaged by the assurance practitioner, use of service organisations etc.).
    - ii. Varying details of what the engagement agreement with a client must include.
    - iii. ISO include a list of specific procedures that an assurance practitioner should undertake, ISAE 3410 has application material regarding site visits but does not specify procedures.
    - iv. Obtaining written representations (representation letters) from management are only required by ISAEs
    - v. Responsibilities for other information presented with GHG disclosures are only addressed by ISAEs.
    - vi. The level of application material is considerably limited in ISO standards.
3. Reliance on work of others is an area consistently highlighted in our outreach as a something to consider. We recommend including the corresponding requirements for reliance on work of others from ISAE 3000 into the XRB standard.
4. This is an area where guidance outside the standard may be needed to assist all practitioners given the broader range of practitioner involved.
5. We also considered the following reasons for layering requirements above the ISAE or ISO:
  - The narrow and specific scope of this assurance regime. We recommend including requirements:
    - a. To specify the scope of the XRB standard (i.e. applies to the parts of the climate statements relating to greenhouse gas emissions required by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 to be assured.
    - b. Relating to the effective date to specify the temporary nature of the standard (i.e. from and to date).
    - c. To comply with either ISO or ISAE standards.
    - d. To deal with the description of the applicable criteria which comprises of the NZ CSs AND the recognised standard for measurement of GHG emissions.

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<sup>1</sup> Requirements relating to ethical principles and quality management are addressed separately.



## Agenda item 6.2 Issues paper on engagement level requirements

- e. For when the scope of the engagement is greater than just the mandatory GHG disclosures and what the report should say about this (due to specific legislative requirements in this regard).
- The assurance report: Given that the only visible outcome of the assurance engagement will be the assurance report, it is vital to have an adequate level of consistency to avoid confusing users of the report. Given the challenges of assuring scope 3 emissions, we received feedback from practitioners that the assurance reporting plays a key role to enable effective communication with intended users. The need for an adequate level of consistency between assurance reports, regardless of which assurance standard is applied, as well as the need for appropriate and adequate “reporting tools” to enable effective communications to intended users beyond the “minimum” reporting requirements have led us to recommend additional layering.

### Layering the assurance reporting requirements

- 6. The layering of reporting requirements has two specific objectives:
  - To specify additional minimum requirements for all assurance reports to ensure that an appropriate level of consistency is achieved between assurance practitioners.
  - To facilitate meaningful communication to users by requiring or encouraging reporting tools.

### Minimum assurance reporting requirements

- 7. We considered whether the standard should specify every minimum requirement for the report, to ensure that all assurance reports are consistent. We have compared the minimum reporting requirements of ISO 14064-3 and ISAE 3410 and consider that there is a reasonable level of alignment between these requirements. We recommend that the XRB assurance standard does not have to specify the minimum requirements in detail. This may result in some variation.
- 8. Some of the differences between the two standards in terms of their minimum reporting requirements that we identified include:
  - a. ISAE 3410 includes the following requirements that are not included in ISO 14063-3:
    - i. Where GHG information is included together with other information that is not part of the engagement, the assurance report must contain a statement that clarifies this and state that no conclusions are provided in relation to this other information. As this is particularly relevant to assurance engagements over GHG Disclosures (which are part of the entity’s Climate Statement) we recommend this minimum requirement be included in the XRB standard as follows:

The assurance report shall clearly identify which information is excluded from the assurance engagement, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion is expressed.
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- ii. The assurance report must identify the ethical and quality management requirements that the practitioner have complied with.

As the XRB standard will include the minimum ethical and quality management requirements we consider there is no need to further layer on this requirement in the XRB standard.

Agenda item 6.2 Issues paper on engagement level requirements

- b. ISO 14064-3 requires the assurance report to include a summary of the GHG statement. We do not believe that this must be a minimum requirement under the XRB assurance standard as including such information in the assurance report, or reference to it in the GHG Disclosures, is unlikely to make a substantive difference to intended users.
- c. The New Zealand version of ISAE (NZ) 3000 requires the assurance report to include a statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries.

XRB has consistently added this requirement to all assurance reports in New Zealand and we recommend this be included in the XRB standard as follows:

The assurance practitioner's report for the assurance engagement shall include a statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries.

- 9. Given the importance of assurance conclusions to the intended users, we recommend that the XRB assurance standard:
  - Require the conclusion to be expressed at the beginning of the assurance report, similar to the auditor's report.
  - Include specific requirements for how the assurance conclusions shall be expressed.
- 10. Given the possibility that different parts of GHG disclosures may be subject to different levels of assurance (e.g. Scope 1 and Scope 2 emissions subject to reasonable level of assurance and Scope 3 subject to limited assurance) we recommend the XRB assurance standard address such situations as follows:

- xx. The first section of the independent assurance report shall include the assurance practitioner's conclusion and shall:
  - (a) Include an appropriate heading:
    - (i) "Conclusion(s)" when all GHG disclosures are subject to limited assurance;
    - (ii) "Opinion(s)" when all GHG disclosures are subject to reasonable assurance;
    - (iii) "Opinion(s) and conclusion(s)" when some GHG disclosures are subject to reasonable assurance and others subject to limited assurance. In such case, the assurance report shall include appropriate sub-headings for "opinions" and "conclusions" as appropriate.
- xx. When the engagement scope includes parts of the climate statements that are subject to reasonable assurance and other parts that are subject to limited assurance, the conclusion shall clearly identify the parts of the climate statements that are subject to each different level of assurance. The conclusions relating to each shall also be distinguished for the intended users.

- 11. When the assurance practitioner's conclusion covers the whole of the climate statement or additional parts of the climate statement other than GHG emissions, the Act requires that the assurance report separately identify the parts of the climate statement relating to GHG emissions from other parts. We therefore recommend the XRB assurance standard address such circumstances.

- xx. When the assurance practitioner’s conclusion covers the whole of the climate statement or parts additional to the parts relating to GHG emissions, the assurance report shall separately identify the parts of the climate statement relating to GHG emissions from other parts.

12. We further recommend the following requirements for how the assurance conclusions are to be expressed:

#### Expressing unmodified conclusions

The assurance practitioner shall express unmodified:

- (a) Opinion(s) (for GHG disclosures subject to reasonable assurance) when the assurance practitioner concludes that the parts of the climate statements subject to the assurance engagement are prepared, in all material respects, in accordance with the applicable criteria. The assurance practitioner’s opinion shall, unless otherwise required by law or regulation, use the following phrase:
- “In our opinion, [specify the parts of the climate statement that are subject to reasonable assurance [...]] are prepared, in all material respects, [...] in accordance with [the applicable criteria].”
- (b) Conclusion(s) (for parts of the climate statements that are subject to limited assurance) when no matter has come to the assurance practitioner’s attention to cause the assurance practitioner to believe that that the parts of the climate statements relating to GHG emissions are not prepared, in all material respects, in accordance with the applicable criteria. The assurance practitioner’s conclusion shall, unless otherwise required by law or regulation, use the following phrase:
- “Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe [specify the parts of the climate statement that are subject to limited assurance [...]] are not prepared, in all material respects, in accordance with [the applicable criteria].”

#### Expressing modified conclusions

1. If the assurance practitioner:
- (a) Conclude that based on the assurance evidence obtained, the parts of the climate statements included in the scope of the engagement are not free from material misstatement; or
- (b) Is unable to obtain sufficient appropriate assurance evidence to conclude that the parts of the climate statements included in the scope of the engagement are free from material misstatement,
- the assurance practitioner shall modify their opinion(s) and/or conclusion(s) in the assurance report using one of the following headings as appropriate:
- Qualified conclusion** (an example for limited assurance engagements with a material misstatement) –
- “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention causes us to believe that GHG Disclosures ...are not prepared, in all material respects, in accordance with the requirements of Aotearoa New Zealand Climate

Standards (NZ CSs) issued by the XRB and measured in accordance with the ‘recognised standard’.”

**Adverse conclusion** (an example for a material and pervasive misstatement for both reasonable assurance and limited assurance engagements) –

“Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, GHG Disclosures ...are not prepared, in all material respects, in accordance with the requirements of Aotearoa New Zealand Climate Standards (NZ CSs) issued by the XRB and measured in accordance with the ‘recognised standard’.

**Disclaimer of conclusion** (an example for a material and pervasive limitation of scope for both reasonable assurance and limited assurance engagements) –

“Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the GHG Disclosures. Accordingly, we do not express a conclusion on that statement.”

Do you support the inclusion of the above paragraph in the XRB assurance standard?

### Reporting tools to facilitate enhanced communications with intended users

1. During our outreach, assurance practitioners urged us to consider the various “tools” that could enable better communication to intended users without detracting from the conclusion. (e.g., emphasis of matter paragraphs, key audit matters (KAM) like reporting and other long form reporting options).
2. These tools include, but are not limited to, ways to:
  - a. Highlight disclosures made by the entity
  - b. Report information about the assurance engagement
  - c. Include long form elements such as:
    - i. Materiality
    - ii. Use of specialists or experts
    - iii. Findings
    - iv. Recommendations
3. We have grouped matters that may enhance communication with intended users into two:
  - 1) General matters affecting the nature of the assurance practitioner’s conclusion.
  - 2) Engagement specific matters which, in the assurance practitioner's view, enhance the communicative value of the assurance report.

The flowchart at agenda item 6.3 illustrates the options we are considering and the illustrative report at agenda item 6.4 is an indicative way in which such tools may be used. In exploring if any of these matters should be required or encouraged in the assurance report, we are also mindful that the GHG disclosures in the climate statements are expected to be relatively brief, and therefore including excessive amounts of information in the assurance report may be disproportionate to what is reported.

### General Matters affecting the nature of the conclusion

4. ISAE 3410 requires a statement that GHG quantification is subject to inherent uncertainty. We recommend that the XRB assurance standard requires information about inherent limitations for preparing GHG emissions information (in particular uncertainty of quantifying GHG emissions) as follows:

Agenda item 6.2 Issues paper on engagement level requirements

The assurance report shall include a statement that GHG quantification is subject to inherent uncertainty.

5. We have considered whether any further description would be useful for users arising from:
- Inherent limitations of quantifying GHG disclosures (including due to its inherent uncertainties and where applicable use of forward-looking information).
  - Inherent limitation of an assurance engagement over GHG disclosures (due to factors such as evidence being persuasive not conclusive, use of sampling techniques, use of materiality, in fraudulent reporting may involve collusion, inherent limitations of any internal control systems etc.)
6. A possible requirement that may include more detail might be:

The assurance practitioner's report shall include a description of any significant inherent limitations associated with the measurement of GHG emissions (in particular Scope 3 emissions) in accordance with the applied measurement criteria.

The assurance practitioner shall consider whether it is appropriate to include a description of any significant inherent limitations of an assurance engagement over GHG information.

Examples of matters that the assurance practitioner may consider include:

- Available assurance evidence is often persuasive not conclusive
- Use of sampling techniques
- Use of materiality
- fraudulent reporting may involve collusion

Due to the inherent limitations of any internal control structure, it is possible that errors or irregularities in the GHG disclosures may occur and not be detected

7. ISO has specific minimum requirements regarding forward-looking information that do not have any corresponding requirements in ISAEs. Including a minimum requirement in the XRB standard will ensure a degree of consistency in reporting across the board. We recommend including the following requirement:

When the measurement of GHG emissions involves significant use of future-oriented information (or forward looking information), the assurance practitioner's report shall include a description of any significant inherent limitations that may arise.

Do you support the inclusion of the above in the XRB assurance standard?

**Engagement specific matters to be addressed by the XRB assurance standard**

8. The assurance practitioner may wish to enhance the communicative value of the assurance report without impacting on the conclusion reached. Such matters are often reported using "long-form" assurance reports. ISAEs address circumstances where the assurance practitioner may wish to provide information beyond the minimum reporting requirements, and label such information under the general heading of "long-form" reporting. ISO do not have any specific requirements regarding long-form reporting neither encouraging nor banning it.

9. The key concern of ISAEs (when providing more information than minimum requirements) seem to be on what must NOT be included, i.e., any statement or expressions that detracts from the assurance conclusion.
10. In the context of GHG disclosures, examples of longer form reporting that we have explored that may be useful include:
  - a. Where the assurance practitioner wants to draw the intended user's attention to a particular GHG Disclosure. (similar in concept to an emphasis of matter paragraph in ISAE 3410)
  - b. Where the assurance practitioner wants to highlight key engagement matters regarding information presented in the GHG Disclosures. (e.g. areas of higher assessed risk of material misstatement, areas where the GHG Disclosures are subject to higher estimation uncertainty (acceptable under the measurement standard). (Similar in concept to key audit matters for audit of financial statements but which is not required for other assurance engagements or for reviews of financial statements).
  - c. Other engagement specific matters that do not directly relate to specific GHG Disclosures. (e.g. engagement terms, criteria applied, disclosure of materiality levels, details of the qualifications and experience of the assurance practitioner and others involved with the engagement, procedures findings relating to particular aspects of the engagement, etc.). Findings are sometimes, but are not required to be reported as part of KAM reporting.
11. Each of the matters may require their own "reporting tool" to layer above existing reporting requirements. For example, matters under 12.a above could be reported using an "Emphasis of Matter" paragraph. While matters under 12.c are often of descriptive nature and do not require further clarification.
12. Matters that may fall under 12.b are of a more complex nature. Reporting such matters would be akin to reporting Key Audit Matters in an audit of financial statements. We have therefore, considered how the KAM approach could be applied in the XRB standard to accommodate a consistent reporting method for such matters.

*Including Additional Information in a Long Form Report*

2. The assurance practitioner shall consider whether it is appropriate to include additional information in a long form report, for example:
  - (a) To draw intended users' attention to a matter presented or disclosed in the subject matter information that, in the assurance practitioner's judgement, is of such importance that it is fundamental to intended users' understanding of the subject matter information (an Emphasis of Matter paragraph)
  - (b) To communicate Key Engagement Matters. When Reporting KEM, the assurance practitioner shall communicate why the matter is a KEM and what the assurance practitioner has done to address it. Examples of KEM may include:
    - i. Where appropriate the assurance practitioner's report may include a description of where the greatest risks of material misstatements in the parts of the climate statements relating to GHG emissions lie in the professional judgement of the assurance practitioner and a summary of how the risks have been addressed.
    - ii. ...
  - (c) Other engagement specific matters including:

Agenda item 6.2 Issues paper on engagement level requirements

- i. Information about materiality considerations so that it is transparent to the intended user what tolerance for misstatement has been applied in conducting the assurance engagement.
- ii. Details of the qualifications and experience of the assurance practitioner and others involved with the engagement.
- iii. Findings relating to particular aspects of the engagement.

We seek views as to whether any or all of these “tools” should be explicitly required or encouraged in the XRB assurance standard.

## Proposed Ethics Requirements Issues Paper

1. This Issues Paper sets out our analysis and recommendation regarding an interim solution for establishing ethical requirements specific to this regime. The recommendation is to exclude the application of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1), for the purpose of this specific engagement, in acknowledgement that not all carbon energy professionals are familiar with the requirements applied by accountants. We recommend to include high level principle-based requirements, specifically relevant to this regime so as not to compromise on ethics and independence.

