

Housekeeping

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- You're welcome to put your questions in the chat. We may not be able to respond during webinar, but we will get back to you in due course.
- Slides and recording will be made available after the webinar.
- Survey to follow - Please provide us with your feedback.
- Thank you for joining us today. Enjoy the webinar.



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Need to Know series

Assurance Update

August 2022

Misha Pieters
Sharon Walker
Tracey Crookston



Agenda



Effective soon (Dec 2022)

- Quality management
- Non-assurance services
- Fees

Recent approvals

- Group audits
- Deferral of NZ AS 1

**Open for
comment**

Coming soon

129 Sleeps until the
quality management
standards are effective!

Is your firm ready?

Risk Assessment Process



Adapted From: IAASB First time implementation guide International Standard on Quality Management 1

Refresher

PES 3

Quality management
at the firm

PES 4

Engagement quality
reviews

ISA 220 (Revised)

Quality management at
the engagement level

Conforming amendments to ISAs (NZ)
Conforming amendments to other assurance standards

Effective date 15 December 2022

15 December
2022

15 December
2023

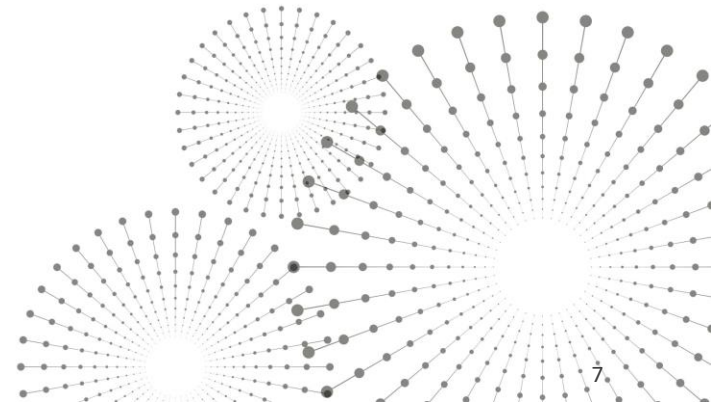
Now until 15 December 2022:

- Establish the quality objectives, identify and assess the quality risks and design and implement the responses; and
- Design and implement the monitoring activities

From 15 December 2022:

- Operation of responses and monitoring activities

Within one year Evaluation of the SOQM



Resources

XRB website www.xrb.govt.nz/standards/assurance-standards/support-and-resources

Including:

IAASB
implementation
guides

IAASB
factsheets

Series of
Webinars

CAANZ
proforma toolkit
for small to
medium sized
firms

Changes to the Code of Ethics

Effective date 15 December 2022

- Objectivity
- Non-assurance services
- Fees



PES 1 amendments effective Dec 2022



PES 1 » XRB

PES 1 –
effective 31 Dec
2021

Coming soon QM
amendments

Objectivity
amendments

Non-assurance
services (NAS)
amendments

Fees
amendments

Why the change?

Amendments to Fees and NAS significantly strengthen independence standards

Build trust and confidence in audit

Packed with guidance to drive consistency and effective implementation

Clearer and more enforceable restrictions

Non-assurance services

Standard issued in New Zealand and
is effective from Dec 2022



What has changed?

Prohibition on assuming management responsibility applies to all aspects of relationship between firm and client

Prohibit NAS that

- Create a threat that is not at an acceptable level, cannot be addressed by eliminating circumstance or applying safeguards
 - Examples of factors relevant in identifying threats and level of threat when providing a NAS
 - Considerations when providing multiple NAS

What has changed if you audit PIEs?

1. Prohibition if might create a self-review threat – i.e. any possibility, materiality is not a consideration

- “Two prong” test: is there a risk that:
 - a) Results of NAS will form part of or affect accounting records, internal controls or financial statements AND
 - b) In course of audit, audit team will evaluate or rely on any judgements made or activities performed by the firm
- May provide advice and recommendations provided do not assume management responsibility and must apply conceptual framework to identify, evaluate and address threats

2. Firm must obtain concurrence of those charged with governance before it can provide NAS

[PES 1 » XRB](#)

IESBAs FAQs

Staff “cheat” sheet

What have we changed in New Zealand?

