

Board Meeting Agenda

19 October 2022
9:00 am to 5.00 pm

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Time	Item	Topic	Objective		Page #	Supp #
9.45	1	<u>Board Management</u>				
	1.1	Action list	Note	Paper	3	
	1.2	Chair's report	Note	Verbal		
	1.3	AUASB Update	Note	Verbal		
	1.4	Update from CE	Note	Verbal		
	1.5	Work plan update	Note	Paper		
10.20	2	<u>Environmental scanning</u>			<i>Anna</i>	
	2.1	International Update	Note	Paper	4	
	2.2	Domestic Update	Note	Paper	12	
	2.3	IAASB September report	Note	Paper	15	
	2.4	Advisory group Sept notes	Note	Paper		1
10.45	<i>Morning tea</i>					
11.00	3	<u>GHG assurance</u>			<i>Nicola/Anna</i>	
	3.1	Summary paper	Note	Paper	27	
	3.2	Key matters to discuss	Consider	Paper	31	
	3.3	Exposure draft – first read	Consider	Paper	37	
	3.4	List of developing staff guidance	Note	Paper	54	
	3.5	Survey responses received to date	Note	Paper		4
	3.6	Polling results	Note	Paper		33
12.50	4	<u>Capital Raising project</u>			<i>Sharon</i>	
	4.1	Summary project update	Note	Paper	57	
	4.2.1	Event Feedback	Note	Paper		36
	4.2.2	PwC Response	Note	Paper		38
	4.2.3	KPMG response	Note	Paper		42
	4.2.4	EY Response	Note	Paper		44
13:00	<i>Lunch</i>					
13.45	5	<u>NZ PIE Definition</u>			<i>Tracey</i>	
	5.1	Summary paper	Note	Paper	59	
	5.2	Analysis of submissions	Consider	Paper	63	
	5.2.1	CAANZ submission	Note	Paper		58

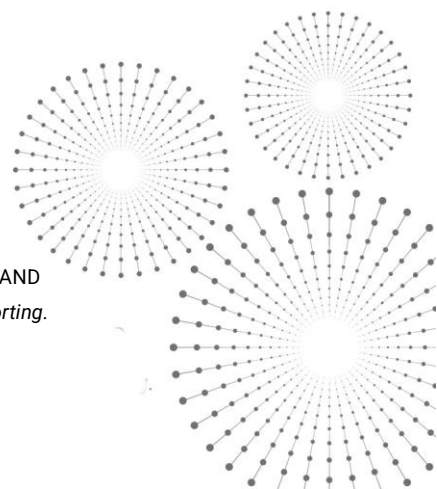
Time	Item	Topic	Objective		Page #	Supp #
	5.2.2	PWC submission	Note	Paper		59
	5.2.3	KPMG submission	Note	Paper		60
	5.2.4	Tier 1 charities – August 2022	Note	Paper		62
	5.3	Amending Standard	Approve	Paper	70	
	5.4	Signing memorandum	Approve	Paper	83	
	5.5	PIE vs FMC HLPAs requirements	Note	Paper		68
14:30	6	<u>Service Performance</u>			<i>Lisa</i>	
	6.1	Summary paper	Consider	Paper	87	
	6.2	Issues paper	Consider	Paper	89	
	6.3	Developing exposure draft	Consider	Paper	94	
15:30	<i>Afternoon tea</i>					
15:45	7	<u>Orders in Council FAQ</u>			<i>Sharon</i>	
	7.1	Summary paper	Note	Paper	106	
	7.2	FAQ	Note	Paper	109	
16:05	8	<u>Key Audit Matters report</u>			<i>Misha</i>	
	8.1	Summary paper	Note	Paper	111	
	8.2	Draft Auditor Report Research	Note	Paper		73
16:25	9	<u>Modified audit reports</u>			<i>Tracey</i>	
	9.1	Summary paper	Note	Paper	112	
	9.2	Issues Paper	Note	Paper	113	
	9.3	Modified Audit Reports policy	Note	Paper		91

Next meeting: 1 December 2022, Virtual

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 for revised quality management standards. Ongoing monitoring of LCE project
Dec 2021 Feb 2022	Develop a report on how the XRB auditing standards respond to audit quality matters	Oct 2022	Verbal update
June 2022	Consider developing guidance to support consistent reporting in light of the Reserve Bank's revised Orders in Council	Oct 2022	Refer to agenda item 7 for staff FAQ
June 2022	Monitor developments in Australia on non-assurance services	Oct 2022	Verbal update
June 2022	Engage with FMA to understand and consider developing FAQ on materiality	Oct 2022	Verbal update
August 2022	Consider ways to promote transparency and feedback from XRAP to NZAuASB	Oct 2022	Verbal update from 11 October XRAP meeting (minutes to be distributed to board members as soon as they are available).
August 2022	Explore ways to filter environmental scanning	Ongoing	Refer agenda item 2
August 2022	Explore ways to communicate our work plan	Ongoing	Refer supplementary paper agenda item 1.5



NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 2.1
Meeting date: 19 October 2022
Subject: International Update
Date: 5 October 2022
Prepared By: Anna Herlender

 Action Required **For Information Purposes Only**

Agenda Item Objectives

1. This Update summarises the significant developments relevant to accounting and auditing from international organisations published since the end of July 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:
 - IOSCO issued [a statement](#) encouraging standard-setters to work on assurance of sustainability-related corporate reporting. This is a significant endorsement for the work of the IAASB and the IESBA. We note that this encouragement by IOSCO highlights the importance of profession-agnostic standards and the urgent need to collaboratively engage with a broader range of providers.
 - A series of six infographic '[snapshots](#)' issued by FRC provide insights on length and readability of auditors' reports and auditors communication of how the audit was performed, the risks they identified, and the responses to those risks. This publication relates to UK reports however might provide an interesting perspective in the context of the research on audit reporting in New Zealand commissioned by XRB (Agenda Item 8).
 - GHG Protocol is one of the most commonly used standards to measure GHG emissions and it is likely to be applied by many climate reporting entities in New Zealand when the GHG disclosure mandatory regime starts. CPA Canada issued [a publication about GHG Protocol](#) with some observations and questions raised to regulators and standards setters.

Recommendations

4. 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 relevant updates.

Public Interest Oversight Board (PIOB)

No relevant updates.

International Auditing and Assurance Standards Board (IAASB)

Guidance & Support Tools

ISA 315 First-Time Implementation Guide, 27 July 2022

This guide focuses on the more substantial changes that were made to ISA 315 (Revised 2019) “Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment”. It will help stakeholders understand and apply the revised standard as intended. ISA 315 (Revised 2019) is effective for audits of financial statements for periods beginning on or after December 15, 2021.

[IAASB \(ifac.org\)](https://www.iaasb.org)

We have also added the guidance to XRB website resources: [Implementation support for ISA \(NZ\) 315 \(Revised\) » XRB](#)

Frequently Asked Questions: Reporting Going Concern in the Auditor’s Report, 1 August 2022

This non-authoritative publication focuses on the use of and interrelationship of the *Material Uncertainty Related to Going Concern* and *Key Audit Matters* sections, and the *Emphasis of Matter* paragraphs, in an auditor’s report prepared in accordance with the International Standards on Auditing (ISAs).

[IAASB \(ifac.org\)](https://www.iaasb.org)

Status of IAASB projects:

[IAASB projects \(iaasb.org\)](https://www.iaasb.org)

International Ethics Standards Board for Accountants (IESBA)

Guidance & Support Tools

Ethical Leadership in a Digital Era: Applying the IESBA Code to Selected Technology-Related Scenarios, 26 September 2022

This non-authoritative publication provides seven hypothetical scenarios to illustrate how accountants can navigate practical issues in ethical leadership when using or implementing technology.

Each scenario highlights the application of specific requirements and guidance in the IESBA Code, in particular those related to compliance with the fundamental principles of ethics, and auditor independence.

[Ethical-Leadership-In-A-Digital-Era-Applying-The-IESBA-Code-To-Selected-Technology-Related-Scenarios.pdf \(ifac.org\)](#)

The Ukraine Conflict: Key Ethics and Independence Considerations, 3 October 2022

This Staff Alert highlights the ethical implications arising from the wide-ranging economic sanctions many jurisdictions have imposed on Russia and certain Russian entities and individuals as well as Belarus, and the related ethical responsibilities of PAIBs and PAPPs under the Code.

[IESBA-Staff-Alert-Ukraine.pdf \(ifac.org\)](#)

Status of IESBA projects:

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

International Forum of Independent Audit Regulators (IFIAR)

No relevant updates.

International Organisation of Securities Commissions (IOSCO)

IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets, 27 July 2022

“IOSCO is closely monitoring the stakeholder feedback around the world on the ISSB’s exposure drafts on general sustainability disclosure requirements and climate-related disclosure requirements for capital markets”.

“Establishing a global baseline for corporate sustainability disclosures is a key ambition of IOSCO’s Workplan for Sustainable Finance, which aims to increase transparency and mitigate greenwashing in financial markets. The review of the ISSB’s finalized standards for potential IOSCO endorsement will be a crucial step towards increased comparability in sustainability reporting under either voluntary or mandatory reporting regimes.”