### Background

2. We have performed a comparison of ethical requirements for those who perform assurance engagements on GHG emissions under ISAE (NZ) standards and ISO standards and other ethical requirements that may be required by accreditation bodies. We have also considered developing/proposed ethical requirements that are being considered in other jurisdictions (Appendix 1 includes a summary of the current international developments).
3. The ethical requirements between PES 1 and ISO show many similarities, but the level of detail and prescription differ.
4. Here is what we have identified:
  - Practitioners applying ISAE (NZ) are required to follow PES 1 or requirements at least as demanding. Practitioners applying ISO follow the ethical requirements included in ISO applicable to GHG verification engagements.
  - Both PES 1 and ISO identify “fundamental principles”. The fundamental principles (FP) included in PES 1 (integrity, objectivity, professional competence and due care, confidentiality and professional behaviour) have their equivalents in ISO principles (impartiality, competence, confidentiality, integrity, due professional care, professional judgement).
  - The independence principle for assurance practitioners within PES 1 is similar to impartiality and independence principles of ISO.
  - There is a common approach that requires the identification, evaluation and address of threats to those FPs. The conceptual framework in PES 1 requires the assurance practitioner to identify, evaluate and address threats to fundamental principles and independence. ISO similarly requires the assurance practitioner to identify, evaluate and address threats to impartiality.
  - PES 1 includes many examples of circumstances that give rise to threats and examples of safeguards that might apply to reduce those threats. There are some specific prohibitions or added requirements that are layered onto the fundamental principles and conceptual framework. PES 1 is more detailed than in ISO in this regard.



- ISO similarly includes specific prohibitions, some of which differ from or that are not included directly in PES 1, e.g. relating to consultancy services.
  - The prohibitions in PES 1 and ISO do not contradict each other and are not in contradiction with the fundamental principles and conceptual framework.
5. Given that we are developing an interim standard, with a limited shelf life, that allows both accountant and carbon energy assurance practitioners to participate, with the aim of building capacity in the system, enabling a new profession to emerge, and one that does not compromise of independence or quality, we recommend the standard include minimal principle-based requirements.
  6. The above analysis informed the development of the approach recommended by staff as follows:
    - Deactivate PES 1
    - Establish requirements to identify, evaluate and address threats the fundamental principles.
    - Consider whether there are any specific prompts or examples to highlight relevant to this regime
    - Consider whether there are any specific prohibitions that are especially important in the context of this regime.
  7. We seek views on this approach in the first instance, and then seek feedback on the developing requirements or recommendations under each set in this approach. Indicative requirements to include in the developing standard are reflected in boxes.

### Proposed ethical requirements

#### **Deactivation of PES 1**

##### *Requirement to make PES 1 not applicable*

8. Under the Financial Reporting Act (FRA) 2013, the XRB has the mandate to issue auditing and assurance standards for “any other enactment that requires a person to comply with those standards; or the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association’s members to comply with those standards”.<sup>1</sup>
9. “Auditing and assurance standards may (a) have general or specific application: (b) differ according to differences in time or circumstance. Auditing and assurance standard may include

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<sup>1</sup> S12 of the Financial Reporting Act 2013

professional and ethical standards that govern the professional conduct of [...] assurance practitioners”.<sup>2</sup>

10. PES 1, issued by the XRB, is an existing auditing and assurance standard that applies to assurance practitioners. The XRB have adopted the International Code of Ethics, written in the context of professional accountants, and amended the scope for the purposes of our mandate, making it applicable to all assurance practitioners.
11. PES 1 applies to all those who perform assurance engagements, if they are required to follow XRB standards, even if they are not part of the accountancy profession (PES 1, par. NZ1.2).
12. GHG assurance engagements are currently also performed by non-accountant professionals. Currently, these carbon energy professionals are not required to apply PES 1 as they perform engagements in accordance with other standards.
13. It is not in the public interest to exclude this group of professionals from performing mandatory GHG assurance engagements under this new regime.
14. To enable capacity and the emergence of a “new profession” in New Zealand, we propose that the interim standard explicitly excludes the requirement to comply with PES 1 in the context of this limited scope mandatory GHG assurance engagement.
15. At the same time, we see the importance of principle-based ethics and independence requirements. Therefore, the “deactivation” of PES 1 will be followed by ethical and independence requirements at a principled level. This should allow all capable professionals to perform independent assurance engagements and at the same time ensure an even playing field in that all professionals apply the same ethical requirements.
16. We therefore recommend the inclusion of the following requirement

Requirement 1: For the purpose of this standard, an assurance practitioner is not required to comply with PES 1 but is required to comply with the ethical and independence requirements set out in paragraphs x to x.
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### **Ethical requirements relating to fundamental principles and threats**

#### *Requirement to comply with fundamental principles*

17. We recommend that at a minimum the exposure draft should establish requirements to identify, evaluate and address threats to the fundamental principles. In the first instance this requires identification of the fundamental principles.

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<sup>2</sup> S20 of the Financial Reporting Act 2013

18. We have added “independence” to the fundamental principles identified by PES 1 in Part 1 since it is a fundamental requirement for assurance practitioners in PES 1 in Part 4 and it is included in the ISO principles at the level together with other principles.

Requirement 2: A firm shall comply with the fundamental principle of independence. An assurance practitioner shall comply with each of the following fundamental principles:

- Independence
- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality
- Professional behaviour

*Requirement to identify threats to fundamental principles*

19. We recommend that the interim standard requires to the assurance practitioner to identify, evaluate and address threats to compliance with the fundamental principles. This is similar to the conceptual framework approach in PES 1 and with ISO requirements.
20. PES 1 and ISO have similar definitions of the following four threats: self-interest threat, self-review threat, familiarity threat, intimidation threat. ISO does not have advocacy threat identified; however ISO recognise that the four threats defined are not an exhaustive list and other threats might exist.
21. To avoid any misunderstanding and to promote clarity, we propose to use PES 1 definitions of all the five threats.

Requirement 3: An assurance practitioner shall identify, evaluate and address threats to compliance with fundamental principles.

Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner’s judgement or behaviour;
- (b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made, or an activity performed by the assurance practitioner, or by another individual within the assurance practitioner’s firm, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;

(c) Advocacy threat – the threat that an assurance practitioner will promote a client’s position to the point that the assurance practitioner’s objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.

*Requirement to reduce the threats to acceptable level*

22. The identification of threats would be followed by the requirement to eliminate or reduce them to an acceptable level, where the acceptable level is defined through the lenses of an external party.
23. PES 1 refers to a “reasonable and informed third party test” in the assessment of whether a threat is at an acceptable level:
  - “An acceptable level is a level at which an assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles” (PES 1, Par.120.7 A1).
  - “The reasonable and informed third party test is a consideration by the assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner’s conclusions in an impartial manner” (PES 1, Par. 120.5 A6).
24. We have explored definitions of “third party” in other standards:
  - ISO refers to an interested party and concepts of openness and public perception.
  - Financial Reporting Council (FRS) in UK refers to “objective, reasonable and informed third party” in their ethical standard.
  - Securities and Exchange Commission in US refers to “a reasonable investor with knowledge of all relevant facts and circumstances” (Rule 2-01 (b) of S-X Regulations).

25. Given the above approaches, and our aim for simplicity of the language in our interim standard we recommend the following requirements:

Requirement 4: All threats to fundamental principles shall be eliminated or reduced to an acceptable level.

An acceptable level is a level when a reasonable and informed third party, having access to all relevant facts, could conclude that the assurance practitioner has complied with fundamental principles.

A reasonable and informed third party means that the third party would possess knowledge and experience to understand the relevant facts and would be able to evaluate the assurance practitioner's conclusions in an impartial manner.

*Independence considerations*

26. Independence remains crucial to maintain trust and confidence in GHG assurance engagements. Therefore, we recommend additional explanations regarding independence.
27. ISO independence principle refers to "remaining impartial", "free from bias", "free from conflict of interest", "maintaining objectivity". Other terms used are: "lack of prejudice", "neutrality", "fairness", "open-mindedness", "even-handedness", "detachment", "balance". These characteristics could be grouped into two independence "aspects" identified by PES 1: independence of mind and independence in appearance. Therefore, we have modelled our explanation on PES 1 (par.120.15 A1).

Explanation 1: Independence comprises:

(a) Independence of mind – the state of mind that enables reaching conclusions without being affected by influences that compromise professional judgement

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that assurance practitioner's integrity, objectivity or professional scepticism has been compromised.

References to an assurance practitioner or firm being "independent" mean that the assurance practitioner or firm has complied with the independence requirements.

**Specific prohibitions relevant to the regime**

28. Over and above the conceptual framework approach to including requirements, we have considered what additional requirements or application material is especially relevant for the interim period in which the standard will apply.
29. During our outreach so far, we heard concerns regarding providing advice, special tools (including IT solutions) and consulting services to entities subject to assurance engagements. Various stakeholders highlighted that it is important to clarify that these services create threats to fundamental principles, including independence.
30. Although our aim is to build a principle based standard, we consider that it would be beneficial to include specific prohibitions. This would clarify that our principles apply to these specific situations and allowed consistent application of the principles included in our interim standard.

*Consultancy prohibition and/or a self-review threat prohibition*

31. Our analysis of ISO standards identified one straight prohibition relating to consulting services. Consulting services is defined very broadly and relate to any activities that impact the information that is subject to the assurance engagement. As a principle this seems similar to prohibiting “assuring your own work”.
32. We consider that this incorporated as a principle, rather than a rule, by including a self-review threat prohibition, similar to the prohibition for public interest entities subject to audit or review that is included in the revised PES 1 applicable from December 2022<sup>3</sup>. This prohibition is especially relevant for this regime and we recommend it is addressed explicitly in our interim standard.
33. Although a consultation prohibition and self-review threat prohibition should result in the same outcome, reference to self-review threat is more principle based. We recommend that we follow PES 1 approach to be maintain principle-based approach of our interim standard.

Requirement 5: A firm shall not provide any services that might create a self-review threat when performing GHG emissions assurance.
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<sup>3</sup> Relevant extracts from PES 1 applicable from December 2022:

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.

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.

*Assuming management responsibility prohibition*

34. Through the review of the specific prohibitions in PES 1 we identified that the prohibition of management responsibility would be of high relevance to this GHG assurance engagement. Therefore, we recommend a prohibition in our interim standard and examples of management responsibility modelled on PES 1 (part. 600.7 A3 and 950.6 A3)

Requirement 6: A firm shall not assume management responsibility related to GHG emissions measurement or disclosures.

Examples of assuming management responsibility include:

- Setting policies and strategic direction
- Directing and taking responsibility for the actions of employees in relation to the employee' work for the entity
- Deciding which recommendations of the assurance practitioner or third parties to implement
- Taking responsibility for designing, implementing, monitoring and maintaining internal controls relating to GHG emissions
- Taking responsibility for the preparation of the GHG emissions disclosures

**Specific scenarios or prompts to consider threats relevant to this regime**

35. Some feedback received during our outreach highlighted concerns regarding financial interests as particularly important. To reinforce the message that GHG assurance practitioners remain independent we recommend including a specific requirement modelled on PES 1 subsection 910.

Requirement 7: A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

- (a) The firms; or
- (b) An assurance team member or any of that individuals' immediate family.

When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

*Explanation regarding direct and indirect financial interest:*

A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, this is considered to be a direct interest. When a beneficial owner has no control over the intermediary or ability to influence its investment decisions, this is considered as indirect interest.

*Explanation regarding materiality of a financial interest:*

In determining whether a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

36. We have reviewed the specific requirements included in Part 3 (Application of the Code, Fundamental Principles and Conceptual Framework) and Part 4B (Independence for Assurance Engagements Other than Audit and Review Engagements) of PES 1 to identify any further relevant scenarios or prompts.
37. The following additional situations/prompts might be relevant for the regime:
- Fees
  - Loans and guarantees
  - Business relationships (including temporary personnel assignments)
  - Recent service with an assurance client (including being director, officer, influential employee)
  - Serving as a Director or Officer of an Assurance Client
  - Long Association
  - Provision of Non-assurance services
38. Although the above outlined situations could relate to GHG assurance engagement, we consider that an assurance practitioner would navigate these situations through applying fundamental principles.
39. At this stage, we do not recommend including further specific requirements for these matters in order to maintain the high-level principle-based approach of the interim standard. However, we will explore the need for further specific requirements by means of a survey (to be undertaken in the near term) across carbon professionals and accounting professionals. If the survey highlights key differences in current practice that indicates a need for standardisation, we will recommend further specific prohibitions especially important in the regime to add to the developing draft standard.

#### **Documentation requirements**

40. We have also reviewed PES 1 and ISO to identify documentation requirements that would be relevant. We recommend that compliance with fundamental principles, including independence requirements is documented by an assurance practitioner, as well as any breaches and how they were addressed. We have modelled the requirements on paragraphs R900. modelled on paragraphs R900.30, R900.40, R900.50 and R900.55 in PES1.

#### *Independence period*

Requirement 8: Independence shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the GHG disclosures.



*Independence documentation*

Requirement 9: An assurance practitioner shall document conclusions regarding compliance with fundamental principles and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the assurance practitioner concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

*When a breach of independence is identified by assurance practitioner*

Requirement 10: If an assurance practitioner concludes that a breach of independence requirement has occurred, the assurance practitioner shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach;
- (b) Evaluate the significance of the breach and its impact on the assurance practitioner's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

*Documentation*

Requirement 11: In complying with paragraph xx, the assurance practitioner shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the assurance practitioner or those charged with governance.

If the assurance practitioner continues with the assurance engagement, it shall document:

- (a) The conclusion that, in the assurance practitioner's professional judgement, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the assurance practitioner could issue an assurance report.

**41. We seek the Board's views on the recommended interim solution for ethical requirements.**

## International context

### *SEC Proposal*

1. The Securities and Exchange Commission (SEC) proposed new rules relating to climate-related disclosures in March 2022. It is proposed that entities disclose Scope 1 and Scope 2 of GHG emissions. Scope 3 emissions are required if they are material or if an entity set their reduction targets that include Scope 3. The SEC proposes that entities need to obtain an attestation report for reported Scope 1 and Scope 2 GHG emissions with some transition periods (one year without assurance and two years with limited level of assurance before the reasonable assurance is required).
2. It is proposed that the GHG emissions attestation provider is a person or a firm with the following characteristics:
  - “Is an expert in GHG emissions by virtue of having significant experience in measuring, analyzing, reporting, or attesting to GHG emissions. Significant experience means having sufficient competence and capabilities necessary to:
    - perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
    - enable the service provider to issue reports that are appropriate under the circumstances
  - Is independent with respect to the registrant, and any of its affiliates, for whom it is providing the attestation report, during the attestation and professional engagement period”.
3. The proposed independence requirements for GHG emissions attestation providers are modelled on requirements for auditors of the financial statements:
  - “GHG emissions attestation provider is not independent if during the attestation and professional engagement period such attestation provider is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that such attestation provider is not, capable of exercising objective and impartial judgment on all issues encompassed within the attestation provider’s engagement”.
  - “in determining whether a GHG emissions attestation provider is independent, the Commission will consider:
    - whether a relationship or the provision of a service creates a mutual or conflicting interest between the attestation provider and the registrant (or any of its affiliates), places the attestation provider in the position of attesting to such attestation provider’s own work, results in the attestation provider acting as management or an

employee of the registrant (or any of its affiliates), or places the attestation provider in a position of being an advocate for the registrant (or any of its affiliates);and

- all relevant circumstances, including all financial or other relationships between the attestation provider and the registrant (or any of its affiliates), and not just those relating to reports filed with the Commission”.