International position

Tax advisory and tax planning services prohibited to PIE if might create a SRT

- SRT will not be created if
 - Supported by tax authority or other precedent;
 - Based on established practice; OR
 - Has a basis in tax law that the firm is confident is likely to prevail

NZ clarification

Firm will need a high level of confidence ...high probability, if viewed objectively by applying the reasonable and informed third party test

Require documentation

Firm shall document factors considered and conclusions reached

[Explanations for decision made](#)



Fees

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Fees

Key features of the revisions

For all audit clients

- Premise: inherent self-interest threat to independence
- Proportion of fees - services other than audit to audit
- Strengthened provisions to address undue fee dependency

For PIE audit clients

Robust engagement with those charged with governance about fees

Fee Dependency

Non-PIE audit client

- Fees from client >30% total fees of firm
- 5 consecutive years
- As a safeguard to the threat to independence
 - Prior to the audit opinion being issued on the 5th year's financial statements have a review of the audit work performed
 - After the audit opinion has been issued on the 5th year's financial statements have a review of the audit work performed
- By an assurance practitioner who is not a member of the firm

PIE audit client

- Fees from audit client >15% total fees of the firm
- 2 consecutive years
- As a safeguard to the threat to independence, prior to the audit opinion being issued on the 2nd year's financial statements, have a review, consistent with an EQR performed by an assurance practitioner that is not a member of the firm.
- If fee dependency continues, cease to be auditor after 5 consecutive years
- Exception in the public interest

Transparency of Information about fees

Communication with Those Charged With Governance (PIE audit client)

- Communication in a **timely** manner with TCWG of an audit client that is a PIE
 - Fees paid/payable to the firm or network firms for the **audit of the financial statements**
 - **Other fees** charged to the PIE audit client for the provision of services by the firm or a network firm in the reporting period
 - Whether threats created by the level of those fees are at an acceptable level and, if not, actions taken to reduced threats to an acceptable level.
- Where total fees for audit client >15% of total fees received by the firm
 - That fact and whether this situation is likely to continue;
 - The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review
 - Any proposal to continue as the auditor

Implementation support



[PES 1 » XRB](#)

Amendments

Please see the [IESBA Q&A](#) on recently revised non-assurance services provisions.

We have also issued our own [XRB Staff guidance](#): *summary of the prohibitions relating to the provision of non-assurance services*.

PES 1 - Non-assurance services Amendments - Effective 15 Dec 2022 (early adoption permitted)

[DOWNLOAD](#)

Date of issue: Jun 2022

Additional material: [PES 1 NAS Explanation for decisions made](#) [Download](#)

PES 1 - Fees Amendment – Effective 15 Dec 2022 (early adoption permitted)

[DOWNLOAD](#)

Date of issue: Mar 2022

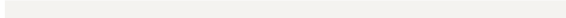
Additional material: [IESBA staff Q&A - fees](#) [Download](#)

PES 1 - Objectivity Amendments – Effective 15 Dec 2022 (early adoption permitted)

[DOWNLOAD](#)

Date of issue: Jul 2021

Previous versions



NZASB consultation [Fees paid to audit firms » XRB](#)

The proposed amendments build on the existing disclosure requirements but introduce a new requirement for entities to disclose fees for services received from their audit or review firm using the following categories:

- (a) Audit or review of the financial statements
- (b) Other non-audit or review services:
 - (i) Audit or review related services
 - (ii) Other assurance services
 - (iii) Taxation services
 - (iv) Other services

Recent approval – group audits

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Recent approval – group audits



- ISA (NZ) 600 (Revised) 
- Special Considerations – Audits of Group Financial Statements (Including the work of component auditors)
- audits of group financial statements for periods beginning on or after 15 December 2023
- supersedes ISA (NZ) 600
- changes flow from other recent IAASB revisions (e.g. revisions to the quality management standards)

What outcomes is the new standard for group audits aiming to achieve?