“The due process for IOSCO’s potential endorsement will begin after the ISSB has issued its final standards. In parallel, IOSCO has begun work in collaboration with the international standard setters for audit and assurance to promote a common global approach to independent and high-quality assurance of issuers’ sustainability disclosures as new reporting standards emerge.”

[IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets](#)

IOSCO encourages standard-setters’ work on assurance of sustainability-related corporate reporting, 15 September 2022

“IOSCO welcomes the work of the international audit and assurance standard setters – the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) – on assurance of sustainability-related corporate reporting. “

“In particular, IOSCO welcomes the Boards’ plans to work towards high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited, and ultimately, reasonable assurance of sustainability-related information. This work will serve to support the consistency, comparability and reliability of sustainability-related information provided to the market, enhancing trust in the quality of that information.”

IOSCO highlights three priority areas for the Boards’ consideration:

1. The importance of profession-agnostic standards, timely progress and collaboration
2. Focus on promoting transparency
3. Addressing challenging issues.

[IOSCO encourages standard-setters’ work on assurance of sustainability-related corporate reporting](#)

International Federation of Accountants (IFAC)

The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis, 28 July 2022

This report, prepared by IFAC, AICPA and CIMA, is an update to the inaugural study last year that examined global trends in both sustainability-related reporting and its assurance.

“The number of global companies obtaining independent assurance on their environmental, social and governance (ESG) information increased from 51% to 58% in 2020.”

“Some 61% of assurance engagements were performed by audit firms on a global basis, a slight decline from the previous year (63%). Jurisdictions with some of the highest rates of assurance performed by professional accountants include Australia, France, Italy, Germany and Spain. In other countries, including South Korea, the United Kingdom and the United States, most assurance engagements are conducted by service providers outside of the accountancy profession.”

“Seventy percent of global companies that engaged a professional accounting firm to perform the ESG assurance engagement chose the firm that audits their financial statements”.

“89% of companies presented at least some information in each of four categories: greenhouse gasses, other environmental factors, social and governance. Yet only 43% provided assurance for all four categories. The most common area for independent assurance was greenhouse gases (95%)”

[IFAC-State-of-Play-in-Sustainability-Reporting-and-Assurance-2019-2020-date.pdf](#)

Companies, investors and professional accountants add their voices to the call for global alignment between sustainability reporting standard setters and frameworks

- “65 organizations today endorse a joint statement calling for stronger alignment of regulatory and standard-setting efforts around sustainability disclosure.
- They encourage major actors, including the International Sustainability Standards Board (ISSB), the US Securities Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG) to continue to work closely together.
- Capital market participants are supportive of establishing a global baseline of sustainability disclosure requirements, on top of which local jurisdictions can add their own interoperable reporting requirements.”

[Leading Financial Market Participants Call for Stronger Alignment of Regulatory & Standard Setting Efforts around Sustainability Disclosure | IFAC](#)

IFAC’s Action Plan for Fighting Corruption and Economic Crime, 6 September 2022

“Action Plan provides a framework for how we can enhance the accountancy profession’s role in combating corruption and economic crimes, thereby advancing the UN SDGs. The framework is organized into five overarching pillars and includes over thirty actions, that are meant to evolve over time.

While many of the actions will be conducted by IFAC, it is an action plan for the whole profession. We hope that professional accountancy organizations (PAOs), Network Partners, and individual professional accountants support this Action Plan and continue to engage on how to maximize the profession’s contributions.”

[IFAC’s Action Plan for Fighting Corruption and Economic Crime | IFAC](#)

Association of Chartered Certified Accountants (ACCA)

No relevant updates.

Auditing and Assurance Standards Board in Australia (AUASB)

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

Publications

Periodic Comprehensive Review of the External Auditor Guide for Audit Committees, 28 September 2022

The Australian Institute of Company Directors (AICD) and AUASB support all parties in the financial reporting chain working together to maintain audit quality and high-quality financial reporting. A key responsibility of audit committees is to oversee the quality and effectiveness of their auditor. To assist audit committees in fulfilling this responsibility, the AICD and the AUASB have issued the publication, which provides guidance on a process and matters to consider when assessing their auditor.

[periodic-comprehensive-review-external-auditor-final.pdf \(auasb.gov.au\)](#)

European Union (EU)

No relevant updates.

Accountancy Europe

No relevant updates.

Financial Reporting Council (FRC)

The FRC and FCA find significant progress, but further improvement needed under new climate rules, 29 July 2022

“Since 2021, premium listed commercial companies have been required to include a statement in their annual financial report, setting-out whether they have made disclosures consistent with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations. The FRC reviewed 25 larger companies impacted by climate change and found that companies were able to provide many of the TCFD disclosures expected by the FCA's Listing Rule, and climate-related reporting in the financial statements, marking a significant improvement in comparison with previous years.

However, there are several areas where companies will need to raise the quality of their disclosures in future years. These include:

- Providing more granular information about the effect of climate change on different business sectors and geographies.
- Balancing the discussion of climate-related risks and opportunities appropriately.
- Linking climate-related disclosures to other risk management and governance processes.
- Explaining how they have decided which climate-related information should be disclosed.
- Explaining more clearly how the effects of different global warming scenarios, and their own net zero commitments, may affect the valuation of their assets and liabilities.”

FRC report: [FRC TCFD disclosures and climate in the financial statements July 2022](#)

FCA report: [Review of TCFD-aligned disclosures by premium listed commercial companies | FCA](#)

Key Fact and Trends in the Accountancy Profession, 5 August 2022

This document is produced annually by the FRC and provided statistical data and on the accountancy profession.

[FRC Key Facts and Trends in the Accountancy Profession August 2022](#)

FRC publishes snapshots of current practice in auditor reporting, 16 August 2022

A series of six infographic ‘snapshots’ provide an in-depth look at the length and readability of auditors’ reports, as well as how auditors communicate how the audit was performed, the risks they identified, and the responses to those risks.

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

Navigating barriers to senior leadership for people from minority ethnic groups in FTSE100 and FTSE 240 companies, 4 October 2022

“The research looked at the challenges and opportunities that minority ethnic individuals might experience in progressing to the boards of FTSE 100 and FTSE 250 companies.

Those challenges include being overlooked for promotion, overt and covert racism, and having to demonstrate higher standards, compared with colleagues from majority backgrounds, to progress or have the same development opportunities.

Exploring the lived experiences of senior leaders from ethnically diverse backgrounds through interviews and focus groups, the report suggests that, while minority ethnic executives lead successful careers and run successful businesses, they also have to adopt strategies such as ‘blending in’ and minimising their difference to get on, or ‘standing out’ to define their brand and celebrate their difference.

However, many participants also felt the increased awareness of the Black Lives Matter (BLM) movement from 2020 had caused a significant positive shift in the quality of conversations about organisational approaches to race and ethnic diversity.”

[Navigating barriers to senior leadership for people from \(frc.org.uk\)](#)

Institute of Chartered Accountants in England and Wales (ICAEW)

Sharpening the Focus on Corporate Fraud: and Audit Firm Perspective, 26 July 2022

This report from the Audit and Assurance Faculty describes the significant resources devoted to fraud-related activities within individual audit firms, and across the profession and looks at what more can be done by all players in the financial reporting ecosystem to improve fraud deterrence and detection.

[sharpening-the-focus-on-fraud.ashx \(icaew.com\)](#)

How can blockchain technology build trust? 19 August 2022

[How can blockchain technology build trust? | ICAEW](#)

Institute of Chartered Accountants of Scotland (ICAS)

No relevant updates.

U.S. Securities and Exchange Commission (SEC)

No relevant updates.

Public Company Accounting Oversight Board (PCAOB)

Observations From the Target Team’s 2011 Inspections, August 2022

This Spotlight provides investors and other stakeholders a view into the target team’s work in 2021, including perspectives on the auditor’s responsibilities, observations and good practices in the

following areas: fraud, interim reviews of special purpose acquisition companies, going concern, and cash and cash equivalents.

[target-team-spotlight.pdf \(azureedge.net\)](#)

American Institute of Certified Public Accountants (AICPA)

No relevant updates.

Center for Audit Quality (CAQ)

S&P 500 10-K Analysis, 1 September 2022

CAQ analysed SEC filings as of June 2022 of S&P 500 Companies to understand what the companies disclosed about Climate-related information (e.g., mention of climate change), greenhouse gas emissions (Scope 1, 2, and 3) and net-zero and carbon neutral commitment.

[S&P 500 10-K Analysis | The Center for Audit Quality \(thecaq.org\)](#)

Canadian Public Accountability Board (CPAB)

No relevant updates.

Canadian Auditing and Assurance Standards Board (AASB)

No relevant updates.

Chartered Professional Accountants Canada (CPA Canada)

A closer look at the GHG Protocol, 15 September 2022

The report provides:

- background on the GHG Protocol and its standard setting process;
- an overview of the key features of the GHG Protocol's Corporate Accounting and Reporting Standard;
- information on how the GHG Protocol standards and guidance are being used; and
- observations and implications for standard setters and regulators relying on the GHG Protocol.

[A closer look at the GHG Protocol \(cpacanada.ca\)](#)

Insights from practitioners

When will climate disclosures start to impact decarbonization? 27 September 2022

The fourth EY Global Climate Risk Barometer reveals that companies are still not translating disclosures into concrete actions.