### *European Union Sustainability Directive*

4. On 21 June 2022, the European Parliament and the Council of the European Union reached a provisional political agreement on the Corporate Sustainability Reporting Directive (the Directive). As at the date of this Issues Paper the Directive is still subject to approval process. The Directive requires the reporting of sustainability information by specified entities in the management report section of the annual report. The sustainability information, including Scope 1, 2 and 3 GHG emissions will be subject to assurance. The level of assurance is phased in: initially limited and later reasonable assurance will be required.
5. Member States may allow the assurance of the sustainability information to be carried by:
  - A statutory auditor or
  - an audit firm other than the one carrying out the statutory audit of financial statements or
  - Other independent assurance service provider.
6. An Independent assurance services providers should be subject to requirements that are equivalent to those set out in Directive 2006/43/EC (the directive that regulates statutory auditors) as regards the assurance of sustainability reporting. In particular, Member States should set out equivalent requirements as regards to:
  - training and examination,
  - continuing education,
  - quality assurance systems,
  - professional ethics, independence, objectivity confidentiality and professional secrecy,
  - appointment and dismissal,
  - investigations and sanctions
  - the organisation of the work of the independent assurance services providers, in particular in terms of sufficient resources and personnel and the maintenance of client account records and files; and
  - reporting irregularities.
7. There are also particular requirements set out for the statutory auditors carrying our assurance of sustainability information of public-interest entities. The statutory auditor shall not directly or indirectly provide to the audited entity the following services:

- services that involve playing any part in the management or decision-making of the audited entity
- bookkeeping and preparing accounting records and financial statements
- designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
- valuation services, including valuations performed in connection with actuarial services or litigation support services
- legal services, with respect to:
  - i. the provision of general counsel
  - ii. negotiating on behalf of the audited entity; and
  - iii. acting in an advocacy role in the resolution of litigation
- services related to the audited entity's internal audit function
- services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity
- promoting, dealing in, or underwriting shares in the audited entity
- human resources services, with respect to:
  - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
    - searching for or seeking out candidates for such position; or
    - undertaking reference checks of candidates for such positions;
  - ii. structuring the organization design; and
  - iii. cost control.

## Proposed Quality Management Requirements Issues Paper

1. This Issues Paper sets out our analysis and recommendation regarding an interim solution for establishing quality management (QM) requirements specific to this regime.
2. Similar to the approach to ethics requirements, the recommendation is to exclude the application of Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements (PES 3), in acknowledgement that not all carbon energy professionals are familiar with the requirements applied by accountants, but to include high level principle-based requirements so as not to compromise on quality.

### Background

3. We have performed a comparison of the QM requirements included in PES 3 to the requirements included in ISO standards.
4. The QM requirements between PES 3 and ISO show some similarities, but the level of detail and prescription differ.
5. Here is what we have identified:
  - Both PES 3 and ISO require a system of quality management.
  - There are differences in terminology, however both PES 3 and ISO identify the main elements of the system that encompass risk assessment, responses to identified risks and monitoring.
  - PES 3 requires a firm to establish specific quality objectives, identify and assess risks relating to the quality objectives and design and implement responses to address the quality risks. There are prescribed quality objectives across six components of quality management system and prescribed specified responses. There are no equivalent prescriptive requirements in ISO standards.
6. Given that we are developing an interim standard, with a limited shelf life, that allows both accountant and carbon energy assurance practitioners to participate, with the aim of building capacity in the system, enabling a new profession to emerge, and one that does not compromise of independence or quality, we recommend the standard include minimal principle-based requirements.
7. The above analysis informed the development of the approach recommended by staff as follows:
  - Deactivate PES 3
  - Establish requirements to implement a system of quality management.
  - Include requirements relating to risk assessment and monitoring and appropriate documentation.

8. We seek views on this approach in the first instance, and then seek feedback on the developing requirements or recommendations under each set in this approach.

### Proposed quality management requirements

#### **Deactivation of PES 3**

##### *Requirement to make PES 3 not applicable*

9. PES 3 applies to all those who perform assurance engagements in accordance with XRB standards (PES 3, par. 5).
10. Non-accountant carbon energy professionals do not currently perform engagements in accordance with XRB standards and therefore do not apply PES 3, rather comply with ISO standards. Preparing for the application of the revised PES 3 standards may be perceived as a barrier to entry for carbon energy professionals who are less familiar with this regime and have had less time to prepare.
11. It is not in the public interest to exclude this group of carbon energy professionals from performing mandatory GHG assurance engagements under the new regime.
12. To enable all competent assurance practitioners to contribute to climate -related developments in New Zealand, including assurance engagements, we propose that our interim standard directly deactivates the requirement to comply with PES 3 for these limited scope mandatory GHG assurance engagements. At the same time, we see the importance of principle-based quality management requirements. Therefore, the “deactivation” of PES 3 will be followed by principled-based QM requirements. This should level the playing field and allow all capable professionals to perform assurance engagements in accordance with the XRB interim standard.

Requirement 1: For the purpose of this standard, an assurance practitioner is not required to comply with PES 3 but is required to comply with the quality management requirements set out in paragraphs x to x.

#### **Requirement to establish system of quality management**

13. We have modelled our recommended requirements on the PES 3 principles in a language that will be understood by non-accountants without an in-depth understanding of PES 3. The first requirement would be to establish system of quality management.

Requirement 2: The firm shall design, implement and operate a system of quality management.

14. The words “firm” and “system of quality management” have wide meaning. Therefore, we recommend defining how these words should be understood in the context of our interim standard.

15. We have compared definition of a firm in PES 3 and an equivalent term in ISO standards:
- PES 3 definition of firm is: “Firm – can be a sole assurance practitioner, partnership, body or corporation or other entity of assurance practitioners, or public sector equivalent
  - ISO/IEC 17029:2019 refers to a verification body: “body that performs verification, a verification body can be an organisation, or part of an organisation”.

We recommend that our interim standard builds on these two definitions.

16. ISO does not have definition of system of quality management, rather it refers to “management system”. Therefore, we recommend the definition taken from PES 3.

Definitions:

Firm – is an organisation or part of an organisation performing GHG assurance engagement. Firm can be a sole assurance practitioner, partnership, body or corporation or other entity of assurance practitioners, or public sector equivalent

System of quality management – a system that shall provide the firm with high level of assurance that:

- (i) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct assurance engagements in accordance with such standards and requirements; and
- (ii) Assurance reports issued by the firm or assurance practitioners are appropriate in the circumstances

#### **Requirements relating to risk assessment and monitoring**

17. The main principle of PES 3 is that the system of quality management is risk based and specific to the firm’s nature and operations. We have therefore included this principle in our recommended requirements:

Requirement 3: The firm shall apply a risk-based approach in designing, implementing and operating the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm.

18. We recommend adding additional explanation of the objective of the risk assessment process:

Requirement 4: The firm shall design and implement a risk assessment process to:

- a) establish objectives relating to quality (quality objectives)
- b) identify and assess risks relating to quality (quality risks)
- c) design and implement responses to address the quality risks.

19. PES 3 clearly identifies areas where the risk assessment process should be applied (“components of quality management system”). ISO equivalent requirements are not categorised in the same areas and sometimes are named differently. To ensure consistency of the application of the quality management requirements between practitioners applying our interim standard, we recommend the following requirement:

Requirement 5: When designing and implementing a risk assessment process, the firm shall consider the following areas:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources
- Information and communication.

20. The next requirement deals with the need to monitor and take actions necessary to respond to any identified deficiencies. Both PES 3 and ISO require monitoring activities and a remediation process (in ISO referred to as management review, internal audits and corrective actions). In this case ISO requirements are more prescriptive than PES 3. We recommend the inclusion of the following principle-based level requirement.

Requirement 6: The firm shall establish a monitoring and remediation process to:

- (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
- (b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis

**Documentation requirements**

21. While the ISO standard refers to documentation requirements in general terms (documentation should be available, suitable for use and adequately protected), PES 3 includes specific requirements of what should be documented in relation to system of quality management of a firm. We recommend that our interim standard include the following requirement:

Requirement 7: The firm shall prepare documentation of its system of quality management that is sufficient to:

- (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and the performance of engagements;
- (b) Support the consistent implementation and operation of the responses; and



(c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

**22. We seek the Board's views on the recommended interim solution for quality management requirements.**

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	7.1
<b>Meeting date:</b>	10 August 2022
<b>Subject:</b>	Service Performance Information Project Update
<b>Date:</b>	25 July 2022
<b>Prepared By:</b>	Lisa Thomas

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. For the Board to :
  - I. NOTE the update on the project to develop a standard for auditing Service Performance Information (SPI) in conjunction with the Office of the Auditor-General, that meets the requirements of the public sector.
  - II. PROVIDE feedback on the issues paper at agenda item 7.2.

### Background

2. The XRB has issued financial reporting requirements, for example, PBE FRS 48 Service Performance Reporting, that requires both public sector and not-for-profit entities to report information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information as part of the general-purpose financial report. The nature of the service performance information is different from the financial information included within the financial statements but needed to better meets user needs given that public benefit entities have aims that relate to serving the community or society. Given this information is part of GPFR, where there is a statutory requirement for an audit of the GPFR, the audit opinion covers both the financial and “non-financial” service performance information.
3. NZ AS 1 The Audit of Service Performance Information (NZ AS 1) was issued in February 2019 for the audit of service performance information for both the public and not-for-profit sector. The Office of the Auditor-General however expressed concern that the standard is not fit for purpose for the public sector and indicated an intention to continue to apply AG-4 *The Audit of Performance Reports* in public sector audits.
4. The effective date of the standard was deferred until 1 January 2023 to enable time to address these concerns.
5. Representatives from the XRB and the Office of the Auditor-General formed an advisory group in early 2022, which meets monthly, to discuss the development of an auditing standard for service performance information that meets the requirements of the public sector.

6. Representatives from the OAG are Greg Schollum (Deputy Controller and Auditor-General) and David Eng (Director of Performance Reporting), Grant Taylor from EY and from the XRB Mark Maloney (also OAG), John Kensington, and Lisa Thomas. The meetings are chaired by Karen Shires (PwC).
7. A “greenfields” approach is being explored. The most challenging aspect of the audit of service performance information was identified as being the assessment of “appropriate and meaningful” service performance information and materiality, so these topics have been prioritised in the first instance.

#### **Matters to Consider**

8. From these discussions, the advisory group have a number of matters for the NZAuASB to note. These are included in the issues paper at agenda item 7.2

#### **Next Steps**

9. The advisory group are working to an ambitious timeline. Work will continue with drafting of key areas followed by a full review of the draft proposed standard by the advisory group. The Board will be updated regularly with progress and timing of an exposure draft for either late 2022 or early 2023.

#### **Recommendations**

10. We recommend that the Board notes the update from the SPI advisory group.

#### **Material Presented**

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Issues Paper

The advisory group have reached the following preliminary positions for the drafting of a revised auditing standard on service performance information (SPI).

### *Scope*

1. The main objective of the advisory group is to recommend a SPI auditing standard fit for purpose for the public sector, addressing the concerns raised by the Office of the Auditor General regarding NZ AS 1 *The Audit of Service Performance information*.
2. Although this is the main objective the advisory group felt that having a standard that was applicable to both the not-for-profit and public sector was preferable. It is considered that whilst the public sector is kept at the forefront of mind the standard should be developed to be fit for purpose for both sectors. Where an issue is particularly unique for the public sector, the advisory group would consider if it should be addressed in the SPI audit standard or a supplementary Auditor-General standard.
3. There are a number of laws and regulations around the reporting for performance information for the public sector. Whilst some of these are required to be prepared in accordance with generally accepted accounting practice (GAAP) others include wider performance information.
4. At times the Auditor-general may require parts of this wider performance information to be reported and audited. As the nature and scope may vary, and the future of integrated reporting evolves, it would be difficult to draft an auditing standard now to include this wider information.
5. The advisory group considers that the scope of the auditing standard is limited to reporting of SPI in accordance with applicable financial reporting frameworks such as PBE FRS 48 for tier 1 and 2 entities.

### *Holistic Approach*

6. The NZ financial reporting frameworks require both the financial statements and SPI, which may consist of mainly non-financial information, to be reported together in the same GPFR.
7. The audit of the GPFR is undertaken in accordance with the ISAs (NZ). The objective for the SPI audit standard is to require compliance with the ISAs (NZ) and to address additional requirements for those aspects of SPI that the other ISAs (NZ) do not address given the ISAs focus on financial information.
8. So as not to repeat applicable ISAs (NZ) in the draft SPI standard, the advisory group considers that in the upfront section a requirement is included that the auditor shall apply both the ISAs (NZ) and the SPI standard when auditing service performance information. This will prevent duplication of requirements in the SPI standard and avoid making the standard unnecessarily long. The requirements in the SPI standard would be limited to specific considerations required by the auditor due to the nature of SPI.

### *Structure*

9. The reporting requirements for SPI enable the entity to have flexibility in how and what they report. As the requirements aren't as specific as requirements for financial information, the auditor is required to assess whether the SPI is appropriate and meaningful.
10. The advisory group considers that the SPI auditing standard reflect a two-step process, requiring the auditor to firstly assess whether the SPI to be reported fairly reflects the

performance of the entity i.e. is appropriate and meaningful and then to collect evidence as to whether it contains any material misstatements.

11. Also, when drafting of the SPI auditing standard, the advisory group are avoiding duplicating requirements of the preparer whilst at the same time recognising the importance that the auditing standard aligns with the reporting requirements. The advisory group considers that the requirements for the auditor should not place additional onus on the preparer beyond the applicable financial reporting framework.

#### *Professional Judgement*

12. The audit of SPI can require a significant amount of professional judgement due to the nature of SPI. This is particularly relevant when assessing whether the SPI selected by the entity is appropriate and meaningful and assessing materiality.
13. The advisory group considers it important to emphasis the need to apply professional judgement in the standard and noted the importance of having a good understanding of the entity to do this effectively. This would be achieved through building professional judgement into the requirements along with guidance in the form of questions and examples. This approach is preferred to guide the auditor to the areas they should be thinking about, whilst at the same time avoiding creating a checklist that may stifle professional judgement being applied.

#### *Appropriate and Meaningful*

14. The assessment of whether the SPI is appropriate and meaningful is a challenging area for the auditor. It involves having a good understanding of the entity, knowing what is relevant to reflect to fairly reflect the entity's performance and understanding what is important to users. This is achieved by balancing a number of qualitative characteristics.
15. To address this, the advisory group is considering posing a series of questions/prompts for the auditor to consider that address risks associated with the qualitative characteristics.

#### *Materiality*

16. With financial information, professional judgement is used when applying a percentage to a chosen benchmark such as total revenue and assessing whether disclosures are adequate.
17. The consideration of materiality for service performance information requires a significant amount of professional judgement. With SPI, materiality is considered in two main aspects of the audit being 1) whether the information reported is appropriate and meaningful and 2) whether there are material misstatements in what is reported.
18. Due to the various SPI metrics that may be disclosed, a single level of materiality (as used for financial information) is unlikely to be able to be applied to assess material misstatements.
19. Due to the difference in approach for materiality compared to financial information, the advisory group is considering including a requirement for the auditor to consider materiality at these two points during the audit, and the high level of professional judgement required when making these decisions.
20. The requirement would be principle based with examples included within application guidance. The examples will be used to demonstrate situations in how professional judgement may be applied when considering materiality.
21. In addition, a stand back requirement is being considered at both points of the assessment of materiality for the auditor to consider misstatements individually and collectively.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	8.1
<b>Meeting date:</b>	10 August 2022
<b>Subject:</b>	IAASB ED – disclosure of the application of the public interest entity (PIE) independence requirements by firms
<b>Date:</b>	28 July 2022
<b>Prepared By:</b>	Tracey Crookston

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Action Required

For Information Purposes Only

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### Agenda Item Objective

1. The objective of this agenda item is for the Board to CONSIDER and provide FEEDBACK on the draft comment letter (**agenda item 8.3**) to the IAASB on its recent exposure draft (**agenda item 8.2**) relating to public disclosure of the application of the public interest entity (PIE) independence requirements by firms.