**Proactive
quality
management**



**Keeping the
standard fit for
purpose**



**Need for robust
communication**



**Challenging and
sceptical
mindset**



Quality Management

Risk-based approach

- For planning and performing the group audit engagement
- Component auditors can be and often are involved in all phases of the group audit

Quality Management

- Clarifies how the requirements of ISA (NZ) 220 (Revised) apply to ensure quality in a group audit
- Includes sufficient and appropriate resources to perform the engagement and the direction and supervision of the engagement team and review of its work

Materiality

- Clarifies how the concepts of materiality and aggregation risk apply in a group audit



Quality Management



The standard requires the group engagement partner to:

take overall responsibility for managing and achieving quality on the group audit engagement.

determine that component auditors have appropriate competence and capabilities (including sufficient time)

make component auditors aware of the relevant ethical requirements that are applicable

take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work



Fit for purpose - Scope

Group Financial Statements include the financial information of more than one entity or business unit through a “**consolidation process**”

Consolidation process

- preparation of financial statements in accordance with an applicable financial reporting framework
- presentation of combined financial statements
- aggregation of the financial information of entities or business units (e.g. branches and divisions)

The group audits standard can be adapted as necessary to other than a group audit where the engagement team includes individuals from another firm (e.g. a physical inventory count, inspection of property or PP&E etc.) at a **shared service centre** in a remote location.



Fit for purpose



Linkages and Documentation

- addresses the linkages to other NZ ISAs
- contains documentation requirements and application material emphasizing the linkage to ISA (NZ) 230 (Audit Documentation)
- emphasizes the importance of the group auditor's review of component auditor documentation
- recognises that the review of the component auditor audit documentation is directly related to direction and supervision



Robust Communication

The standard strengthens and clarifies:

The importance of two-way communication between the group auditor and component auditor(s)



Various aspects of the group auditor's interaction with component auditor(s)

? Professional Scepticism



The Standard emphasizes the importance of professional scepticism – including as part of the group auditor's:

direction, supervision and review of work
(including component auditors)

evaluation of whether sufficient appropriate audit
evidence has been obtained (including by
component auditors)

Scalability

Principles-based approach that is adaptable to a wide variety of circumstances and **scalable for audits of groups of different complexity** because it:



focuses on identifying, assessing and responding to the risks of material misstatement of the group financial statements



includes separate sections throughout the standard to highlight the requirements and application material for circumstances when component auditors are involved

How do I find the standard and resources?

ISA (NZ) 600 (Revised) is on our website. You can find it here [ISA \(NZ\) 600 » XRB](#)

ISA (NZ) 600 (Revised) – Periods beginning on or after 15
December 2023 (early adoption permitted)

DOWNLOAD

Date of issue: Jun 2022

IAASB Fact Sheet [IAASB-ISA-600-Group-Audits-Factsheet.pdf \(ifac.org\)](#)



Deferral of NZ AS 1

The Audit of Service Performance Information

Mandatory effective date deferred
until periods beginning on or after 1
January 2023



FAQs

- Why did we defer the effective date?
- Can I early adopt NZ AS 1?
- If I don't early adopt NZ AS 1, what standard should I use?
- Does this impact the audit requirements of an entity?

Open for comment



Open for comment



Exposure Draft		Comments Due
NZ	Revisions to the definition of listed entity and public interest entity	15 August 2022
IAASB	Amendments to auditing standards to operationalise transparency	16 September 2022
NZ	Assurance over financial information prepared in accordance with a capital raising	23 September 2022

Coming soon



Watch out for

Domestic

- Exposure draft on Greenhouse Gas assurance (ED in Dec)
- Outreach events planned for September

IAASB

- Exposure draft to revise Audit Evidence standard (ED in Sept/Oct)
- Exposure draft on Going Concern (ED in Dec)
- Project on sustainability assurance

IESBA

- Project on sustainability assurance
- ED on tax (largely beyond XRB mandate – but of key interest to tax practitioners)

Register now



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Need to Know series

Accounting Update
for-profit entities

16 August 2022
12:00pm - 1:00pm

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EXTERNAL REPORTING BOARD

Need to Know series

Accounting
not-for-profit &
public sector entities

17 August 2022
12:00pm - 1:00pm



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Questions?