[When will climate disclosures start to impact decarbonization? | EY - Global ey-global-climate-risk-barometer-report-v2.pdf](#)

Other articles

No other relevant articles found.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 2.2
Meeting date: 19 October 2022
Subject: Domestic Update
Date: 4 October 2022
Prepared By: Anna Herlender

Action Required

For Information Purposes Only

Agenda Item Objectives

1. This update summarises the significant developments relevant to accounting and auditing from New Zealand organisations published since July 2022.

Hot topics

2. The staff has identified the following publications issued by FMA as of highest interest for NZAuASB:
 - A publication issued for climate reporting entities to clarify FMA [expectations on documentation supporting climate related disclosures](#)
 - A consultation paper regarding [keeping proper accounting record](#)

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)

Climate-related disclosures: Initial monitoring approach for record keeping, September 2022

This document was issued for climate reporting entities to explain FMA's expectations for compliance with legislation specific to record keeping when producing annual climate statements.

"In the initial stages we expect reasonable efforts to be made in gathering, validating, and recording information to verify the disclosures made, so disclosure is as useful as possible, as early as possible, for its primary users.

We expect to issue more detailed guidance once the regulations have been made, and also over time as the regime evolves, and the quality of data and reporting improves."

[Climate-related-disclosure-Record-keeping-initial-monitoring-approach.pdf \(fma.govt.nz\)](#)

Consultation: Proposed guidance and expectations for keeping proper accounting records, October 2022

FMA seeks input from reporting entities and other interested parties on proposed guidance regarding keeping proper accounting records. The document set out the proposed principles for the guidance:

1. Sufficient, supportable, and reliable
2. Reasonable format
3. Easy to access, use and understand
4. Supportable materiality assessment
5. Preparing accounting records in a timely manner and regularly maintain them
6. Reconcile with financial statements
7. Length of time
8. Records kept in a location outside entity's registered office
9. Protection and safeguards
10. Controls over the accounting records

[Consultation-paper-guidance-accounting-records.pdf \(fma.govt.nz\)](#)

The Chartered Accountants Australia and New Zealand (CA ANZ)

Investor confidence in 2022 fall fast, 20 September 2022

CA ANZ's fourth investor survey shows that confidence has dropped sharply from 2021:

- Investor confidence levels are lower than during the height of the pandemic.
- Auditors remain the most trusted group in advancing investor protection

- Investors believe financial reports are too complex and digital reporting would help their understanding.
- Investors are also still looking for more consistent reporting on climate change and sustainability, with support for mandatory reporting standards and assurance on these issues remaining strong.
- Investors lack confidence in investing in crypto-assets, citing a lack of transparency, regulation and understanding of the technology as the primary reasons. Younger investors (between 18-44 years) were much more confident investing in crypto-assets than older investors.

Link to NZ and Australian survey is at the end of this article:

[Investor confidence in 2022 falls fast | CA ANZ \(charteredaccountantsanz.com\)](#)

Sustainability assurance – seize the opportunity, 7 September 2022

A new guide from CA ANZ aims to help small to medium assurance firms understand what they need to do to position their practices to seize the opportunities sustainability assurance offers.

[Sustainability assurance – seize the opportunity | CA ANZ \(charteredaccountantsanz.com\)](#)

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 \(pwc.co.nz\)](#)

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

PwC, September 2022

“Following our earlier report looking at how climate change was reflected in the financial statements of NZX50 March reporters, we analysed NZX50 companies reporting in June. Similar to our first report, we examined both how climate-related impacts on the financial statements were disclosed and how auditors considered climate-related impacts in key audit matters (KAMs)”

[impact-of-climate-change-reflected-in-financial-statements-of-nzx50.pdf \(pwc.co.nz\)](#)

Fraud Barometer 2022, KPMG September 2022

The KPMG Fraud Barometer provides a summary of reported frauds in New Zealand for the 12-month period 1 August 2021 - 31 July 2022 and is prepared by the KPMG Forensic team.

[fraud-barometer-2022.pdf \(assets.kpmg\)](#)

DATE: 29 September 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 September 2022 meeting

Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) Board meeting held on 12-16 September 2022 in New York.
2. Key topics were:
 - An approval of an ED on proposed ISA 500 (Revised), *Audit Evidence*
 - A discussion on proposed changes in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
 - Consideration of issues on going concern
 - Approval of the Project Proposal for the Development of an Overarching Standard for Assurance on Sustainability Reporting and consideration of options relating to assurance on sustainability
 - Further consideration of feedback and issues on the proposed auditing standard for less complex entities (LCEs).

The full September meeting papers can be accessed [here](#).

Audit Evidence

3. The IAASB unanimously approved the ED on proposed ISA 500 (Revised)¹, as well as conforming and consequential amendments.
4. Key matters addressed in the draft standard include:
 - The promotion of consistent practice and behaviours by auditors through the appropriate balance of requirements and application material in the revised standard.
 - The effect of technology, including the auditor's use of automated tools and techniques.
 - Maintaining professional scepticism when making judgments about audit evidence throughout the audit.
 - Relationship and interaction with other ISAs (i.e., a "reference framework" when making judgments about audit evidence throughout the audit)

¹ ISA 500, *Audit Evidence*

- Stand back to evaluate audit evidence obtained as a basis for concluding that sufficient appropriate audit evidence has been obtained in accordance with ISA 330².
 - Definition of audit evidence, and interrelationship of sufficiency, appropriateness, and persuasiveness of audit evidence.
 - Description of the “input-output” model, i.e., information intended to be used as audit evidence becomes audit evidence after audit procedures are applied to it.
 - Evaluating the relevance and reliability of information intended to be used as audit evidence (attributes of relevance and reliability, including obtaining audit evidence about the accuracy and completeness of information).
 - Information intended to be used as audit evidence prepared by a management’s expert.
5. The Task Force aims to publish the ED towards the end of October, with responses due towards the end of April 2023. The plan is to approve the standard in June 2024, with an implementation period of approximately 18 months.
 6. The IAASB recognises that this exposure period of 180 days exceeds the 120 day-period noted in the IAASB’s due process. However, various circumstances have necessitated the reconsideration of timelines for certain projects, for example, available plenary time and resources, and responses received to recent public outreach.

Impact on the XRB

To note the IAASB’s intention to publish the ED towards the end of October, and the due date for responses towards the end of April, and to plan accordingly the XRB’s work to follow its due process in exposing and adopting the standard in New Zealand.

The XRB’s Technical Reference Group has not raised any issues with the draft standard pre the IAASB September meeting and we have not identified any specific issues to highlight to the XRB.

Going Concern

7. The IAASB discussed the significant changes made to the drafting paragraphs of ISA 570 (Revised), *Going Concern* in response to the IAASB’s feedback at the June meeting on two key issues, i.e., the period covered by management’s going concern assessment and transparency about the auditor’s responsibilities relating to going concern. In addition, the IAASB discussed several other key issues, including terminology, risk identification and assessment, management’s assessment of going concern, and professional scepticism.
8. The IAASB broadly supported the following drafting proposals:

² ISA 330, *The Auditor’s Responses to Assessed Risks*

- i. The definition of material uncertainty (related to going concern) and the enhancement of application material to clarify concepts such as “significant doubt”.
 - ii. Clarifying that management’s assessment of going concern involves two components, i.e., an assessment of the appropriateness of the going concern basis of accounting and an assessment that includes the identification of whether a material uncertainty exists related to events or conditions.
 - iii. The revised structure and layout to improve the relationship and integration between ISA 315 (Revised 2019)³ by incorporating the key concepts, as well as the structural elements from ISA 315 (Revised 2019) related to performing risk assessment procedures.
 - iv. The period of management’s assessment to be at least 12 months from the date of the approval of the financial statements.
 - v. The incremental requirements and application material relevant for going concern that supplement the broader requirements of ISA 315 (Revised 2019), with a caution to avoid duplicating material. (This is a similar approach to the revision of the fraud standard – see below under the discussion of the proposed amendments to the fraud standard).
 - vi. Introducing scalability considerations in the application material, including examples.
 - vii. A new requirement to evaluate the method, assumptions and data used by management to make its assessment of going concern, including to evaluate management bias, with a request for more guidance on scalability considerations.
 - viii. 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.
 - ix. Some mixed views about the 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. Some members suggested that the current mechanism of reporting it as a KAM would be less confusing for the readers, rather than under the separate heading of Going Concern.
9. The Going Concern Task Force (GC TF) will continue to discuss issues based on feedback received from the IAASB and present an updated draft to the December 2022 meeting. The GC TF will also present its initial views and recommendations in relation to the remaining proposed actions of the project, i.e., information from external sources and audit techniques – use of technology, conforming and consequential amendments and a first full draft standard.

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Impact on the XRB

To note the above summary of the drafting proposals, including the new robust requirements and transparency reporting.

We have not identified any specific concerns at this stage to highlight to the XRB. However, members of the XRB's Technical Reference Group expressed some concern about the new requirements, specifically the disclosure requirement in the audit report noted in paragraph 8 (vii) above.

The XRB should continue to monitor the IAASB's progress and identify any issues to raise with the IAASB or as possible compelling reason changes for adoption in New Zealand. The XRB will need to decide whether the differential requirements would only apply to listed issuers in New Zealand or to FMC reporting entities with a higher level of public accountability.