### **Background**

2. The IESBA and the IAASB have agreed to coordinate with each other to achieve convergence between the concepts of “public interest entity” and “publicly traded entity” in the IESBA and IAASB standards, to the extent possible.
3. As part of this convergence process, the IAASB has recently issued an ED to operationalise the IESBA’s transparency requirement for a firm to disclose whether the PIE independence requirements have been applied. The ED proposes narrow scope amendments to ISA 700 (Revised), *Forming an Opinion on Financial Statements* and ISA 260 (Revised), *Communication with Those Charged with Governance*.
4. Further proposals are due to be tabled at the IAASB meeting in December, including:
  - (a) whether the IAASB should adopt the IESBA definitions of “publicly traded entity” and “public interest entity”;
  - (b) the objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs; and
  - (c) which entities the existing differential requirements for listed entities in the ISQMs and ISAs should apply to, using a case-by-case approach.

*Proposed revisions to ISA 700 (Revised) – conditional disclosure requirement*

5. ISA 700 (Revised) requires the auditor to disclose in the audit report, the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code (paragraph 28(c)). It does not require the auditor to disclose whether the PIE independence requirements were applied.
6. The IAASB's preferred approach to operationalising the IESBA transparency requirement, is a conditional requirement that applies only when the relevant ethical requirements require public disclosure that independence requirements for audits of financial statements of certain entities (e.g., PIEs) were applied. If the condition is met, the auditor is required to disclose in the auditor's report that the relevant ethical requirements for independence for those entities were applied.
7. To support the application of the IAASB's preferred approach application material has been proposed. In addition, the illustrative auditor's reports in the Appendix of ISA 700 (Revised) that apply to listed entities have been updated to demonstrate how the disclosures can be made. Excerpts of the proposed amendments to illustrative audit reports in ISA 700 (Revised), and how these revisions could be adopted in ISA (NZ) 700, have been included at **Appendix A**. The IAASB has not identified any other illustrative auditor's reports in the remaining ISAs that require a similar update.

*Proposed revisions to ISA 260 (Revised) – new application material*

8. The IAASB agreed that revisions to ISA 260 (Revised) may be necessary to increase transparency with those charged with governance (TCWG) that specific independence requirements for certain entities have been applied.
9. Communication of matters related to independence is already captured by paragraph 17 of ISA 260 (Revised). Therefore, new application material has been proposed to highlight that the auditor may communicate with TCWG that the differential independence requirements have been applied and that this will be disclosed in the audit report.

*ISRE 2400 (Revised), Review of Historical Financial Statements – question in request for comment*

10. The IESBA's focus was on audit engagements. However, the IESBA's requirement would technically apply to review engagements undertaken in accordance with ISREs.
11. In order to amend the international review engagement standards consistent with the revisions in ISA 700 (Revised), the IAASB has suggested amendments could be made to ISRE 2400 (Revised) *Engagements to Review Historical Financial Statements*.
12. ISRE 2400 (Revised) requires the practitioner's report to include a reference to the practitioner's obligation to comply with the relevant ethical requirements. However, the practitioner is not required to provide a statement similar to the requirement in ISA 700 (Revised) to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
13. There may be very limited circumstances when the practitioner is performing a review of financial statements for a PIE (i.e., given the entity is a PIE it is more likely that the financial statements will be subject to audit). In the IAASB's view, if it is determined that changes should be made to ISRE 2400 (Revised), the approach should be consistent with ISA 700 (Revised). Accordingly, a conditional requirement would be introduced in ISRE 2400 (Revised) together with application material and illustrative reports.

14. The IAASB's explanatory memorandum does not mention ISRE 2410 *Review of interim financial information performed by the independent auditor of the entity*. However, this standard is more relevant to review engagements related to PIEs than ISRE 2400 but has not been updated by the IAASB since 2006.
15. In the first instance, the IESBA and IAASB have agreed to seek feedback as to whether there are any jurisdictions that require a review report to state that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

#### Draft comment letter

16. The draft comment letter at **agenda item 8.3** acknowledges that while we are supportive of transparency – and agree that the auditor's report is the most appropriate mechanism for the IAASB to operationalise the IESBA Code's requirement for transparency – we have some concerns with the proposals.
17. Our concerns relate to:
  - (a) this project and other current IAASB projects (e.g., fraud and going concern etc.) having the potential to overload the audit report with boilerplate information, obscuring other useful information in the report. We have noted in our comment letter that this appears to be a move away from the objectives of the recent IAASB project to revise the auditor's report to enhance relevance and communicative value, something users have said is important to them.
  - (b) the proposed audit report amendments being of limited value to users. We have encouraged the IAASB to consider whether users might find it more relevant and useful if information about what it means when the auditor has treated the entity as a PIE is provided rather than simply reporting when the PIE independence requirements have been applied.
  - (c) the risk that users may misinterpret this transparency as meaning some auditors are "more independent" than others. This could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities.
  - (d) ISRE 2410 being more relevant to review engagements related to PIEs than ISRE 2400. We have encouraged the IAASB to add a project to its workplan to update ISRE 2410, which has not been updated since 2006, and to propose amendments to address transparency about independence requirements consistent with ISA 700 (Revised).
18. These matters are outlined in further detail in the draft comment letter.

#### Matters for Board consideration/feedback

19. Board members are being asked to:
  - (a) CONSIDER the exposure draft (**agenda item 8.2**); and
  - (b) CONSIDER and provide FEEDBACK on the draft comment letter (**agenda item 8.3**).

#### Next steps

20. Comments are due to the IAASB by 4 October. As the next NZAuASB meeting is 19 October, we will agree the process for finalisation of the draft comment letter with the Board at the meeting.



Appendix A –

1. **Proposed audit report disclosures – extract from the ED**

**Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

Assumptions:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).
- ...
- The relevant ethical requirements that apply to the audit comprise the IESBA Code of Ethics, together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both.
- ...

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant for our audit of the financial statements in *[jurisdiction]*. ~~and We~~ we have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

**Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

Assumptions:

- Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).
- ...
- The ... relevant ethical requirements that apply to the audit are those of the jurisdiction. The ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose the that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.
- ...

We are independent of the Group in accordance with ~~the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code~~ the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in *[jurisdiction]*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

2. **How these amendments could be included in ISA (NZ) 700 (Revised)**

[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)

...

We are independent of the Company 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 the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

[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)

...

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)* issued by the New Zealand Auditing and Assurance Standards Board, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

...

**Exposure Draft  
July 2022**

*Comments due: October 4, 2022*

*International Standards on Auditing*

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Proposed Narrow Scope Amendments to:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;  
and
- ISA 260 (Revised), *Communication with Those Charged with Governance*,

as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

## **About the IAASB**

This Exposure Draft (ED) was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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## REQUEST FOR COMMENTS

This ED, proposed *Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)*, was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this ED may be modified in light of comments received before being issued in final form. **Comments are requested by October 4, 2022.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

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

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow scope amendments to certain International Standards on Auditing (ISAs) as a result of the revisions to the IESBA Code<sup>1</sup> that require a firm to publicly disclose when a firm has applied the independence requirements for public interest entities (PIEs) (IESBA's transparency requirement). The IAASB approved the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) on June 17, 2022 for exposure.

## Background

### *History of the IESBA Project on Listed Entity and PIE*

2. In December 2019, the International Ethics Standards Board for Accountants (IESBA) approved its project, [Definitions of Listed Entity and Public Interest Entity](#) and published an Exposure Draft in January 2021 [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (2021 IESBA PIE ED).
3. The 2021 IESBA PIE ED discussed various matters that were also relevant to the IAASB standards, particularly the ISQMs<sup>2</sup> and ISAs, and the IESBA incorporated specific questions to seek preliminary views from the IAASB's stakeholders on those matters. This included specific questions about:<sup>3</sup>
  - (a) The overarching objective established by IESBA. This included a question about whether the overarching objective could be used by both the IESBA and the IAASB in establishing differential requirements for certain entities, including how this might be approached for the ISQMs and ISAs.
  - (b) A case-by-case approach for establishing differential requirements for certain entities in the IAASB's Standards. This included a question seeking feedback about the proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to all categories of PIEs.
  - (c) The appropriate mechanism that may be used to publicly disclose when a firm has applied the independence requirements for PIEs. This included a question about whether it would be appropriate to make such disclosure within the auditor's report and if so, how might this be approached in the auditor's report.

The feedback from stakeholders has been used by the IAASB as part of information gathering and research activities in exploring a project on listed entity and PIE.

4. In December 2021, the IESBA approved the revisions to [Part 4A of the IESBA Code and its glossary](#) relating to listed entity and PIE (the revised IESBA Code).<sup>4</sup> The revisions to the IESBA Code become

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<sup>1</sup> The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<sup>2</sup> International Standards on Quality Management

<sup>3</sup> The matters for IESBA consideration included questions 1-14 of the 2021 IESBA PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the 2021 IESBA PIE ED were specific to the IAASB.

<sup>4</sup> See paragraphs R400.20 – R400.21 of the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.

#### *IAASB's Project on Listed Entity and PIE*

5. In March 2022, the IAASB approved a [project proposal](#) to undertake a narrow scope maintenance of standards project on listed entity and PIE, which includes the following project objectives that support the public interest:
  - (a) Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
  - (b) Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
  - (c) Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.
  - (d) Determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements (also see paragraph 3(c)).
6. As the revisions to the IESBA Code become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, the IAASB recognized the need to take more nimble action in respect of the project objective in paragraph 5(d) to support the operationalization of IESBA's transparency requirement. Accordingly, the IAASB determined that it will undertake the project on listed entity and PIE as two tracks:
  - (a) Track 1: A faster-moving track that deals with the project objective in paragraph 5(d), with an effective date that aligns with the revisions to the IESBA Code.
  - (b) Track 2: A separate track that deals with all other project objectives in paragraphs 5(a)–(c), with a later effective date.

This ED deals with the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) in undertaking Track 1 of the IAASB's narrow scope maintenance of standards project on listed entity and PIE.

#### *Coordination Between the IESBA and IAASB*

7. The IESBA and IAASB recognize the importance of coordination between the two Boards to achieve convergence between the concepts of PIE and "publicly traded entity" in the IESBA's and IAASB's standards, to the greatest extent possible. Such convergence enables the interoperability of the proposals made by each Board.
8. Accordingly, throughout the IAASB's and IESBA's projects, there has been extensive coordination between the two Boards through Staff coordination, the participation of IAASB and IESBA correspondent members in the respective Boards' Task Forces, discussions involving representatives of IESBA at the IAASB's Board meetings, joint IESBA-IAASB CAG discussions and joint IESBA-



IAASB Jurisdictional / National Standard Setter (NSS) sessions.

*Background to IESBA's Transparency Requirement*

9. In the 2021 IESBA PIE ED, the IESBA proposed a new transparency requirement for a firm to publicly disclose whether an entity has been treated as a PIE. This proposal was introduced because IESBA recognized that there may be increased uncertainty among the public as to whether an entity has been treated as a PIE by a firm given local variations in the classification of entities that are PIEs and the new proposed requirement on firms to determine if additional entities should be treated as PIEs.
10. In support of the proposed transparency requirement, a few respondents expressed the view that given the objective of the proposals to enhance stakeholder confidence in an entity's financial statements through enhancing confidence in the audit of those financial statements, it is important that stakeholders are aware of whether an entity has been treated as a PIE. However, respondents who did not support the proposed transparency requirement for a firm to disclose if an audit client was treated as a PIE, indicated that it could create confusion, it may not be relevant and more information would need to be provided in order for the disclosure to be useful (please see paragraph 133 of the IESBA's [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) for a further explanation of these views).
11. The IESBA did not specify in the 2021 IESBA PIE ED the mechanism of disclosure and instead sought views from respondents regarding the possible mechanisms to achieve IESBA's transparency requirement. In addition, to assist the IAASB with its initial information gathering, the 2021 IESBA PIE ED asked respondents to comment on whether they believe the auditor's report is a suitable location for such disclosure and, if so, how this might be approached in the auditor's report. Respondents expressed mixed views on the appropriate mechanism to disclose whether a firm has treated an entity as a PIE. While the majority supported the use of the auditor's report as an appropriate mechanism for public disclosure, a number of respondents emphasized their lack of support for requiring firms to determine whether to "treat" additional entities as PIEs and publicly disclose whether they "treated" such entities as PIEs. Other respondents either did not support disclosure in the auditor's report, recommended that more research is needed, or suggested other mechanisms of disclosure.
12. In finalizing the revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE, the IESBA considered the various views. Key decisions taken by the IESBA regarding the proposed new transparency requirement included:
  - (a) Revising the requirement from whether an entity has been "treated" as a PIE to whether the PIE independence requirements have been applied in performing the audit. This was to alleviate the concerns about inadvertently creating a public perception that auditors of PIEs have a higher level of independence than auditors of non-PIEs or that PIE audits are of a higher quality than non-PIE audits.
  - (b) Allowing for an exemption to complying with the requirement if doing so would mean that the firm discloses confidential future plans of the audit client (see paragraph R400.21 of the revised IESBA Code).
  - (c) Clarifying that the disclosure should be made "in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders." This was added by IESBA to alleviate concerns about the auditor's report not always being made available to the public, or when it may have limited distribution.

13. In paragraphs 141–143 of the IESBA’s [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), the IESBA noted the following:
- (a) Further IESBA guidance about acceptable forms of public disclosure could be helpful, particularly as the IAASB is yet to explore if the auditor’s report is a suitable location for such disclosure. In this regard, the IESBA noted that, in addition to the auditor’s report as a possible disclosure avenue, other suggestions from respondents to the IESBA PIE ED included a firm’s transparency report and websites of the firm, the entity or local bodies.
  - (b) The IESBA’s view that it was not appropriate to include examples of other disclosure mechanisms in the Code at the time of finalizing IESBA’s revisions to the Code, given that the IAASB had yet to consider the issue. The IESBA’s reference to “in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders” was intended to provide a more principles-based approach and assist firms when considering the appropriate disclosure mechanism to comply with the transparency requirement.
  - (c) Following the conclusion of the IAASB’s deliberations on the matter, the IESBA will consider the need for any further action on the matter, including whether further guidance or conforming amendments to the IESBA Code would be warranted.

## Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in this ED, but especially those identified in the *Request for Comments* section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with the proposals in the ED, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not stated.

## Section 2 Significant Matters

### Section 2-A – Public Interest Issues Addressed

14. It is in the public interest for the IAASB’s Standards to:
- (a) Operate in harmony with the IESBA Code, and without confusion, given that many jurisdictions utilize both.
  - (b) Acknowledge and not potentially undermine the revisions to the IESBA Code – either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code when it is appropriate to do so.
  - (c) Support or recognize a situation when the IESBA Code requires an action that has relevance to the IAASB’s Standards.
15. Communication between the auditor and stakeholders in a transparent manner enables stakeholders to understand the audit and enhances stakeholders’ confidence that the audit was performed appropriately, thereby building confidence in the financial statements. The IAASB supports the IESBA’s efforts to enhance transparency about the independence requirements applied in performing the audit, given the heightened expectations of stakeholders regarding the independence of the auditor in performing audits of PIEs.

16. The auditor's report is a key mechanism for communication to users about the audit that was performed. Accordingly, the IAASB is proposing narrow-scope amendments to ISA 700 (Revised) to support operationalizing the IESBA transparency requirement. The IAASB is of the view that revising ISA 700 (Revised) to use the auditor's report as the mechanism to achieve IESBA's transparency requirement is appropriate because:

- (a) It enables consistency and comparability in auditor reporting globally when the relevant ethical requirements include transparency requirements about the independence requirements applied for certain entities specified in the relevant ethical requirements;
- (b) It provides a clear mechanism to operationalize the IESBA transparency requirement; and
- (c) The auditor's report is accessible to users of the audited financial statements.<sup>5</sup>

The IAASB notes that there are no other mechanisms in the IAASB Standards that deal with communication to all users of the audited financial statements.

17. Given that communications with those charged with governance address matters related to independence and the form and content of the auditor's report, narrow scope amendments to ISA 260 (Revised) have also been proposed.

## **Section 2-B – The IAASB's Proposed Revisions to ISA 700 (Revised) and ISA 260 (Revised)**

### *Proposed Revisions to ISA 700 (Revised)*

18. Paragraph 28(c) of ISA 700 (Revised) requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. However, it does not require the auditor to further specify whether differential independence requirements in the relevant ethical requirements that are applicable only to audits of financial statements of certain entities were applied, such as the independence requirements for PIEs in the IESBA Code.

19. The IAASB identified two possible approaches to amending the requirement in paragraph 28(c) of ISA 700 (Revised) that would require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied:

- (a) A conditional requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence for those entities were applied.

OR

- (b) A non-conditional requirement that would apply in all circumstances when differential independence requirements for audits of financial statements of certain entities were applied, even if the relevant ethical requirements do not require the auditor to publicly disclose that such differential independence requirements were applied.

20. The IAASB supports a conditional requirement because:

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<sup>5</sup> Paragraphs 144-146 of the IESBA [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), explain the IESBA's considerations regarding what might be an appropriate form of public disclosure, and how IESBA's transparency requirement can be complied with by a firm if the auditor's report is not made available to the public.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED) AS A RESULT OF THE REVISIONS TO THE IESBA CODE THAT REQUIRE A FIRM TO PUBLICLY DISCLOSE WHEN A FIRM HAS APPLIED THE INDEPENDENCE REQUIREMENTS FOR PIEs

- (a) It does not impose an obligation on the auditor to disclose in the auditor’s report that the relevant ethical requirements for independence for those entities were applied if the underlying relevant ethical requirements do not require the auditor to do so. This enables jurisdictions that do not adopt the IESBA Code to determine, in establishing their ethical requirements, whether it is appropriate to have a transparency requirement in their ethical requirements, and whether the transparency requirement should specify circumstances when it is not appropriate to provide such disclosure (e.g., when the disclosure would result in revealing confidential future plans of the entity).
- (b) Mandating disclosure in all circumstances could expand the disclosure to circumstances when relevant ethical requirements, including jurisdictional law or regulation, impose independence requirements on certain entities that are not PIEs, or are only one category of PIEs. For example, jurisdictional law or regulation may contain specific independence requirements for financial institutions.
- (c) Describing the independence requirements applied when there are multiple ethical codes, law or regulation applicable in the circumstances, could become complex if the auditor is also required to explain whether specific independence requirements for certain entities contained in the ethical codes, law or regulation were applied.

21. The proposed amendments to paragraph 28(c) of ISA 700 (Revised) reflect the conditional approach and are neutral regarding:

- (a) The relevant ethical requirements applicable in the circumstances, given that jurisdictional ethical requirements may be applicable in the circumstances. However, explicit references to the IESBA Code are included in the application material as examples.
- (b) The entities to which the differential independence requirements apply (the requirement refers to “certain entities”). Jurisdictional ethical requirements may contain differential independence requirements that apply to categories of entities other than PIEs, and such requirements may require the auditor to publicly disclose when such differential independence requirements have been applied. The IAASB notes that the term “PIE” is not currently used in the requirements of the ISAs and that further consideration of whether the IESBA definition of PIE should be adopted in the ISQMs and ISAs or in the IAASB’s Glossary of Terms will be

The IAASB is aware that certain jurisdictions have modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standards to specify that the statement in the auditor’s report should provide transparency about the differential independence requirements that are applicable to audits of financial statements of certain entities.

*Example:*

In the United Kingdom (UK), the Financial Reporting Council (FRC) modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standard to specify that the statement in the auditor’s report should indicate that the relevant ethical requirements include the FRC’s Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances. Accordingly, where appropriate, the statement in the auditor’s report refers to the ethical requirements that are relevant to the audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities.

addressed as part of Track 2 of its narrow scope maintenance of standards project on listed entity and PIE.

22. To support the application of the conditional element of the requirement in paragraph 28(c) of ISA 700 (Revised), the following application material is proposed:
- (a) An explanation that relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply the differential independence requirements for audits of financial statements of certain entities not specified in the relevant ethical requirements. For example, paragraph 400.19 A1 of the revised IESBA Code encourages firms to determine whether to treat other entities as PIEs for purposes of Part 4A of the IESBA Code, and provides a list of factors for firms to consider in making this determination.
  - (b) A reference to the IESBA Code to provide an example of relevant ethical requirements that have a transparency requirement.
  - (c) An explanation of what is meant by “certain entities” (i.e., those as specified by the relevant ethical requirements, such as PIEs in the IESBA Code).
  - (d) An emphasis on the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure, and a reference to paragraph R400.21 of the revised IESBA Code, which contains an exemption on disclosure in circumstances when doing so will result in disclosing confidential future plans of the entity (e.g., in case of a planned initial public offering, merger or acquisition).
23. In addition, the illustrative auditor’s reports in the Appendix of ISA 700 (Revised) that apply to listed entities have been updated to demonstrate how the disclosures can be made. The IAASB has not identified any other illustrative auditor’s reports in the remaining ISAs that require a similar update.
24. The Appendix to this Explanatory Memorandum further illustrates the impact to the auditor’s report as a result of the proposed amendments to ISA 700 (Revised).

#### *Proposed Revisions to ISA 260 (Revised)*

25. The IAASB agreed that revisions to ISA 260 (Revised) may be necessary to increase transparency with those charged with governance that differential independence requirements for certain entities have been applied. Communication of matters related to independence is already captured by paragraph 17 of ISA 260 (Revised).<sup>6</sup> Accordingly, new application material has been proposed to paragraph A29 of ISA 260 (Revised) to correspond with the revisions to ISA 700 (Revised).

#### *Effective Date*

26. The IAASB anticipates that the final pronouncement will be approved in June 2023. Given the need to align the effective date with IESBA, the IAASB is proposing that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024. The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the amendments to the respective

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<sup>6</sup> In the case of listed entities, paragraph 17(a) of ISA 260 (Revised) requires that the auditor communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

ISAs, for national adoption processes to occur, and for practitioners to update templates and associated internal materials. The IAASB considers that a longer effective date is unnecessary due to the limited nature of the amendments proposed and because it would not be in the public interest to have a prolonged misalignment with the IESBA Code in this regard.

## **Section 2-C – International Standards on Review Engagements (ISREs)**

27. Part 4A of the IESBA Code<sup>7</sup> applies to both audit and review engagements and therefore the revisions to the IESBA Code regarding listed entity and PIE, including the transparency requirement, also apply to review engagements conducted in accordance with the ISREs.
28. The 2021 IESBA PIE ED addressed specific questions for respondents on whether it would be appropriate to disclose when a firm has applied the independence requirements for PIEs within the auditor's report and if so, how this might be approached. When proposing the revisions to the IESBA Code, the focus of the IESBA's discussion was on enhancing transparency about the auditor's assertion of the relevant independence requirements applied in performing an audit of financial statements.
29. In finalizing the IAASB project proposal and determining the scope of the IAASB's work, it was acknowledged that the IESBA's requirement would also apply to review engagements undertaken in accordance with the ISREs. However, recognizing that the IESBA's focus was on enhancing transparency in the auditor's report, the IAASB determined:
  - (a) Not to propose amendments to ISRE 2410<sup>8</sup> as part of this project. This is consistent with previous decisions of the IAASB that the standard is in a pre-clarity format and has not been subject to conforming amendments arising from other IAASB projects in recent years (e.g., quality management projects)<sup>9</sup> to avoid giving the impression that this standard is up to date. In addition, the IAASB notes that:
    - (i) The scope of ISRE 2410 is limited to a review of interim financial information *performed by* the independent auditor of the financial statements of the entity. Accordingly, if the relevant ethical requirements require public disclosure that differential independence requirements that are applicable to audits of financial statements of certain entities were applied, that auditor would be required to provide the disclosure in the auditor's report on the full-period financial statements in accordance with paragraph 28(c) of ISA 700 (Revised).
    - (ii) ISRE 2410 does not preclude the auditor from providing a disclosure that differential independence requirements that are applicable to audits of financial statements of certain entities were applied in the review report, or using paragraph 28(c) of ISA 700 (Revised) and the illustrations in ISA 700 (Revised) as a basis for that disclosure.

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<sup>7</sup> Paragraph 400.2 explains that Part 4A applies to both audit and review engagements and that the terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to "review," "review team," "review engagement," "review client," and "review engagement report."

<sup>8</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>9</sup> The quality management projects include the following suite of standards: ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2, *Engagement Quality Reviews* and ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*.

- (b) To seek stakeholder feedback, as part of this consultation, whether a revision to ISRE 2400 (Revised)<sup>10</sup> would be desirable to address IESBA's requirement for a firm to publicly disclose when it has applied the independence requirements for PIEs in the circumstances of a review engagement, and if so, how this might be approached (see paragraphs 30-33 below). If based on this information gathering the IAASB identifies further action to be taken to revise ISRE 2400 (Revised), then the IAASB could take such action, which is described further in paragraph 33, as part of Track 2 of its narrow scope maintenance of standards project on listed entity and PIE.

*Considering whether to Revise ISRE 2400 (Revised) to Address Circumstances when Relevant Ethical Requirements include a Transparency Requirement*

30. As part of the auditor reporting project,<sup>11</sup> completed by the IAASB in September 2014, the IAASB determined not to amend the practitioner's report under ISRE 2400 (Revised) to align it with the changes introduced to the auditor's report (e.g., the structure of the report and including new elements introduced to the auditor's report).
31. Paragraph 86(j) of ISRE 2400 (Revised) requires the practitioner's report to include a reference to the practitioner's obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements. The practitioner is not required to provide a statement similar to the requirement in paragraph 28(c) of ISA 700 (Revised), which requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
32. The IAASB notes that there may be very limited circumstances when the practitioner is performing a review of financial statements of a PIE, i.e., given the entity is a PIE, it is more likely that the financial statements will be subject to an audit. Furthermore, amending ISRE 2400 (Revised) could raise questions about whether the standard should also be revised to deal with amendments to the auditor's report that were made as part of the auditor reporting project, which goes beyond the scope of this project. Accordingly, the IAASB is cautious about amending ISRE 2400 (Revised) at this time. Nevertheless, the IAASB is interested in stakeholders' views about whether ISRE 2400 (Revised) should be amended.
33. If it is determined that changes should be made to ISRE 2400 (Revised), the IAASB is of the view that the approach should be consistent with ISA 700 (Revised). Accordingly, a conditional requirement could be introduced in ISRE 2400 (Revised), together with application material and illustrations as necessary. The conditional requirement is illustrated below:

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<sup>10</sup> ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

<sup>11</sup> See <https://www.iaasb.org/projects/auditor-reporting>.

**The Practitioner’s Report**

- 86A. In circumstances when the relevant ethical requirements require the practitioner to publicly disclose that differential independence requirements that are applicable to reviews of financial statements of certain entities were applied, the practitioner’s report shall include a statement that:
- (a) Identifies the jurisdiction of origin of the relevant ethical requirements or refers to the *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and
  - (b) Indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements of those entities.

*Matter for IESBA Consideration*

- 34. During the IESBA’s deliberations and its coordination with the IAASB on the transparency requirement, the IESBA’s focus was on audit engagements.
- 35. As highlighted in paragraph 13 above, the IESBA planned to consider the need for any further action following the conclusion of the IAASB’s deliberations on the matters raised in this ED.
- 36. To inform the IESBA’s considerations specifically with respect to review engagements, the IESBA and IAASB have agreed to seek feedback from IESBA’s stakeholders as to whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

**Section 3 Request for Comments**

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

**Request for Specific Comments**

**Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements**

- 1. Do you agree that the auditor’s report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?

*Please answer question 2A or 2B based on your answer to question 1:*

- 2A. *If you agree:*
  - (a) Do you support the IAASB’s proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the Explanatory



Memorandum?

- (b) Do you support the IAASB’s proposed revisions in the ED to ISA 260 (Revised)?
- 2B. *If you do not agree*, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?

**Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements**

- 3. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?
- 4. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in **Section 2-C**?

*Matter for IESBA Consideration*

- 5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner’s report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

**Request for General Comments**

The IAASB is also seeking comments on the following matters:

- 6. Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this ED.
- 7. Effective Date—Given the need to align the effective date with IESBA, do you support the proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024 as explained in paragraph 26?

## Appendix – Illustrative Impact on the Auditor’s Report as a Result of the Proposed Revisions to ISA 700 (Revised)

Illustrative Circumstances					Will disclosure that differential independence requirements were applied be required in the auditor’s report as a result of amending paragraph 28(c) of ISA 700 (Revised)?
E.g.	Relevant ethical requirements that apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	
1	The IESBA Code.	Yes, there are differential independence requirements for PIEs.	Yes	PIE	<p>Yes</p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i>, <u>as applicable to public interest entities</u>.</p>
2	The relevant ethical requirements are those of the jurisdiction.	Yes, the jurisdictional ethical code has differential independence requirements for PIEs.	Yes	PIE	<p>Yes</p> <p>We are independent of the company in accordance with the ethical requirements <u>for public interest entities</u> that are relevant to our audit of the financial statements in <i>[jurisdiction]</i>.</p>

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED) AS A RESULT OF THE REVISIONS TO THE IESBA CODE THAT REQUIRE A FIRM TO PUBLICLY DISCLOSE WHEN A FIRM HAS APPLIED THE INDEPENDENCE REQUIREMENTS FOR PIEs

Illustrative Circumstances					Will disclosure that differential independence requirements were applied be required in the auditor’s report as a result of amending paragraph 28(c) of ISA 700 (Revised)?
E.g.	Relevant ethical requirements that apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	
3	The relevant ethical requirements are those of the jurisdiction.	Yes, the jurisdictional ethical code has differential independence requirements for PIEs.	No	PIE	<p>No – use extant wording</p> <p>We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in <i>[jurisdiction]</i>, and we have fulfilled our other ethical responsibilities in accordance with these requirements.</p>
4	The IESBA Code and there is jurisdictional law applicable to financial institutions that includes independence requirements for the auditor.	<p>Yes</p> <p>The IESBA Code includes differential independence requirements for PIEs.</p> <p>The jurisdictional law only applies to audits of financial institutions.</p>	<p>Only the IESBA Code requires public disclosure.</p> <p>The jurisdictional law does not require the auditor to publicly disclose that they have applied the law.</p>	The entity is a financial institution and qualifies as a PIE.	<p>Yes, but only regarding the IESBA Code</p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i>, <u>as applicable to public interest entities</u>, together with the ethical requirements that are relevant to our audit of the financial statements in <i>[jurisdiction]</i>.</p>

# PROPOSED NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED) AS A RESULT OF THE REVISIONS TO THE IESBA CODE THAT REQUIRE A FIRM TO PUBLICLY DISCLOSE WHEN A FIRM HAS APPLIED THE INDEPENDENCE REQUIREMENTS FOR PIEs

[MARKED-UP FROM EXTANT ISAs]

(Effective for audits of financial statements for periods beginning on or after [DATE])

## ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

...