For planning purposes of the XRB's work plan, the IAASB's targeted milestones are for the exposure period to close before 2024 and for completion of the project in quarter one of 2024.

Fraud

10. The IAASB discussed the topics highlighted in its June 2022 meeting as well as selected new topics. Matters discussed included transparency in the auditor's report on fraud and identifying and assessing the risks of material misstatement due to fraud.

Transparency in the auditor's report

11. Since the June 2022 meeting the Task Force performed targeted outreach with users of the financial statements about different alternatives on the way forward for transparency in reporting on fraud. (The XRAP was also asked for feedback on the various disclosure options at its July meeting).
12. Key take aways from the outreach with users of the financial statements are that they:
 - Value more transparency about fraud in the auditor's report.
 - Recognize that the prevention and detection of fraud is the primary responsibility of management and those charged with governance (TCWG).
 - Are generally looking for entity-specific information about fraud risks and not boilerplate statements.
 - View insights about the system of internal controls to prevent and detect fraud as an indicator of "what could go wrong" at an entity.
 - Noted that information provided in the auditor's report on fraud may assist users of the financial statements with their assessment of the entity including the integrity of management and TCWG.
 - Trust, and value, the auditor's independent perspective.
 - Reiterated that the auditor "works for" the users of the financial statements.
 - Highlighted the importance of clarity in messaging in the auditor's report. Any additional information related to fraud should be clear, understandable, and the placement and content should be consistent.
 - Indicated the importance, and highlighted the benefit, of educational material that explains the reasoning behind the requirements in the ISAs.

13. Based on the analysis on the feedback from users, the Task Force's recommendation on the way forward on transparency in the auditor's report on fraud is to include a separate section in the auditor's report that describes:
- (a) The auditor's responsibilities as it relates to fraud in the audit of the financial statements;
 - (b) The identified and assessed fraud risks and the auditor's response to the assessed risks; and
 - (c) Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements.
14. A summary of the IAASB's discussion on the Task Force's recommendations regarding transparency in the audit report are:
- Consensus on the need for transparency in the auditor's report.
 - General agreement to include fraud matters as a separate section in the auditor's report.
 - Agreement about the disclosure of the auditor's responsibilities but with caution as to "so what".
 - Mixed views about disclosure of the identified and assessed fraud risks and the auditor's response to the assessed risks. There was a theme around using the KAM mechanism as a basis and to provide guidance around triggers when to include.
 - Most concern was raised about the proposal to include a description of significant deficiencies in internal controls relevant to fraud. This is not surprising as it is a new area and the biggest change proposed. Some members suggested to consider the KAM mechanism here as well and not to include it in all cases.
 - Consensus to differentiate reporting requirements and to require the disclosures for listed entities only at this time, but to permit it for audit reports of non-listed entities.
15. Lyn noted that the Board's concerns are heard, but so are those of the users. The Task Force will consider the comments received and how to balance the IAASB's concerns against the feedback received from users.

Assessing the risk of material misstatement

16. The IAASB supported the restructuring and enhancements made to the requirements and application material to address concerns raised in June about not duplicating what is in ISA 315 (Revised 2019) but to focus on what is incremental in respect of consideration of fraud, and to align the requirements and application material more closely to ISA 315 (Revised 2019).
17. Some members noted that ideally all the risk assessment requirements related to fraud and going concern would reside in ISA 315 (Revised 2019). The IAASB stressed the need to clearly explain the relationship between ISA 240⁴, ISA 570⁵ and ISA 315 (Revised 2019), and that the risk assessment process is an iterative and integrated approach. (We do not consider this would be an

⁴ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁵ ISA 570, *Going Concern*

issue for firms as their audit methodologies are likely to include the risk assessment requirements in an integrated manner).

18. The IAASB will consider a near full draft of the proposed standard in December, with expected approval of the ED in the third quarter next year.

Impact on the XRB

To note the IAASB's intention to publish the ED in the third quarter next year, and to accordingly plan the XRB's work to follow its due process in exposing, performing outreach and adopting the standard in New Zealand. The IAASB's targeted milestones are for the exposure period to close in quarter one of 2024 and for completion of the project in quarter one of 2025.

As noted above, the biggest change is the proposed transparency requirement which are in response to what users want, whereas practitioners (including members of the XRB Technical Reference Group) are generally opposed to it. To consider if there are any issues or concerns the XRB would like us to raise with the Task Force at the IAASB December meeting.

The XRB should continue to monitor the IAASB's progress and identify any issues to raise with the IAASB or as possible compelling reason changes for adoption in New Zealand. A decision would need to be made about whether the differential requirements would only apply to listed issuers in New Zealand or to FMC reporting entities with a higher level of public accountability.

Sustainability

19. The IAASB unanimously approved the Project Proposal for the Development of an Overarching Standard for Assurance on Sustainability Reporting. This is a major achievement seeing that the project to develop the overarching standard commenced in June 2022.
20. The IAASB also welcomed the [announcement from the International Organization of Securities Commissions \(IOSCO\)](#), received during the meeting, of its support and encouragement for the IAASB's and IESBA's work on developing standards relating to assurance of sustainability-related information.
21. A high-level overview of the Project Proposal is available in the Appendix.

Other matters discussed

22. In addition to approving the project proposal, the IAASB also provided feedback on the overall structure for the overarching standard for assurance on sustainability reporting, initial proposals regarding defined terms for the proposed standard and the approach to developing the requirements.
23. A summary of the discussions are as follows:
 - (i) There was overall support for the proposal to follow a similar approach for the structure as the ISA for LCEs, by separating the contents into parts, with some suggestions on how to improve the logical flow of the requirements.

- (ii) There was some concern raised about the definition of engagement partner and whether that is suitable for a standard that applies to all assurance practitioners. Assertions were also seen by some as not appropriately defined, as it should be management's assertions and not as seen through the lens of the practitioner.
- (iii) There was a robust discussion about the when, how and to what extent to include requirements from the ISAs, with some concern that ISAE 3000(Revised)⁶ may be seen as a less robust standard. There were specifically some mixed views about the detail included from ISA 220 (Revised)⁷. The IAASB recognised that there will be significant judgement required to determine the level of specificity to bring in from the ISAs. There may also be a need to consider conforming amendments to ISAE 3000 (Revised), and to provide clarity about the transition of ISAE 3410⁸.

Preliminary Timeline

- 24. The preliminary timeline proposed is to approve an exposure draft in September 2023, to be exposed for a 120-day comment period, with the comment period closing in February 2024. The IAASB aims to approve the final pronouncement in the period Dec 2024-March 2025, depending on progress post exposure draft.

Impact on the XRB

To note the IAASB's intention to publish the ED in September 2023, and to accordingly plan the XRB's work to follow its due process in exposing, performing outreach and adopting the standard in New Zealand.

The XRB should continue to monitor the IAASB's progress and identify any issues to raise with the IAASB. The approach to developing the proposed standard may also be useful to consider as the XRB is developing its assurance standard on Green House Gas Statements. The XRB may want to encourage a suitable participant(s) to seek participation on one or both the IAASB's reference groups to be formed as part of the Project Proposal (refer to the Appendix).

LCE

- 25. Since the June meeting the LCE Task Force continued to analyse responses to the ED-ISA for LCE and commenced developing revised drafting in priority areas based on feedback received.
- 26. The IAASB discussed the revised Authority of the draft standard, the approach to accounting estimates, drafting requirements for group audits and the approach to proportionate requirements.
- 27. A summary of the discussions are as follows:

⁶ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁷ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁸ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

- i. There continues to be mixed views about the inclusion of quantitative indicators (for e.g., less than 5 members in a management team, involved in financial reporting etc.) in the Authority. Members opposed to it noted that it may exclude entities from being classified as an LCE only because of a larger management team. (Lyn used the example of schools in New Zealand that may not meet the definition of an LCE other than because of the size of the School Board of Trustees). Other members considered it increased clarity of the intent of the standard. However, it was not clear to us if the quantitative and qualitative factors were to be seen in combination or individually and it appears that members interpreted it differently. Lyn asked for this to be clarified.
- ii. At the June meeting the IAASB asked the Task Force to further explore what type of accounting estimate may be more commonly held by a "typical LCE". The IAASB overall supported the proposed approach to include a qualitative characteristic that the entity's financial statements typically do not include accounting estimates that involve the use of complex methods or models, assumptions, or data. The Task Force will further review ISA 540 (Revised)⁹ to evaluate any additional requirements that should be included for isolated instances where there are more complex accounting estimates not ordinarily scoped out through the limitations included in the authority.
- iii. The IAASB agreed with the proposed changes to the Authority to include group audits. The proposed changes include group specific characteristics as well as that the characteristic of a less complex entity would also apply to each entity in the group. Although members recognised that the use of component auditors may not always add to the complexity, overall, the IAASB agreed with the "bright line" of excluding group audits where component auditors are used. However, some members requested clarification of the role of other auditors.
- iv. The IAASB was generally comfortable with the proposed drafting requirements on group audits. The IAASB will consider a full draft on group audits at the December meeting to be voted on for exposure.
- v. At the June meeting there was significant feedback that the draft standard is too similar to the ISAs, and that it needs to be further differentiated from the ISAs through the use of less granular, principles-based requirements, where appropriate. The Task Force presented an initial illustrative drafting on understanding relevant aspects of the entity to obtain feedback on the drafting approach. There was some unease about the use of verb changes to describe the work effort, which may inadvertently reduce reasonable assurance, whether actual or perceived. There was also a question about whether the requirements have been simplified too much as it is not about less work, but about achieving the required objectives.
- vi. The IAASB agreed for the Task Force to proceed with caution in reducing granularity to not inadvertently reduce reasonable assurance, recognising that for example "evaluate" in the context of the ISAs may mean something different in the context of the ISA for LCE. Less granularity in the requirements may require more guidance to be added to the essential explanatory material (EEM).

⁹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

vii. The IAASB agreed with the recommendation to not include a requirement for jurisdictions to set quantitative thresholds (that may serve as an additional 'safeguard' to limit the range of entities perceived to be within the scope of the standard) but instead to encourage jurisdictions to do so. The IAASB overall supported the proposal to develop supplemental guidance to legislative or regulatory authorities regarding the setting of quantitative thresholds.

28. The LCE Task Force will continue to analyse the remaining responses to the ED-ISA for LCE to be discussed as appropriate with the IAASB. The Task Force will continue to update drafting in targeted areas, using the IAASB's direction provided. The Task Force also intends to provide the IAASB with a full draft of Part 10, Audits of Group Financial Statements in December 2022, with the intention to approve the Part for public exposure in March 2023.

Impact on the XRB

To note the IAASB's intention to publish the ED on ISA for LCE, Part on Group Audits in March 2023, and to accordingly plan the work of the XRB to follow its due process to coincide with the IAASB's timeline. The targeted milestone for completion of the ISA for LCE standard is during the first half of 2024.

The XRB should continue to monitor the IAASB's progress and identify any issues to raise with the IAASB. The XRB will also need to consider, if it adopts the standard for use in New Zealand, whether it would set further quantitative thresholds, and what those would be¹⁰. The XRB should refer to the Supplemental Guidance, when available, to assist with this determination.

The IAASB is unlikely to re-expose the ISA for LCE standard. The XRB will need to consider and plan whether there is a need to publish a New Zealand ED after the IAASB standard is finalised.

Other matters

IAASB staff informed the IAASB about amendments the IASB¹¹ has made to IAS 1¹², by changing the requirement to provide a summary of *significant* accounting policies to *material* accounting policies. This change will be effective for annual periods beginning on or after 1 January 2023. The IAASB staff noted that this accounting standard change impacts 3 requirements, 11 application material paragraphs in ISA 700(Revised)¹³ and 36 example audit reports throughout the suite of standards.

The IAASB has determined there is no need to change the requirements in ISA 700(Revised) as the IAASB standards are framework neutral with generic references to accounting policies. The IAASB therefore intends to issue non-authoritative guidance to provide the required wording changes to example audit reports throughout the suite of its standards.

¹⁰ Such a threshold could be, for example, to prohibit the use of the standard for audits of entities that report under tier 2 and above. (FMC reporting entities considered to have a higher level of public accountability and certain other PIEs in NZ are already scoped out of the standard)

¹¹ International Accounting Standards Board

¹² International Accounting Standard 1, *Presentation of Financial Statements*

¹³ ISA 700(Revised), *Forming an Opinion and Reporting on Financial Statements*

Impact on the XRB

To XRB will need to update all example audit reports throughout the suite of ISAs (NZ) based on the IAASB's non-authoritative guidance to be issued to align with the changes in IAS 1, which has been incorporated in NZ IAS 1. We expect the IAASB staff paper to be issued early November 2022.

Future meetings

29. The next IAASB meeting is scheduled for 5 – 9 December 2022 in New York. This will be Lyn's last meeting as a member of the IAASB as her six-year term comes to an end.

APPENDIX: High-level overview of the Project Proposal for the Development of an Overarching Standard for Assurance on Sustainability Reporting.

1. The project proposal addresses the development of an overarching standard for assurance on sustainability reporting, for use by all assurance practitioners (i.e., professional accountants and other professionals performing assurance engagements). It only deals with the immediate standard-setting action, i.e., the development of an overarching standard for assurance on sustainability reporting that:
 - (a) Addresses both limited assurance and reasonable assurance;
 - (b) Addresses the conduct of an assurance engagement in its entirety to a degree of specificity that is commensurate with the overarching nature of the standard; and
 - (c) More specifically addresses areas of sustainability assurance engagements where priority challenges have been identified, to a degree that is commensurate with the overarching nature of the standard.
2. The IAASB envisages that a suite of standards for assurance on sustainability reporting that provide more specificity than an overarching standard (i.e., similar to the International Standards on Auditing (ISAs)) will likely need to be developed over time.
3. The IAASB is aware that the integration of sustainability information within the financial statements is a challenging area in practice. However, the IAASB does not plan to address this matter as part of its immediate standard-setting action. Accordingly, this issue may be considered as part of future standard-setting activities.

Coordination with others

4. The IAASB recognises that the project will require consultation with experts in sustainability assurance. For this purpose, the IAASB will form two working groups to support the Sustainability Assurance Task Force (SATF)
 - (a) One reference group will comprise subject-matter experts from various backgrounds with extensive experience in sustainability assurance, including experts from audit firms, academia and professional organizations.
 - (b) One reference group will comprise a focused group of experts who provide assurance engagements on sustainability reporting but are not associated with audit firms.
5. The project will also involve coordination with the IESBA and other IAASB Task Forces, for example on concepts and principles introduced in the quality management standards, sufficient appropriate evidence and ISA 315 (Revised 2019).
6. Priority areas where specificity will be provided are:

- a. The difference in work effort between limited and reasonable assurance, including sufficiency of evidence.
 - b. The suitability of the reporting criteria, including addressing concepts such as "double materiality."
 - c. The scope of the assurance engagement.
 - d. Evidence, including the reliability of information and what comprises sufficient appropriate evidence.
 - e. The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence
 - f. Materiality in the context of the assurance engagement, including materiality in the context of narrative and qualitative information.
7. Reporting will be addressed in the overarching standard as an element of the assurance engagement and will largely be based on the material in ISAE 3000 (Revised). In addition, the IAASB will signpost the examples of reports and guidance on reporting in the EER Guidance.
8. The approach to developing the overarching standard are as follows:
 - (i) Identify defined terms in ISAE 3000(Revised) and ISAE 3410, and similar or related terms in the ISAs and EER guidance. Determine whether the terms need to be adapted to be more suitable to assurance on sustainability reporting.
 - (ii) Identify relevant requirements and application material in ISAE 3000(Revised) and ISAE 3410 to include.
 - (iii) Develop criteria to identify the ISAs with concepts appropriate to include and which requirements and application material to use from the identified ISAs.
 - (iv) Review the EER guidance to identify material to include.
 - (v) For priority areas, develop further material as needed.
9. Other areas were also identified during the information gathering and research activities, such as fraud, estimates, forward-looking information, management experts, other information, and service organisations, which have not been identified as priority areas. Since they are elements of an assurance engagement, these areas will be addressed through applying steps (i) to (iv) above.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	19 October 2022
Subject:	Greenhouse Gas Assurance Standard
Date:	6 October 2022
Prepared By:	Nicola Hankinson, Anna Herlender

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The NZAuASB is asked to undertake a first read of the developing exposure draft with the objective of issuing a consultation document in December 2022.

Background

2. As discussed in August, we are developing an exposure draft of a proposed assurance standard for mandatory assurance over the Greenhouse Gas (GHG) emission disclosures included within Climate Statements (as required by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021). The developing standard has a narrow scope, limited to assurance required by the Act and is being developed as a “stop gap” standard, recognising that the reporting requirements, the scope of assurance, the oversight regime of assurance practitioners and international assurance standards are currently all developing and changing.
3. Informed by discussions from the August meeting, we have developed a communications plan in conjunction with the XRB Communications team. As part of that plan we have undertaken significant outreach since the August meeting.

We met with the Steering committee, the GHG advisory panel, and held two interactive roundtables, one on 14 September (with approximately 70 attendees, including a range of practitioners and other stakeholders, including a few preparers) and the second on 15 September organised by CA ANZ (including 12 invited participants). We provided an update to the XRB Board at its September meeting. A summary of the key messages from each of these sessions is included in the appendix to this paper. The polling results from our workshop event are included at Agenda item 3.6 in the supplementary papers.

4. We launched a survey to obtain additional views on ethical and quality management issues. A snapshot of responses received to date is included in the supplementary papers at agenda item 3.5.
5. We will also provide an update on this project to XRAP at its meeting on 11 October.
6. Overall, the feedback to date is generally positive, recognising that a temporary solution which recognises the various international assurance standards that are currently in use is appropriate. However, there are varying views as to the level of prescription to include in the standard, with practitioners expressing a desire for more detail.

7. There are various players who may be interested in providing assurance required by the Act:
 - Assurance practitioners who are members of an accounting body (such as CA ANZ or CPA Australia)
 - Assurance practitioners who are accredited by JAS ANZ (such as Toitu)
 - Other carbon energy professionals who may not belong to a professional or accreditation body.
8. There are various standards or requirements in place for each of these groups.
9. The oversight regime of assurance practitioners for the purposes of this regime is not yet determined by legislation or regulation.
10. Feedback from our panel and interactive roundtables suggested strong support for adding more detail in the standard, (e.g., support for prescriptive engagement leader rotation requirements), with a few raising concerns that this would be restrictive to smaller players in the market.