### Requirements

...

### Auditor's Report

...

#### Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). In circumstances when the relevant ethical requirements require the auditor to publicly disclose that differential independence requirements that are applicable to audits of financial statements of certain entities were applied, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities; and (Ref: Para. A34–A39)

...

### Application and Other Explanatory Material

...

#### Auditor's Report (Ref: Para.20)

...

#### Basis for Opinion (Ref: Para. 28)

...

Relevant ethical requirements (Ref: Para. 28(c))

- A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to an audit of financial statements, together with national requirements that are more restrictive.<sup>1</sup> When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.
- A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A35A. Relevant ethical requirements may require the auditor to:

- Apply differential independence requirements to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. Relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply those differential independence requirements to audits of financial statements of other entities not specified in the relevant ethical requirements.
  - Publicly disclose that the differential independence requirements that are applicable to audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.<sup>2</sup>
- A36. Law or regulation, national auditing standards or the terms of an audit engagement may also require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those related to independence, that applied to the audit of the financial statements.
- A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

...

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<sup>1</sup> ISA 200, paragraph A16

<sup>2</sup> IESBA Code, paragraphs R400.20-R400.21

## Appendix

(Ref. Para A19)

...

### Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).

...

- The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.

...

...

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>3</sup>

...

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction], ~~and~~ we have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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<sup>3</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

...

**Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).

...

- ~~The *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), comprises all of the relevant ethical requirements that apply to the audit.~~ relevant ethical requirements that apply to the audit are those of the jurisdiction. The ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.

...

...

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Consolidated Financial Statements<sup>4</sup>

...

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 ~~the *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code),~~ and we have fulfilled our ~~other ethical responsibilities in accordance with the IESBA Code~~ the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

...

<sup>4</sup> 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.

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

...

### Requirements

...

#### Matters to Be Communicated

...

##### *Auditor Independence*

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
  - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
  - (ii) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. A29–A32)

...

### Application and Other Explanatory Material

...

#### Matters to Be Communicated

...

##### *Auditor Independence* (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.<sup>5</sup> Relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which

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<sup>5</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14



independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

- A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate the circumstances that created the threats.
- A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.<sup>6</sup>
- A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

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<sup>6</sup> See, for example, paragraphs R400.80–R400.82 and R400.84 of the IESBA Code.

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**Note for the NZAuASB**

This comment letter is a first draft with initial responses prepared by staff. The responses have been informed by feedback received from (a) attendees at the recent virtual feedback forum and (b) the Technical Reference Group June pre-meeting; and the 2019 NZAuASB submission to the IESBA on *ED Proposed revision to the definitions of listed entity and public interest entity in the Code*. The staff notes sections are for the NZAuASB's information and will be removed from the final comment letter.

The purpose of this agenda item is to seek Board feedback on the draft cover letter and responses to the IAASB's specific questions. Comments are due to the IAASB by 4 October 2022.

[X] October 2022

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear Willie,

**IAASB ED Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) to operationalise the IESBA transparency requirement in the Code**

Thank you for the opportunity to comment on IAASB ED *Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) due to recent revisions to the IESBA Code*.

We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) on the specific questions raised in the exposure draft (the ED).

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 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.

We agree that the auditor's report is the most appropriate mechanism for the IAASB to operationalise the IESBA Code requirement to publicly disclose when the auditor has applied the specific independence requirements for certain entities. However, while we are supportive of transparency, we have some concerns with the proposals.

We are concerned that with this narrow scope project and other projects (for example the project on fraud and going concern etc.) where the IAASB is exploring adding more to the auditor's report, there is the potential to overload the audit report with boilerplate information. Overloading the audit report with boilerplate information has the potential to obscure other useful information in the report. This appears to be a move away from the objectives of the recent project to revise the auditor's report to enhance relevance and communicative value for users.

We also think the proposed illustrative audit report amendments in the ED are of limited value to users. The amendments assume that audit report users are fully informed about the independence requirements to be applied by firms to the audit of a public interest entity (PIE). We encourage the IAASB to consider whether users might find it more useful and relevant if information about what it means when the auditor has treated an entity as a PIE is provided rather than simply reporting when the PIE independence requirements have been applied.

For example, this could include disclosures as to the number of years that the engagement partner has served and how many more years are permitted in line with the independence requirements and information about any non-assurance services that has been performed for the client. This may have been disclosed by the client in the audit fee disclosures in the financial statements. The audit report could refer to these financial statement disclosures.

We also consider that there is a risk that users may misinterpret this transparency as meaning some auditors are “more independent” than others. This could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities. Therefore, it is important that the disclosure in the audit report enhances user’s understanding of the PIE independence requirements rather simply stating that they have been applied.

On the specific matters for comment relating to review engagements, we think consistency across audit and review reports is desirable. However, given the nature of public interest entities it is more likely that their financial statements will be subject to audit. If they are subject to a review engagement, it will likely be in accordance with ISRE 2410 rather than ISRE 2400 (Revised).

In New Zealand, we have adopted ISRE (NZ) 2400 (Revised). We have not adopted ISRE 2410, however we have NZ SRE 2410 (Revised) which is based on the Australian standard ASRE 2410.

If the IAASB is to update the review engagement standards to address transparency about the relevant independence requirements for certain entities in an approach consistent with ISA 700 (Revised), we think the appropriate and more relevant standard to update is ISRE 2410. As this standard has not been updated since 2006, we encourage the IAASB to add a project to its work plan to update ISRE 2410 and at the same time include amendments to address transparency about requirements for independence in an approach consistent with the revisions in ISA 700 (Revised).

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](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,

**Marje Russ**  
**Chair, NZAuASB**  
Email: [MRuss@tonkintaylor.co.nz](mailto:MRuss@tonkintaylor.co.nz)

## Submission of the New Zealand Auditing and Assurance Standards Board

### **IAASB ED Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) to operationalise the IESBA transparency requirement in the Code**

#### **Request for Specific Comments**

**Q1. Do you agree that the auditor's report is the appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as independence requirements for PIEs in the IESBA Code?**

#### **Staff notes**

- At the New Zealand audit technical reference group (TRG) pre-meeting, TRG members were sceptical about the value to users of the disclosure in the auditor's report that specifies whether the firm has followed the ethical requirements for PIEs.
- The 2021 PIE roundtable poll results indicated that 78% of those polled were not in favour of disclosure in the auditor's report. 22% were in favour.
- The Board has also noted the IAASB's direction of travel with this project and others is to load the auditor's report with too much information.

#### **Response**

1. We agree that the auditor's report is the most appropriate mechanism for the IAASB to operationalise the IESBA Code requirement to publicly disclose when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as independence requirements for PIEs in the IESBA Code.
2. We also acknowledge that there are no other mechanisms in the IAASB Standards that deal with communication to all users of the audited financial statements. Therefore, we understand that in operationalising the IESBA transparency requirement, the audit report is the only suitable option available to the IAASB.
3. However, while we are supportive of transparency, we have some concerns with the proposals. Firstly, we are concerned that with this narrow scope project and other projects (for example the project on fraud and going concern etc.) where the IAASB is exploring adding more to the auditor's report, there is the potential to overload the audit report with boilerplate information. In doing so, it has the potential to obscure other important information in the auditor's report. This appears to be a move away from the objectives of the recent project to revise the auditor's report to enhance relevance and communicative value for users.
4. Secondly, we think the proposed illustrative audit report amendments in the ED are of limited value to users. The amendments assume users are fully informed about the independence requirements to be applied by firms to the audit of a public interest entity (PIE). We encourage the IAASB to consider whether users might find it more relevant and useful if information about what it means when the auditor has treated an entity as a PIE is provided rather than simply reporting when the PIE independence requirements have been applied. For example, this could include disclosures as to the number of years that the engagement partner has served and how many more years are permitted in line with the independence requirements and information about any non-assurance services (NAS) that has been performed for the client. This may have

been disclosed by the client in the audit fee disclosures in the financial statements. The audit report could refer to these financial statement disclosures.

5. When compared with non-PIE clients the application of the PIE independence requirements potentially impacts on the types of NAS that can be performed for the audit client, rotation requirements for the engagement partner and other key partners, employment with an audit client and fees. If these matters were addressed by the audit report or, if the audit report referred to these disclosures in the annual report, we think this would ensure enhanced relevance and a greater communicative value to users than the proposed audit report disclosures.
6. Thirdly, we note that the disclosure may lead to a perception that there are two levels of independence (i.e., a higher level for public interest entity audits and a lower level for the audit of other entities). This could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities. Therefore, it is important that the disclosure in the audit report enhances user's understanding of the PIE independence requirements rather than simply stating that they have been applied.

**Q2. Please answer question 2A or 2B based on your answer to question 1:**

**2A. If you agree:**

- (a) *Do you support the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirements as explained in paragraphs 18-24 of the Explanatory Memorandum?*
- (b) *Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?*

**2B. If you do not agree, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph 400.20 of the IESBA Code?**

**Response**

7. If the IAASB proceeds with the proposed amendments, we are supportive of the IAASB's conditional requirement approach to disclosure in the audit report as part of its proposed revisions to ISA 700 (Revised).
8. We are also supportive of the proposed revisions in the ED to ISA 260 (Revised).

**Q3. *Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?***

**Q4. *If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C?***

**Staff notes**

- The IAASB notes that there may be very limited circumstances when the practitioner is performing a review of financial statements of a PIE, i.e., given the entity is a PIE, it is more likely that the financial statements will be subject to an audit. Also, amending ISRE 2400 (Revised) could raise questions about whether the standard should also be revised to deal with amendments to the auditor's report that were made as part of the auditor reporting project, which goes beyond the scope of this project (see page 13 of the EM).

**Response**

9. We think that consistency across audit and review reports is desirable, however given the nature of public interest entities it is more likely that their financial statements will be subject to audit. If they are subject to review, it will likely be in accordance with ISRE 2410 rather than ISRE 2400 (Revised).
10. Therefore, if the IAASB is to update the review engagement standards to address transparency about the relevant ethical independence requirements for certain entities in an approach consistent with ISA 700 (Revised), we think the appropriate and more relevant standard to update is ISRE 2410.
11. As ISRE 2410 has not been updated since 2006, we encourage the IAASB to add a project to its work plan to update ISRE 2410 and to propose amendments to the revised standard consistent with ISA 700 (Revised) to address transparency about the ethical requirements for independence.

**Matter for IESBA Consideration**

***Q5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.***

**Response**

12. In New Zealand, we have adopted ISRE (NZ) 2400 (Revised). We have not adopted ISRE 2410, however we have NZ SRE 2410 (Revised) which is based on the Australian standard ASRE 2410.
13. NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*, paragraph 36(c) requires the Basis for Conclusion section of the auditor's review report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
14. As outlined above as ISRE 2410 is the most relevant to review engagements for PIEs, but has not been updated for some time, the NZAuASB encourages the IAASB to add the update of ISRE 2410 to its workplan to update the standard and propose amendments to it consistent with ISA 700 (Revised).



**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	9.1
<b>Meeting date:</b>	10 August 2022
<b>Subject:</b>	Quality Management-related Conforming Amendments to the Code and Other Contextual Amendments
<b>Date:</b>	25 July 2022
<b>Prepared By:</b>	Sharon Walker

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

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**Agenda Item Objectives**

1. The objective of this agenda item is for the Board to approve:
  - Amendments to Professional and Ethical Standard 1; *Quality Management-related Conforming Amendments and Other Contextual Amendments to the Code*; and
  - The related signing memorandum.

**Background**

2. The NZAuASB issued its suite of quality management standards, based on the international quality management standards issued by the IAASB, in July 2021. This suite of standards comprises:
  - Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
  - Professional and Ethical Standard 4 *Engagement Quality Reviews*
  - International Standard on Auditing (New Zealand) (ISA (NZ)) 220 (Revised) *Quality Management for an Audit of Financial Statements*
3. As a result of the finalisation of the IAASB quality management suite, the IESBA considered it necessary to make conforming amendments to the international Code. The IESBA released the Exposure Draft, *Proposed Quality Management-related Conforming Amendments to the Code* in August 2021. The proposals in the ED were met with broad support from the 22 respondents, including the NZAuASB. No NZ specific amendments to the proposals were identified.
4. The IESBA finalised its conforming amendments in April 2022. It is now necessary to adopt those conforming amendments in New Zealand, amending Professional and Ethical Standard 1, as follows:
  - References to Professional and Ethical Standard 3 (Amended) are replaced with reference to the new standard, as well as certain concepts and terminology in PES 3 (Amended)

- [Revisions to Professional and Ethical Standard 1: Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) also refers to concepts and terminology in Professional and Ethical Standard 4 which need to be reflected in the Glossary to the Code.
5. In addition to the quality management-related conforming amendments, when finalising [Amendments to Professional and Ethical Standard 1: Revisions to the Fee-Related Provisions of the Code](#) the NZAuASB agreed to adopt the IESBA convention in Part 4A of the Code to use the terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” to apply equally to review, review team, review engagement, review client and review engagement report. As a result of this decision, certain NZ contextual changes have been reversed out of Professional and Ethical Standard 1. These include removing the phrases “or review”, “or a conclusion”, “or key assurance partner”.
  6. The changes to Professional and Ethical Standard 1 have been marked from the extant Code, compiled in June 2022 to include the following:
    - Professional and Ethical Standard 1 Objectivity Amendments
    - Professional and Ethical Standard 1 Fees Amendments
    - Professional and Ethical Standard 1 Non-Assurance Services Amendments

New text is underlined and deleted text is shown using strikethrough

7. The effective date for the conforming amendments is 15 December 2022. This date aligns with the effective date of the quality management suite.

### **Recommendations**

8. We are seeking approval of the amending standard by the NZAuASB. We intend to ask for comments but we do not intend to go through the standard page by page.
9. We recommend that the Board approve the issue of
  - Amendments to Professional and Ethical Standard 1; *Quality Management-related Conforming Amendments and Other Contextual Amendments to the Code*; and
  - The related signing memorandum.

### **Material Presented**

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Draft Amendments to Professional and Ethical Standard 1
Agenda item 9.3	Draft Signing Memorandum



**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: *Quality Management-related Conforming Amendments and Other Contextual Amendments to the Code***

This Standard was issued on [date] by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is 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 +28].

The amendments in this Standard are effective on 15 December 2022.

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:  
QUALITY MANAGEMENT-RELATED CONFORMING AMENDMENTS  
AND OTHER CONTEXTUAL AMENDMENTS TO THE CODE**

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## I. Introduction

This Standard includes amendments to Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

The NZAuASB issued its suite of quality management standards, based on the international quality management standards issued by the International Auditing and Assurance Standards Board (IAASB), in July 2021. This suite of standards comprises:

- Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Professional and Ethical Standard 4 *Engagement Quality Reviews*
- International Standard on Auditing (New Zealand) (ISA (NZ)) 220 (Revised) *Quality Management for an Audit of Financial Statements*

As a result of the finalisation of the IAASB quality management suite, the International Ethics Standards Board for Accountants (IESBA) considered it necessary to make conforming amendments to the international Code. The IESBA finalised its conforming amendments in April 2022.

It is now necessary to adopt those conforming amendments in New Zealand, amending Professional and Ethical Standard 1 to replace certain concepts and terminology, as follows

- References to Professional and Ethical Standard (PES) 3 (Amended) are replaced with reference to the new standard, as well as certain concepts and terminology in PES 3 (Amended)
- Revisions to Professional and Ethical Standard 1: *Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers* also refers to concepts and terminology in Professional and Ethical Standard 4 which need to be reflected in the Glossary to the Code.