Proposed approach

11. We have reflected on the various views around the level of prescription in the standard, and the key objectives of the project, which are to develop a standard that is fit for purpose for this regime, but that does not create unnecessary barriers to entry.
12. Mindful that this standard is designed as a temporary solution, we continue to recommend a standard that is principles-based and includes the core requirements expected of assurance practitioners for the purposes of this regime, while recognising that practitioners may be subject to various other requirements. The core requirements centre around ethical, quality management and assurance reporting requirements.
13. However, given the level of support for more prescription and guidance over certain aspects, we recommend developing non-authoritative guidance to demonstrate how the requirements are expected to be applied, and signal where additional detail or guidance can be found e.g., on matters such as rotation of the assurance practitioner and key members of the assurance team, transitional requirements, including how to address information which has not previously been subject to an assurance engagement and other ethical considerations such as the impact of providing services to the assurance client prior to the commencement of the assurance or reporting regime. A growing list of possible topics to cover in non-authoritative guidance is included in agenda item 3.4.

Matters to discuss

14. We seek fatal flaw views on the developing standard. Specific matters for discussion are explored in the issues paper (prepared as a set of slides) under each of the following areas:
 - Ethical requirements
 - Quality management requirements
 - Assurance reporting requirements
15. In particular, we are interested in views as to what combination of auditor reporting tools to include in the exposure draft and consultation paper:
 - Option 1: Shall we retain all tools (key matters, emphasis of matter and inherent uncertainty paragraph requirements);
 - Option 2: Shall we require reporting of key matters only;

- Option 3: Shall we require use of emphasis of matter and inherent uncertainty paragraphs only.

16. There are a few remaining issues that we are still exploring. These include:

- The difference between verification and validation and the impact for this regime. (i.e., to the extent that there is forward-looking information included in the GHG disclosures, what is the appropriate form of opinion). We are engaging with ISO practitioners and experts including Graeme Drake, Secretary for APAC (Asia Pacific Accreditation Cooperation), the regional accreditation cooperation recognised by IAF and ILAC (International Laboratory Accreditation Cooperation) for the Asia Pacific region. Graeme also holds multiple roles on various ISO committees.
- How best to refer to the other international assurance standards within the XRB standard or non-authoritative guidance.

Next steps

17. The climate consultation on the proposed disclosure requirements closed in September. We continue to work with the climate team to understand the feedback received and any implications for the assurance standard.
18. To progress towards issuing the exposure draft and a final standard we:
- Have two further meetings with the GHG advisory panel in October and November.
 - Intend to seek approval of the exposure draft at the December meeting of the NZAuASB.
 - Plan to update the XRB board at its meeting in December and issue the consultation document seeking feedback in March 2023.

We plan to be able to issue the final standard following the June 2023 NZAuASB meeting.

Material Presented

Agenda item 3.1	Summary paper
Agenda item 3.2	Overview of key matters to discuss
Agenda item 3.3	Draft exposure draft
Agenda item 3.4	List of developing staff guidance

Supplementary papers

Agenda item 3.5	Survey responses received to date
Agenda item 3.6	Polling results

Appendix: Key messages heard in recent outreach

1. Key messages heard from the Steering committee included:

- A need to ensure that all practitioners see themselves in the language in the standard.
- An interest in including a proposal to report key matters (i.e., value in seeking views).
- Queries about the inherent uncertainty paragraph.
- A need to explore forward-looking information and the implications in more detail.
- Agreement that an Other Matter paragraph that highlights where comparative information has not been assured is an appropriate way forward together with a FAQ.
- A need to define the roles of the engagement leader and independent reviewer.
- A need to address relationships to highlight the possible threats to independence.

We have updated the exposure draft to address more detailed feedback from Steering committee members and developed a list of possible FAQs to provide guidance in certain areas.

2. Key messages heard from our GHG advisory panel included:

- Consider a need to be explicit about, or require compliance with, ethical and quality requirements of the professional or accreditation bodies.
- Support to include long association and rotation requirements.
- Queries about the independence period, especially where services are provided ahead of assurance (including on wider climate reporting matters, e.g., scenario analysis).
- A need to further investigate the impact of forward-looking information.
- Support for inclusion of key matters, but queries about how this works with an emphasis of matter and appropriateness for limited assurance. Guidance will be needed.
- A discussion on the need for competency requirements, with a preference for more detail.
- Discussion about the link between disclosures about inherent uncertainties and any inherent uncertainty paragraph in the assurance report. More guidance was sought on the disclosure.
- Mixed views on reporting materiality.
- Strong support for including an independent reviewer requirement.

3. Key messages heard from our engagement with a range of practitioners and others included:

- Strong support for more prescription.
- Support for including definitions of the fundamental principles.
- Making practitioners aware that services provided in the past might impact independence.
- Be clear when independence requirements relate to individuals and when they relate to assurance organisations.
- Concerns raised about the fact that ISO are not publicly available and an eagerness to see a comparison between ISO and ISAE requirements.
- Strong support for including an independence paragraph in the assurance report.
- Inherent uncertainty and Key Matter paragraphs might be useful tools (some concern raised in relation to whether these tools will be used consistently by practitioners).

Agenda Item 3.2

Overview of key matters to discuss

October 2022

1

Overview of developing ED

Key features of the developing assurance standard:

Require compliance with a recognised assurance standard.

Include additional requirements on top of ISAE 3410/ISO 14064-3, deemed necessary for this regime.

Deactivate PES 1, include principles-based requirements relevant to this regime.

Deactivate PES 3 and PES 4, include principles-based requirements relevant to this regime.

2

Outreach on approach

- Support for temporary solution, but what does temporary mean/how long/what next?
- Concern that ISOs are not publicly available
- Question whether we would require/recognise compliance with professional or accreditation bodies quality or ethical requirements?
- To address matters raised:
 - End date of standard expected to align with mandatory regime expansions and/or assurance practitioner oversight regime (para 4)
 - An assurance practitioner is required to comply with a recognised assurance standard on GHG emissions (Non-authoritative guidance to identify ISAE 3410 or ISO 14064-3 as recognised standards). (para 6)
 - The assurance report is required to identify the standards that have been applied (para 42)
 - Application material recognises an assurance practitioner may be required to comply with accreditation or professional body requirements (para A2)
 - Plan for consultation document to include a high-level comparative summary of ISO to ISAE

3

Overview of ethics requirements

- Ethics approach is based on the concept of fundamental principles, identifying threats and eliminating or reducing them to an acceptable level (para 8 - 10)
- Specific prohibitions especially relevant to the regime:
 - Self-review threat prohibition (para 12)
 - Prohibition on assuming management responsibility (para 13)
 - Financial interest prohibition (para 14 and 15)
- Other prompts:
 - Remain free from condition and relationships that might impair independence (para 11)
 - Address familiarity threats due to long association (para 16)
 - Independence period (para 17)
 - Documentation requirement (para 18)

Any fatal flaw comments on the draft ethical requirements?

4

Fundamental principles

- Feedback received strongly supports inclusion of fundamental principles definitions in the standard.
- We have previously compared PES 1 and ISO in this area and confirmed that the fundamental principles as a whole set similar expectations regarding behaviour of assurance practitioner.
- Definitions proposed in our standard are based on PES 1 and adjusted were relevant to make them more understandable for practitioner with different backgrounds

Fatal flaw comments on the definitions for fundamental principles included in the draft standard?

Fundamental Principles – see paragraph 8 and A3 of the proposed standard

5

Conditions and Relationships

- There is a strong support for addressing threats arising from relationships with clients.
- In order to remain principles-based, we do not propose including detailed requirements.
- We propose to include a paragraph that is a prompt for assurance practitioners to ensure that there are no conditions or relationships that might impair independence (para 11). The application paragraph includes examples of conditions and relationships (para A7).
- Possible area for further non-authoritative guidance – refer to list of topics for staff guidance/ FAQs?

Any comments on the proposed requirement on conditions and relationships?

Conditions and Relationships– see paragraph 11 and A7 of the proposed standard

6

Familiarity threat

- Outreach identified the familiarity threat as a likely issue (due to the fact that the entities providing GHG related services might have long term relationships with their clients already before the GHG mandatory assurance regime starts).
- Feedback received strongly supports introduction of rotation requirements for an engagement leader and independent reviewer. However, rotation requirements might create unnecessary entry barriers for smaller practitioners.
- PES 1 does not require rotation on assurance engagements (specific requirements relate only to PIEs audits). ISO requirements are included in other standards than 14064.
- We added a high level requirement that is a prompt for assurance practitioners to consider and address familiarity threats due to long association with the client together with additional material in non-authoritative material (refer to list of staff guidance/FAQs).

Any comments of the requirement to address familiarity threats?

Familiarity threat– see paragraph 16 of the proposed standard

7

Period before the GHG engagement

- Feedback suggests that it is important to reinforce that assurance practitioners shall consider compliance with fundamental principles also in relation to any services and activities that took place before the GHG regime starts.
- To address this feedback we propose:
 - Clarification that self-review threat might be created by services provided before the start of the assurance engagement (para A10)
 - Requirement to address familiarity threat created by long term relationship (para 16)
 - Requirement to ensure conditions and relationships do not impair independence (para 11)
 - Additional non-authoritative guidance that will cover specifically considerations regarding the period before the start of GHG assurance engagements

Any comments on the draft requirements?