In addition, when finalising Amendments to Professional and Ethical Standard 1: *Revisions to the Fee-Related Provisions of the Code*, the NZAuASB agreed to adopt the IESBA convention in Part 4A of the Code to use the terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” to apply equally to review, review team, review engagement, review client and review engagement report. As a result of this decision, certain NZ contextual changes have been reversed out of Professional and Ethical Standard 1.

New text is underlined and deleted text is shown using strikethrough.

## II. QUALITY MANAGEMENT-RELATED CONFORMING AMENDMENTS and OTHER CONTEXTUAL AMENDMENTS TO THE CODE

New text is underlined and deleted text is struck through.

Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to the compiled Professional and Ethical Standard 1.

### SECTION 120

#### THE CONCEPTUAL FRAMEWORK

...

#### Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, ~~the existence of a system of quality management system designed, and implemented and operated~~ by a firm in accordance with the quality management standards issued by the New Zealand Auditing and Assurance Standards Board is an example of such conditions, policies and procedures.

### SECTION 300

#### APPLYING THE CONCEPTUAL FRAMEWORK

...

#### *The Firm and its Operating Environment*

300.7 A5 An assurance practitioner's evaluation of the level of a threat might be impacted by the work environment ~~systems and procedures~~ within the assurance practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.

- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

## SECTION 320

### PROFESSIONAL APPOINTMENTS

#### Client and Engagement Acceptance

##### *General*

...

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
  - The nature of the client's business;
  - The complexity of its operations;
  - The requirements of the engagement; and
  - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as Professional and Ethical Standard 3, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.~~The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~
- The level of fees and the extent to which they have regard to the resources required, taking into account the assurance practitioner's commercial and market priorities.

## SECTION 330

### FEES AND OTHER TYPES OF REMUNERATION

#### Contingent Fees

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.



330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Disclosure to intended users of the work performed by the assurance practitioner and the basis of remuneration.
- Quality ~~control~~ management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

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

### SECTION 400

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

##### Introduction

##### General

- 400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.
- 400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.
- NZ 400.2.1 This Part also applies to engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.
- 400.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.
- 400.4 Professional and Ethical Standard 3<sup>1</sup> (~~Amended~~), ~~Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements~~, requires a firm to establish policies and procedures designed, implemented and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject (including network firm personnel), maintain independence where required by relevant ethics requirements. International Standards on Auditing (New Zealand), International Standards on Review Engagements (New Zealand) and New Zealand Standards on Review Engagements establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. ~~A firm~~ Firms assigns

<sup>1</sup> Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

~~operational responsibility for compliance with independence requirements for a particular action to an individual(s) or a group of individuals (such as an audit team),~~ in accordance with Professional and Ethical Standard 3 ~~(Amended)~~. In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner's activities, interests or relationships.

400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit ~~or review~~ team member's, integrity, objectivity or professional scepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit ~~and review~~ engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

400.7 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

#### **Public Interest Entities**

400.8 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.

- Number of employees.

#### **Reports that Include a Restriction on Use and Distribution**

400.9 An audit report ~~or review report~~ might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

#### **Assurance Engagements other than Audit and Review Engagements**

400.10 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

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

##### **General**

**R400.11** A firm performing an audit ~~or review~~ engagement shall be independent.

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

**NZ R400.12.1** 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.

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##### **Related Entities**

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

**[Paragraphs 400.21 to 400.29 are intentionally left blank]**

#### **Period During which Independence is Required**

**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 report ~~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 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 include:

- 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~~ and non-assurance work 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.

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#### **Network Firms**

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide assurance services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

**R400.51** A network firm shall be independent of the audit or review clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

**R400.52** When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgement to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgement consistently throughout such a larger structure.

**R400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality ~~control~~ management policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality ~~control-management~~ policies and procedures are those designed, implemented and ~~monitored-operated~~ across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of an assurance service. (Ref: Para. R400.53(d)).

400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an audit ~~or review~~ report. (Ref: Para. R400.53(e)).

400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).

400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Partners and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit ~~or review~~ methodology or audit ~~or review~~ manuals.
- Training courses and facilities. (Ref: Para. R400.53(f)).

400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common audit ~~or review~~ methodology or audit ~~or review~~ manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

**R400.54** If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

**[Paragraphs 400.55 to 400.59 are intentionally left blank]**

### **General Documentation of Independence for Audit and Review Engagements**

**R400.60** A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgements in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

**[Paragraphs 400.61 to 400.69 are intentionally left blank]**

### **Mergers and Acquisitions**

#### *When a Client Merger Creates a Threat*

400.70 A1 An entity might become a related entity of an audit or review client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit or review engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

**R400.71** In the circumstances set out in paragraph 400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit or review engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

**R400.72** As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and



- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

**R400.73** If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the assurance practitioner, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit ~~or review~~ or the individual responsible for the engagement quality ~~control~~ review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having an assurance practitioner review the audit, ~~review~~ or non-assurance work as appropriate.
- Having an assurance practitioner, who is not a member of the firm expressing the opinion ~~or conclusion~~ on the financial statements, perform a review that is consistent with the objective of equivalent to an engagement quality control review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R400.74** The firm might have completed a significant amount of work on the audit ~~or review~~ prior to the effective date of the merger or acquisition and might be able to complete the remaining audit ~~or review~~ procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit

~~or review~~ while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(a) to (c); and
- (c) Ceases to be the assurance practitioner no later than the date that the audit report ~~or review report~~ is issued.

*If Objectivity Remains Compromised*

**R400.75** Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the assurance practitioner.

*Documentation*

**R400.76** The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

**[Paragraphs 400.77 to 400.79 are intentionally left blank.]**

**Breach of an Independence Provision for Audit and Review Engagements**

*When a Firm Identifies a Breach*

**R400.80** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
  - (i) Comply with those requirements; and
  - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:

- (i) The engagement partner;
  - (ii) These individual with operational responsibility for the policies and procedures compliance with relating to independence requirements;
  - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
  - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit ~~or review~~ report; and
- (e) Depending on the significance of the breach, determine:
- (i) Whether to end the audit ~~or review~~ engagement; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit ~~or review~~ report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to policies and procedures designed to provide it with reasonable assurance that independence is maintained address independence requirements. It might be necessary to end the audit ~~or review~~ engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report ~~or review report~~, as applicable, will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit ~~or review~~ engagement.
- Whether an audit ~~or review~~ team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit ~~or review~~ team member or another individual for whom there are independence requirements.
- If the breach relates to an audit ~~or review~~ team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion ~~or a conclusion~~.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit ~~or review~~ team.
- Using different individuals to conduct an additional review of the affected audit ~~or review~~ work or to re-perform that work to the extent necessary.
- Recommending that the audit ~~or review~~ client engage another firm to review or re-perform the affected audit ~~or review~~ work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R400.81** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit ~~or review~~ engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

**R400.82** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit ~~or review~~ report;
- (d) The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

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

*Communication of Breaches to Those Charged with Governance*

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

**R400.84** With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:

- (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
- (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

**R400.85** If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit ~~or review~~ engagement in accordance with paragraph R400.81.

*Breaches Before the Previous Audit Report Was Issued*

**R400.86** If the breach occurred prior to the issuance of the previous audit ~~or review~~ report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit ~~or review~~ report in the current period.

**R400.87** The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit ~~or review~~ reports, and the possibility of withdrawing such audit ~~or review~~ reports; and
- (b) Discuss the matter with those charged with governance.

*Documentation*

**R400.88** In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

**R400.89** If the firm continues with the audit ~~or review~~ engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgement, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit ~~or review~~ report.

**SECTION 410**

**FEES**

...

**Requirements and Application Material  
General**

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*Fees Paid by an Audit Client*

...

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly ~~a system of quality~~ ~~the existence of a quality management system~~ designed, ~~and implemented~~ and operated by the firm in accordance with quality management standards issued by the New Zealand Auditing and Assurance Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

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**SECTION 411**

**COMPENSATION AND EVALUATION POLICIES**

**Introduction**

- 411.1 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.
- 411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**General**

- 411.3 A1 When an ~~audit or review~~ team member for a particular ~~audit or review~~ client is evaluated on or compensated for selling non-assurance services to that ~~audit or review~~ client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
  - (b) The role of the individual on the ~~audit or review~~ team; and
  - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.

- Removing that individual from the audit ~~or review~~ team.

411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit ~~or review~~ team member.

**R411.4** A firm shall not evaluate or compensate a key audit ~~or key assurance~~ partner based on that partner's success in selling non-assurance services to the partner's audit ~~or review~~ client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

## SECTION 420

### GIFTS AND HOSPITALITY

#### Introduction

420.1 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.

420.2 Accepting gifts and hospitality from an audit ~~or review~~ client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

#### Requirement and Application Material

**R420.3** A firm, network firm or an audit ~~or review~~ team member shall not accept gifts and hospitality from an audit ~~or review~~ client, unless the value is trivial and inconsequential.

420.3 A1 Where a firm, network firm or audit ~~or review~~ team member is offering or accepting an inducement to or from an audit ~~or review~~ client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.

420.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm, network firm or audit ~~or review~~ team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

## SECTION 430

### ACTUAL OR THREATENED LITIGATION

#### Introduction

430.1 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.

- 430.2 When litigation with an audit ~~or review~~ client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

### **Application Material**

#### **General**

- 430.3 A1 The relationship between client management and audit ~~or review~~ team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an audit ~~or review~~ client and the firm, a network firm or an audit ~~or review~~ team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
  - Whether the litigation relates to a prior audit ~~or review~~ engagement.
- 430.3 A3 If the litigation involves an audit ~~or review~~ team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the audit ~~or review~~ team.
- 430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

## **SECTION 510**

### **FINANCIAL INTERESTS**

#### **Introduction**

- 510.1 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.
- 510.2 Holding a financial interest in an audit ~~or review~~ client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

##### **General**

- 510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.



510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit ~~or review~~ client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

**Financial Interests Held by the Firm, a Network Firm, Audit ~~or Review~~ Team Members and Others**

**R510.4** Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit ~~or review~~ client shall not be held by:

- (a) The firm or a network firm;
- (b) An audit ~~or review~~ team member, or any of that individual’s immediate family;
- (c) Any other partner in the office in which an engagement partner practices in connection with the audit ~~or review~~ engagement, or any of that other partner’s immediate family; or
- (d) Any other partner or managerial employee who provides non-~~assurance~~ ~~audit~~ services to the audit ~~or review~~ client, except for any whose involvement is minimal, or any of that individual’s immediate family.

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

**R510.5** As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an audit ~~or review~~ client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

**Financial Interests in an Entity Controlling an Audit ~~or Review~~ Client**

**R510.6** When an entity has a controlling interest in an audit ~~or review~~ client and the client is material to the entity, neither the firm, nor a network firm, nor an audit ~~or review~~ team

member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

#### **Financial Interests Held as Trustee**

**R510.7** Paragraph R510.4 shall also apply to a financial interest in an audit ~~or review~~ client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the audit ~~or review~~ team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the audit ~~or review~~ client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit ~~or review~~ client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the audit ~~or review~~ client: the trustee, the audit ~~or review~~ team member or any of that individual's immediate family, the firm or a network firm.

#### **Financial Interests in Common with the Audit ~~or Review~~ Client**

**R510.8** (a) A firm, or a network firm, or an audit ~~or review~~ team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit ~~or review~~ client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the audit ~~or review~~ team member and that individual's immediate family member and the audit ~~or review~~ client, as applicable; or
  - (ii) The audit ~~or review~~ client cannot exercise significant influence over the entity.
- (b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit ~~or review~~ team member, the individual or that individual's immediate family member shall either:
- (i) Dispose of the interest; or
  - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

#### **Financial Interests Received Unintentionally**

**R510.9** If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit ~~or review~~ client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- (a) If the interest is received by the firm or a network firm, or an audit ~~or review~~ team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) (i) If the interest is received by an individual who is not an audit ~~or review~~ team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
- (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

### **Financial Interests – Other Circumstances**

#### *Immediate Family*

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit ~~or review~~ team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit ~~or review~~ client is also known to have a financial interest in that entity.

510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the audit ~~or review~~ team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit ~~or review~~ team member with the financial interest from the audit ~~or review~~ team.

510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit ~~or review~~ team member.

#### *Close Family*

510.10 A5 A self-interest threat might be created if an audit ~~or review~~ team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit ~~or review~~ client.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the audit ~~or review~~ team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the audit ~~or review~~ team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit ~~or review~~ team member.

*Other Individuals*

510.10 A9 A self-interest threat might be created if an audit ~~or review~~ team member knows that a financial interest in the audit ~~or review~~ client is held by individuals such as:

- Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
- Individuals with a close personal relationship with an audit ~~or review~~ team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm's organisational, operating and reporting structure.
- The nature of the relationship between the individual and the audit ~~or review~~ team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit ~~or review~~ team member with the personal relationship from the audit ~~or review~~ team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the audit ~~or review~~ team member from any significant decision-making concerning the audit ~~or review~~ engagement.
- Having an appropriate reviewer review the work of the audit ~~or review~~ team member.

*Retirement Benefit Plan of a Firm or Network Firm*

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit ~~or review~~ client.

## SECTION 511

### LOANS AND GUARANTEES

#### Introduction

- 511.1 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.
- 511.2 A loan or a guarantee of a loan with an audit ~~or review~~ client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

##### Loans and Guarantees with an Audit ~~or Review~~ Client

- R511.4** A firm, a network firm, an audit ~~or review~~ team member, or any of that individual’s immediate family shall not make or guarantee a loan to an audit ~~or review~~ client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
  - (b) The client.

##### Loans and Guarantees with an Audit ~~or Review~~ Client that is a Bank or Similar Institution

- R511.5** A firm, a network firm, an audit ~~or review~~ team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an audit ~~or review~~ client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 511.5 A2 Even if a firm or network firm receives a loan from an audit ~~or review~~ client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the audit ~~or review~~ client or firm receiving the loan.
- 511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an audit ~~or review~~ team member, from a network firm that is not a beneficiary of the loan.

*Deposits or Brokerage Accounts*

**R511.6** A firm, a network firm, an audit ~~or review~~-team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit ~~or review~~-client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

**Loans and Guarantees with an Audit ~~or Review~~-Client that is Not a Bank or Similar Institution**

**R511.7** A firm, a network firm, an audit ~~or review~~-team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an audit ~~or review~~-client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

**SECTION 520**

**BUSINESS RELATIONSHIPS**

**Introduction**

520.1 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.

520.2 A close business relationship with an audit ~~or review~~-client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**General**

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

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

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.

- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm or a network firm distributes or markets the client's products or services, or the client distributes or markets the firm or a network firm's products or services.

#### **Firm, Network Firm, Audit ~~or review~~ Team Member or Immediate Family Business Relationships**

**R520.4** A firm, a network firm or an audit ~~or review~~ team member shall not have a close business relationship with an audit ~~or review~~ client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit ~~or review~~ team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit ~~or review~~ client or its management and the immediate family of an audit ~~or review~~ team member.

#### **Common Interests in Closely-Held Entities**

**R520.5** A firm, a network firm, an audit ~~or review~~ team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit ~~or review~~ client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

#### **Buying Goods or Services**

520.6 A1 The purchase of goods and services from an audit ~~or review~~ client by a firm, a network firm, an audit ~~or review~~ team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit ~~or review~~ team.

## SECTION 521

### FAMILY AND PERSONAL RELATIONSHIPS

#### Introduction

- 521.1 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.
- 521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an audit ~~or review~~ team member and a director or officer or, depending on their role, certain employees of the audit ~~or review~~ client.
- 521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the audit ~~or review~~ team.
  - The role of the family member or other individual within the client, and the closeness of the relationship.