8

Key matters on quality management

Feedback suggests good start but needs more refinement.

We have added:

- Definition of engagement leader (para 3 (d))
- Competency requirements - specify that this should be across both assurance and GHG emissions (para 19 and 20)
- Specific requirement for engagement team fraud risk/green-washing discussion (para 23)
- Engagement level requirements (such as review, supervision and consultation and engagement leader responsibilities) (para 49, 50, 56 and 57)
- Require an independent reviewer (para 51)

Any comments on the draft quality management requirements?

9

Key matters on reporting

Feedback supportive of adding more in assurance report.

Questions whether Key Matters appropriate for limited assurance?

Questions around how reporting tools interact (EOM, Key Matters, inherent uncertainty, Other Matters).

We have:

- Added requirements re Other Matter for comparatives not subject to assurance (para 24 and 25)
- Made use of EOM contingent on whether a matter is a Key Matter (para 34)
- Added a requirement to name the engagement leader (para 41)
- Strong support for specific independence paragraphs (para 37 and 38)

Views are sought

- ❖ Shall we retain all requirements (i.e. for Key Matters (para 31-33), emphasis of matter (para 34-35), inherent uncertainty (para 39) **OR**
- ❖ Shall we require reporting of Key Matters only **OR**
- ❖ Shall we require use of EOM and inherent uncertainty paragraphs only

10

We are still exploring

Form of opinion if there is forward-looking information:

- ISO illustrative assurance report includes a separate section for “validation” of forward-looking information, including a limited assurance statement that “nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast” and “the forecast is properly prepared on the basis for the assumptions and climate change regulations”.
- We are still exploring how best to deal with forward-looking information in the ED and are continuing discussions with ISO practitioners and experts in relation to this.
- An example report can be found here:

<https://resources.fphcare.com/content/toitu-carbonreduce-independent-assurance-statement-fy22.pdf>

11

Staff guidance / FAQs

We are developing a list of topics that will be covered by staff guidance or FAQ. The main topics include:

- Temporary nature of the standard
- Application of recognised assurance standards
- Compliance with professional bodies / accreditation bodies requirements
- Emphasise on competency both in assurance and GHG emissions area
- Ethical requirements (conditions and relationships, self-review threat, familiarity threat, providing other services)
- Key Matters vs EOM vs Other Matters
- Comparatives upon transition into the mandatory assurance regime

Views are sought on areas for development of FAQs.

The full list of the topics is included in Agenda Item 3.4

12

NZ SAE 1 Assurance on Parts of Climate Statements Relating to Greenhouse Gas Emissions

Scope

1. This standard deals with the assurance practitioner's responsibilities when conducting an assurance engagement for the parts of the climate statements relating to greenhouse gas emissions (GHG) required by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Act) to be the subject of an assurance engagement.
2. The Act does not prevent the assurance engagement from covering the whole, or other parts of the climate statements. This standard does not set requirements, or provide guidance, for assurance engagements over the whole, or other parts, of the climate statements.

Definitions

3. For the purposes of this standard, the following terms have the meaning attributed below:
 - (a) Assurance client: Climate reporting entity as defined in the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021.
 - (b) Assurance organisation: An organisation performing a GHG assurance engagement. An assurance organisation can be a sole assurance practitioner, partnership, corporation or other entity of assurance practitioners, or public sector equivalent.
 - (c) Assurance practitioner: The individual(s) performing the assurance engagement.
 - (d) Engagement leader: The individual who takes overall responsibility for the assurance engagement, including the assurance report.
 - (e) GHG disclosures: The disclosure of an entity's GHG emissions as required by Aotearoa New Zealand Climate Standards (NZ CSs) which are subject to mandatory assurance.
 - (f) Key Matter: A matter which, in the assurance practitioner's professional judgement, was most significant in the assurance engagement in the current period. (Ref: Para. A1)
 - (g) System of quality management: A system that provides the assurance organisation with a high level of assurance that:
 - (i) The assurance organisation and its personnel fulfil their responsibilities and conduct the assurance engagement in accordance with applicable standards and legal and regulatory requirements; and
 - (ii) Assurance reports issued are appropriate in the circumstances.

Effective date

4. This standard is effective for assurance engagements from 27 October 2024 to periods ending on, or before, <TBC to align with expected *mandatory regime expansion beyond GHG disclosures/assurance practitioner oversight regime commencing*>.

Objectives

5. The objectives of the assurance practitioner are:
 - (a) To obtain assurance about whether the GHG disclosures are free from material misstatement;

- (b) To report their findings in an assurance report; and
- (c) To communicate as otherwise required by this NZ SAE.

Requirements

Applicable assurance standards

- 6. The assurance practitioner shall comply with a recognised assurance standard that deals with assurance engagements to report of an entity's GHG emissions. (Ref. Para A2)
- 7. The assurance practitioner is not required to comply with:
 - (a) PES 1¹ but shall comply with the ethical and independence requirements set out in paragraphs 8 to 18.
 - (b) PES 3² but shall comply with the quality management requirements set out in paragraphs 43 to 50.
 - (c) PES 4³ but shall comply with the independent reviewer requirements set out in paragraph 51 to 57.

Ethical Requirements

Fundamental Principles

- 8. Assurance organisations and assurance practitioners shall comply with each of the following fundamental principles:
 - (a) Independence – freedom from conditions or relationships which would compromise integrity or objectivity. (Ref. Para A3)
 - (b) Integrity – to be straight forward and honest; complying with the spirit as well as the letter of applicable principles.
 - (c) Objectivity – to be impartial, to be free from bias, conflict of interest or influence from others.
 - (d) Professional Competence and Due Care – to:
 - (i) Attain and maintain knowledge and skills necessary to perform the GHG assurance engagement.
 - (ii) Act diligently and in accordance with applicable standards, laws and regulations.
 - (e) Confidentiality – to respect the confidentiality of information acquired as a result of undertaking the assurance engagement.
 - (f) Professional Behaviour – to:
 - (i) Comply with relevant laws and regulations;
 - (ii) Behave in a manner consistent with the responsibility to act in the public interest; and

¹ PES 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))

² PES 3, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

³ PES 4, Engagement Quality Reviews

- (iii) Avoid any conduct that the assurance practitioner knows, or should know, might discredit GHG assurance practitioners.
- 9. Assurance organisations and assurance practitioners shall identify, evaluate and address threats to compliance with the fundamental principles. (Ref: Para. A4)
- 10. All threats to the fundamental principles shall be eliminated or reduced to an acceptable level. (Ref: Para. A5-A6)

Independence Requirements

Conditions and Relationships

- 11. The assurance organisation and the assurance practitioner shall ensure that they remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence. (Ref: Para A7)

Self-review Threat Prohibition

- 12. The assurance organisation and the assurance practitioner shall not assure their own work or provide any other services to the assurance client that might create a self-review threat in relation to the GHG disclosures on which the assurance organisation will express an opinion or conclusion. (Ref: Para. A8-A10)

Prohibition on Assuming Management Responsibilities

- 13. The assurance organisation and the assurance practitioners shall not assume a management responsibility for an assurance client. (Ref: Para. A11-A12)

Financial Interest Prohibition

- 14. A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
 - (a) The assurance organisation; or
 - (b) An assurance practitioner; or
 - (c) An assurance practitioner's immediate family member. (Ref: Para. A13- A16)
- 15. A direct financial interest or a material indirect financial interest in an entity that has a controlling interest in the assurance client shall not be held by:
 - (a) The assurance organisation; or
 - (b) An assurance practitioner; or
 - (c) An assurance practitioner's immediate family memberwhere the assurance client is material to the entity. (Ref: Para. A13- A16)

Addressing familiarity threat due to long association

- 16. The assurance organisation, the engagement leader, the independent reviewer and senior personnel on the assurance team shall address familiarity threats that arise due to an individual's long association with an assurance client.

Independence period

- 17. Independence shall be maintained during both:

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

Documentation

18. An assurance practitioner shall document conclusions regarding compliance with the fundamental principles including:
- (a) The substance of any relevant discussions that support those conclusions;
 - (b) The nature of the threat and the safeguards applied; and
 - (c) When a threat required significant analysis and the assurance practitioner concluded that the threat was already at an acceptable level, the nature of the threat and the rationale for the conclusion.

Competence

19. An engagement leader shall have sufficient competence in assurance skills and techniques and sufficient competence in the measurement and reporting of GHG emissions to accept responsibility for the assurance conclusion. (Ref: Para. A17 – A19)
20. An engagement leader shall be satisfied that the assurance team collectively have the appropriate competence and capabilities, including in the measurement and reporting of GHG emissions and in undertaking assurance engagements, to provide assurance on the GHG disclosures. (Ref: Para. A17-19)

Reliance on the Work of Others

21. When an assurance practitioner intends to rely on the work of an expert that is not part of the assurance team, the assurance practitioner shall:
- (a) Evaluate the competence, capabilities and objectivity of that expert;
 - (b) Obtain an understanding of the work of that expert; and
 - (c) Evaluate the appropriateness of using that expert's work as evidence.
22. Evaluation of the expert's objectivity shall include enquiry regarding interests and relationships that may create a threat to that expert's objectivity. This evaluation should be documented. (Ref: Para. A20)

Engagement team fraud discussion

23. The engagement team shall discuss the risk of management bias and 'green-washing' in relation to the GHG disclosures at the planning stage of the engagement. This discussion should be documented and updated through the engagement if new information comes to light. The discussion should include consideration of ability to quantify scope 1, 2 and 3 emissions, potential non-compliance with any relevant laws and regulations and The susceptibility of the GHG disclosures to material misstatement whether due to fraud or error.