##### Immediate Family of an Audit Team Member

- 521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an audit ~~or review~~ team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.
- 521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the audit ~~or review~~ team member.
- 521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit ~~or review~~ team.
- 521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit ~~or review~~ team so that the audit ~~or review~~ team member does not deal with matters that are within the responsibility of the immediate family member.



- R521.5** An individual shall not participate as an audit ~~or review~~ team member when any of that individual's immediate family:
- (a) Is a director or officer of the audit ~~or review~~ client;
  - (b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion; or
  - (c) Was in such position during any period covered by the engagement or the financial statements.

**Close Family of an Audit ~~or Review~~ Team Member**

- 521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an audit ~~or review~~ team member is:
- (a) A director or officer of the audit ~~or review~~ client; or
  - (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~.

521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the audit ~~or review~~ team member and the close family member.
- The position held by the close family member.
- The role of the audit ~~or review~~ team member.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit ~~or review~~ team.

521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit ~~or review~~ team so that the audit ~~or review~~ team member does not deal with matters that are within the responsibility of the close family member.

**Other Close Relationships of an Audit ~~or Review~~ Team Member**

**R521.7** An audit ~~or review~~ team member shall consult in accordance with firm policies and procedures if the audit ~~or review~~ team member has a close relationship with an individual who is not an immediate or close family member, but who is:

- (a) A director or officer of the audit ~~or review~~ client; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the audit ~~or review~~ team member.
- The position the individual holds with the client.
- The role of the audit ~~or review~~ team member.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit ~~or review~~ team.

521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit ~~or review~~ team so that the audit ~~or review~~ team member does not deal with matters that are within the responsibility of the individual with whom the audit ~~or review~~ team member has a close relationship.

#### **Relationships of Partners and Employees of the Firm**

**R521.8** Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A partner or employee of the firm or network firm who is not an audit ~~or review~~ team member; and
- (b) A director or officer of the audit ~~or review~~ client or an employee of the audit ~~or review~~ client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~.

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the audit ~~or review~~ team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit ~~or review~~ engagement.
- Having an appropriate reviewer review the relevant audit ~~or review~~ work performed.

**SECTION 522**

**RECENT SERVICE WITH AN AUDIT ~~OR REVIEW~~ CLIENT**

**Introduction**

- 522.1 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.
- 522.2 If an audit ~~or review~~ team member has recently served as a director or officer, or employee of the audit ~~or review~~ client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**Service During Period Covered by the Audit ~~or Review~~ Report**

- R522.3** The audit ~~or review~~ team shall not include an individual who, during the period covered by the audit ~~or review~~ report:
- (a) Had served as a director or officer of the audit ~~or review~~ client; or
  - (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~.

**Service Prior to Period Covered by the Audit ~~or Review~~ Report**

- 522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit ~~or review~~ report, an audit ~~or review~~ team member:
- (a) Had served as a director or officer of the audit ~~or review~~ client; or
  - (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion ~~or a conclusion~~.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit ~~or review~~ engagement.

- 522.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position the individual held with the client.
  - The length of time since the individual left the client.
  - The role of the audit ~~or review~~ team member.
- 522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the audit ~~or review~~ team member.

**SECTION 523**

**SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT ~~OR REVIEW~~ CLIENT**

**Introduction**

- 523.1 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.
- 523.2 Serving as a director or officer of an audit ~~or review~~ client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**Service as Director or Officer**

**R523.3** *–[Amended by the NZAuASB. Refer to NZ R523.3.1]*

**NZ R523.3.1** A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or receiver of an audit ~~or review~~ client of the firm.

**Service as Company Secretary**

**R523.4** A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit ~~or review~~ client of the firm, unless:

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit ~~or review~~ client. (More information on providing non-assurance services to an audit client is set out in Section 600, *Provision of Non-assurance Services to an Audit ~~or Review~~ Client*.)

**SECTION 524**

**EMPLOYMENT WITH AN AUDIT ~~OR REVIEW~~ CLIENT**

**Introduction**

524.1 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.

524.2 Employment relationships with an audit ~~or review~~ client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**All Audit ~~or Review~~ Clients**

524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit ~~or review~~ team member or partner of the firm or a network firm:

- A director or officer of the audit ~~or review~~ client.
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~.

*Former Partner or Audit ~~or Review~~ Team Member Restrictions*

**R524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:

- (a) A former partner who has joined an audit ~~or review~~ client of the firm; or
- (b) A former audit ~~or review~~ team member who has joined the audit ~~or review~~ client, if either has joined the audit ~~or review~~ client as:
  - (i) A director or officer; or
  - (ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
- (b) Any amount owed to the individual is not material to the firm or the network firm; and
- (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

- 524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.
- 524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit ~~or review~~ client of the firm.
- 524.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
  - Any involvement the individual will have with the audit ~~or review~~ team.
  - The length of time since the individual was an audit ~~or review~~ team member or partner of the firm or network firm.
  - The former position of the individual within the audit ~~or review~~ team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.
- 524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:
- Modifying the audit ~~or review~~ plan.
  - Assigning to the audit ~~or review~~ team individuals who have sufficient experience relative to the individual who has joined the client.
  - Having an appropriate reviewer review the work of the former audit ~~or review~~ team member.

*Audit ~~or Review~~ Team Members Entering Employment with a Client*

- R524.5** A firm or network firm shall have policies and procedures that require audit ~~or review~~ team members to notify the firm or network firm when entering employment negotiations with an audit ~~or review~~ client.
- 524.5 A1 A self-interest threat is created when an audit ~~or review~~ team member participates in the audit ~~or review~~ engagement while knowing that the audit ~~or review~~ team member will, or might, join the client at some time in the future.
- 524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit ~~or review~~ team.
- 524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that individual while on the team.

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

*Key Audit ~~or Key Assurance~~ Partners*

- R524.6** Subject to paragraph R524.8, if an individual who was a key audit ~~or key assurance~~ partner with respect to an audit ~~or review~~ client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~,

independence is compromised unless, subsequent to the individual ceasing to be a key audit ~~or key assurance~~ partner:

- (i) The audit ~~or review~~ client has issued audited ~~or reviewed~~ financial statements covering a period of not less than twelve months; and
- (ii) The individual was not an audit ~~or review~~ team member with respect to the audit ~~or review~~ of those financial statements.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

**R524.7** Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit ~~or review~~ client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~or a conclusion~~,

independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Business Combinations

**R524.8** As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm as applicable;
- (c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former partner's position held with the audit ~~or review~~ client with those charged with governance.

**SECTION 525**

**TEMPORARY PERSONNEL ASSIGNMENTS**

**Introduction**

- 525.1 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.
- 525.2 The loan of personnel to an audit ~~or review~~ client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**General**

- 525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit ~~or review~~ client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
  - Not including the loaned personnel as an audit ~~or review~~ team member might address a familiarity or advocacy threat.
  - Not giving the loaned personnel audit ~~or review~~ responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit ~~or review~~ client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R525.4** A firm or 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) Such personnel will not assume management responsibilities and the audit ~~or review~~ client is responsible for directing and supervising the activities of such personnel;
  - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
  - (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.



**SECTION 540**

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

**Introduction**

- 540.1 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.
- 540.2 When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material**

**All Audit Clients**

- 540.3 A1 Although an understanding of an audit ~~or review~~ client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with:
- (a) The audit ~~or review~~ client and its operations;
  - (b) The audit ~~or review~~ client's senior management; or
  - (c) The financial statements on which the firm will express an opinion ~~or a conclusion~~ or the financial information which forms the basis of the financial statements.
- 540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.
- 540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
    - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
    - How long the individual has been an engagement team member, and the nature of the roles performed.
    - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
    - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.

Agenda item 9.2

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit ~~or review~~ client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit ~~or review~~ engagement over a long period of time would be rotating the individual off the audit ~~or review~~ team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit ~~or review~~ team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit ~~or review~~ team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

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

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

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

**Commented [SW1]:** Not included in conforming amendments. Confirmed with IESBA Staff – conforming amendment is proposed in the Engagement team and group audit ED.

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

**R540.5** Subject to paragraphs R540.7 to R540.9, in respect of an audit ~~or review~~ of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years<sup>2</sup> (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality review; or
- (c) Any other key audit ~~or key assurance~~ partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

**R540.6** In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit ~~or key assurance~~ partner on the same audit ~~or review~~ engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

**R540.7** As an exception to paragraph R540.5, key audit ~~or key assurance~~ partners whose continuity is especially important to audit ~~or engagement~~ quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit ~~or key assurance~~ partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

...

Cooling-off Period

...

Service in a combination of key audit partner roles

**R540.14** If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

**R540.15** Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality ~~control~~ review for four or more cumulative years, the cooling-off period shall be three consecutive years.

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<sup>2</sup> Law, regulation or other standards may specify a shorter time-on period.

**R540.16** If an individual has acted in a combination of engagement partner and engagement quality ~~control~~-reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R540.17** If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

...

## SECTION 800

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

#### Introduction

800.1 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.

800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits ~~or reviews~~ of special purpose financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an “eligible audit ~~or review~~ engagement.”

#### Requirements and Application Material

##### General

**R800.3** When a firm intends to issue a report on an audit ~~or review~~ of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
- (b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

...

**R800.5** When the firm performs an eligible audit ~~or review~~ engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm

shall not apply these modifications when an audit ~~or review~~ of financial statements is required by law or regulation.

**R800.6** If the firm also issues an audit ~~or review~~ report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A to that audit ~~or review~~ engagement.

#### **Public Interest Entities**

**R800.7** When the firm performs an eligible audit ~~or review~~ engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit ~~or review~~ engagements.

#### **Related Entities**

**R800.8** When the firm performs an eligible audit ~~or review~~ engagement, references to “audit ~~or review~~ client” in Part 4A do not need to include its related entities. However, when the audit ~~or review~~ team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm’s independence of the client, the audit ~~or review~~ team shall include that related entity when identifying, evaluating and addressing threats to independence.

#### **Networks and Network Firms**

**R800.9** When the firm performs an eligible audit ~~or review~~ engagement, the specific requirements regarding network firms set out in Part 4A do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

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

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

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

**Commented [SW2]:** Not included in QM conforming amendments. Confirmed with IESBA Staff – conforming amendment proposed in engagement team and group audit ED

~~review~~ client and others within the firm who can directly influence the outcome of the audit ~~or review~~ engagement.

800.10 A1 Others within a firm who can directly influence the outcome of the audit ~~or review~~ engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit ~~or review~~ engagement partner in connection with the performance of the audit ~~or review~~ engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

**R800.11** When the firm performs an eligible audit ~~or review~~ engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit ~~or review~~ client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

**R800.12** When the firm performs an eligible audit ~~or review~~ engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit ~~or review~~ client.

#### **Employment with an Audit ~~or Review~~ Client**

**R800.13** When the firm performs an eligible audit ~~or review~~ engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

#### **Providing Non-Assurance Services**

**R800.14** If the firm performs an eligible audit ~~or review~~ engagement and provides a non-assurance service to the audit ~~or review~~ client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

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

### **SECTION 900**

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

##### **Introduction**

##### **General**

900.3 ~~Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, requires a firm to establish policies and procedures~~ requires a firm to design, implement and operate a system of quality management for assurance engagements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject. ~~ed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards.~~ In addition, International Standards on Assurance Engagements (New Zealand), Standards on Assurance Engagements and International Standards on Auditing (New Zealand) establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm ~~Firms~~ assigns operational responsibility for compliance with independence requirements a particular action to an individual(s) or a group of individuals (such as an assurance team) in accordance with Professional and Ethical Standard 3 (Amended). Additionally, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.

**GLOSSARY**

Engagement quality control review	<del>An objective evaluation process designed to provide an objective evaluation, on or before the report is issued, of the significant judgements made by the engagement team made and the conclusions it reached in formulating the report thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.</del>
<u>Engagement quality reviewer</u>	<u>A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.</u>
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
[NZ] Key assurance partner	<del>The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.</del>
Network	A larger structure: <ul style="list-style-type: none"> <li>(a) That is aimed at co-operation; and</li> <li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li> </ul>

**III. EFFECTIVE DATE**

The amendments in this standard are effective on 15 December 2022.



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**Date:** 10 August 2022

**To:** Michele Embling, Chair External Reporting Board

**From:** Marje Russ, Chair NZAuASB

**Subject: Certificate Signing Memorandum:**  
Amendments to Professional and Ethical Standard 1: *Quality Management-related Conforming Amendments to the Code and Other Contextual Amendments*

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### **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: *Quality Management-related Conforming Amendments and Other Contextual Amendments to the Code*.

### **Background**

2. The NZAuASB issued its suite of quality management standards, based on the international quality management standards issued by the IAASB, in July 2021. This suite of standards comprises:
  - Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
  - Professional and Ethical Standard 4 *Engagement Quality Reviews*
  - International Standard on Auditing (New Zealand) (ISA (NZ)) 220 (Revised) *Quality Management for an Audit of Financial Statements*
3. As a result of the finalisation of the IAASB quality management suite, the IESBA considered it necessary to make conforming amendments to the Code. The IESBA released the Exposure Draft, *Proposed Quality Management-related Conforming Amendments to the Code* in August 2021. The proposals in the ED were met with broad support from the 22 respondents, including the NZAuASB. No NZ specific amendments to the proposals were identified.
4. The IESBA finalised its conforming amendments in April 2022. It is now necessary to adopt those conforming amendments in New Zealand, amending Professional and Ethical Standard 1, as follows:
  - References to Professional and Ethical Standard 3 (Amended) are replaced with reference to the new standard, as well as certain concepts and terminology in PES 3 (Amended)

- [Revisions to Professional and Ethical Standard 1: Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) also refers to concepts and terminology in Professional and Ethical Standard 4 which need to be reflected in the Glossary to the Code.
5. In addition to the quality management-related conforming amendments, when finalising [Amendments to Professional and Ethical Standard 1: Revisions to the Fee-Related Provisions of the Code](#) the NZAuASB agreed to adopt the IESBA convention in Part 4A of the Code to use the terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” to apply equally to review, review team, review engagement, review client and review engagement report. As a result of this decision, certain NZ contextual changes have been reversed out of Professional and Ethical Standard 1.

#### *International process*

6. The International Ethics Standards Board for Accountants (IESBA) issued its Exposure Draft Proposed Quality Management-related Conforming Amendments to the Code in August 2021. The proposals in the ED were met with broad support from the 22 respondents, including the NZAuASB.

#### *Domestic process*

7. The NZAuASB consulted its constituency in relation to the IESBA ED by seeking input from constituents through our usual channels, i.e., posting to the XRB website, notification via the Audit and Assurance Alert. At the time of exposure, no compelling reason changes to the quality management-related conforming amendments were identified.
8. The NZAuASB did not receive any submissions in relation to the exposure draft.

#### *Australian process and harmonisation with Australia*

9. At its June 2022 meeting, the APESB approved the issue of the exposure draft *Proposed Quality Management-related Conforming Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*. The exposure draft was issued in June 2022 with comments due on 29 July 2022.

#### **Privacy**

10. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

### **Due process**

11. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

### **Consistency with XRB Financial Reporting Strategy**

12. The adoption of Amendments to Professional and Ethical Standard 1: *Quality Management-related Conforming Amendments and Other Contextual Amendments to 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**

13. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

### **Recommendation**

14. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

### **Attachments**

- Amendments to Professional and Ethical Standard 1: *Quality Management-related Conforming Amendments to the Code and Other Contextual Amendments*
- Certificate of determination
- Approval certificate

Marje Russ

Chair NZAuASB