Forward-looking information [Complete after further investigation]

Comparative information

24. The assurance practitioner's shall evaluate whether:

- (a) The comparative information agrees with the disclosures presented in the prior period or, when appropriate, has been properly restated and that restatement has been adequately disclosed; and
 - (b) The GHG quantification policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.
25. If the assurance practitioner becomes aware that there may be a material misstatement in the comparative information presented, the assurance practitioner shall:
- (a) Discuss the matter with the assurance client and perform procedures appropriate in the circumstances; and
 - (b) If the comparative information presented contains a material misstatement, and the comparative information has not been restated, the assurance practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting the comparative information.

Independent assurance report

Identifying information subject to assurance

- 26. When the assurance engagement covers the whole climate statements or other disclosures in addition to the GHG disclosures, the assurance report shall separately identify the parts of the climate statements relating to GHG disclosures, as required by the Act.
- 27. The assurance report shall clearly identify the information that 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 opinion or conclusion is expressed upon this information.

Form and level of the conclusion

- 28. The first section of the independent assurance report shall include the assurance practitioner's conclusion or opinion and an appropriate heading such as:
 - (a) "Conclusion" when all GHG disclosures are subject to limited assurance; or
 - (b) "Opinion" when all GHG disclosures are subject to reasonable assurance.
- 29. When some GHG disclosures are subject to reasonable assurance and others are subject to limited assurance, the assurance report shall include sub-headings for "opinions" and "conclusions" as appropriate and shall clearly identify the GHG disclosures that are subject to each level of assurance. The opinion and conclusion relating to each disclosure shall also be clearly identified.

Unmodified and modified conclusions

Unmodified conclusions and opinions

- 30. The assurance practitioner shall express an unmodified conclusion or opinion when the assurance practitioner concludes:
 - (a) In the case of limited assurance that, based on the procedures performed and evidence obtained, no matter has come to the assurance practitioner's attention to cause the assurance practitioner to believe that the GHG disclosures are not prepared, in all material respects, in accordance with the applicable criteria. (Ref: Para. A21)

- (b) In the case of reasonable assurance that, the GHG disclosures are prepared, in all material respects, in accordance with the applicable criteria; or (Ref: Para. A22)

Key Matters

- 31. When communicating matters that were most significant in the assurance engagement, the assurance practitioner shall report key assurance matters in a separate section in the assurance report, under the heading “Key Matter/s”. (Ref: Para. A1)
- 32. The Key Matter paragraph/s shall:
 - (a) State that key engagement matters are those matters that in the assurance practitioner’s professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures (in terms of the amount of work and/or the level of subjectivity involved);
 - (b) Include an explanation of why the matter is a key engagement matter; and
 - (c) Outline what the assurance practitioner has done to address the matter.
- 33. The assurance practitioner shall consider whether to include findings for the key matters identified. If findings are included, the assurance report shall state that the assurance practitioner does not provide a separate opinion or conclusion on these matters (Ref: Para. A1).

Emphasis of Matter

- 34. If the assurance practitioner considers it necessary to draw intended users’ attention to a matter in the GHG disclosures that is not reported as a key matter but that, in the assurance practitioner’s judgement, is of such importance that it is fundamental to the intended users’ understanding of the GHG disclosures, the assurance practitioner shall include an Emphasis of Matter paragraph in the assurance report.
- 35. The Emphasis of Matter paragraph/s shall:
 - (a) Be included in a separate section of the report under the heading “Emphasis of Matter”;
 - (b) Clearly refer to the disclosure being emphasised and where the disclosures can be found. The paragraph shall refer only to information presented in the climate statements;
 - (c) Indicate that the assurance opinion or conclusion is not modified in respect of the matter emphasised.

Modified conclusions and opinions

- 36. If the assurance practitioner:
 - (a) Concludes that based, on the assurance evidence obtained, the GHG disclosures are not free from material misstatement; or
 - (b) Is unable to obtain sufficient appropriate assurance evidence to conclude that the GHG disclosures are free from material misstatement

the assurance practitioner shall modify their opinion or conclusion in the assurance report. (Ref: Para. A23 – A26)

Other communication responsibilities

Existence of relationship/s with the assurance client or the GHG disclosures

37. The assurance report shall include a statement as to the existence of any relationship (other than undertaking the assurance engagement) which the assurance practitioner or assurance organisation has with, or in, the assurance client or any of its subsidiaries.
38. The assurance report shall state that the assurance organisation is not permitted to be involved in the preparation of the GHG information as doing so may compromise independence.

Inherent uncertainty in preparing GHG disclosures

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

Including Additional Information in the Assurance Report

40. The engagement leader shall consider whether there are any other engagement-specific matters that should be included in the assurance report, such as:
 - (a) 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 (Ref: Para. A27).
 - (b) Details of the qualifications and experience of the engagement leader and others involved with the engagement.

Name of engagement leader

41. The assurance report shall include the name of the engagement leader.

Identification of applicable standards

42. The assurance report shall identify the standards, including the professional or accreditation standards, that have been applied.

Quality management requirements

43. The assurance organisation shall design, implement and operate a system of quality management that is appropriate for the conduct of GHG disclosure assurance engagements.

Risk assessment and monitoring

44. The assurance organisation 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 assurance organisation proactively manages the quality of GHG disclosure assurance engagements they perform.
45. The assurance organisation 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); and
 - (c) Design and implement responses to address the quality risks (risk responses).
46. When designing and implementing a risk assessment process, the assurance organisation shall consider the following areas:
 - (a) Governance and leadership

- (b) Relevant ethical requirements
 - (c) Acceptance and continuance of client relationships and specific engagements
 - (d) Engagement performance
 - (e) Resources
 - (f) Information and communication.
47. The assurance organisation 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 action to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Documentation

48. The assurance organisation shall prepare and maintain 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 the roles and responsibilities with respect to the system of quality management and the performance of GHG disclosure assurance 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.

Engagement Performance

49. The assurance organisation shall ensure it has policies and procedures that include:
- (a) Matters to promote consistency in the quality of engagement performance;
 - (b) Supervision responsibilities; and
 - (c) Review responsibilities on the basis that work of less experienced team members is reviewed by more experienced engagement team members.

Consultation

50. The assurance organisation shall establish policies and procedures designed to provide it with reasonable assurance that:
- (a) Appropriate consultation takes place on difficult or contentious matters;
 - (b) Sufficient resources are available to enable appropriate consultation to take place;
 - (c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
 - (d) Conclusions resulting from consultations are implemented; or the reasons alternative courses of action from consultations were undertaken are documented.

Independent Review

51. An independent reviewer shall be appointed to evaluate:
 - (a) The appropriateness of the assurance team competencies;
 - (b) Whether the assurance engagement has been designed appropriately;
 - (c) Whether all assurance engagement requirements have been met;
 - (d) Significant decisions made during the assurance engagement;
 - (e) Whether sufficient and appropriate evidence was obtained to support the assurance report;
 - (f) Whether the evidence obtained supports the opinion or conclusion proposed by the assurance team; and
 - (g) The GHG disclosures and assurance report.
52. The independent reviewer shall be competent and independent from the assurance client and the GHG disclosures.
53. The independent review shall be completed before the assurance report is issued.
54. The assurance team shall address concerns raised by the independent reviewer.
55. The results of the independent review shall be documented.

Engagement leader requirements

56. The engagement leader shall take overall responsibility for acceptance and continuance of the assurance engagement, direction, supervision and review of the assurance team, undertaking adequate consultation during the engagement, satisfactory completion of the independent review, adequately addressing any independence or quality management matters arising and resolving any differences of opinion.
57. The engagement leader shall ensure that the following matters are adequately documented:
 - (a) Issues identified, relevant discussions with personnel, and conclusions reached with respect to:
 - (i) Fulfilment of relevant ethical and independence requirements;
 - (ii) The acceptance and continuance of the client relationship and assurance engagement.
 - (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the assurance engagement and how such conclusions were implemented.

Application Material

Definitions

- A1. The purpose of communicating key matters is to enhance the communicative value of the assurance report. Key matters provide additional information to assist users in understanding those matters that, in the assurance practitioner's professional judgement, were of most significance in the assurance engagement. Communicating key matters may assist users in understanding the areas of significant management judgement in the GHG disclosures. Key matters may include any areas where there was significant forecasting or inherent uncertainty involved, data quality issues, issues in obtaining the assurance evidence required or issues in determining the GHG reporting boundary.

Applicable Assurance Standards

- A2. Assurance practitioners may also be required to comply with accreditation requirements or professional body requirements.

Ethical Requirements

Independence

- A3. Independence comprises:
- (a) The state of mind that enables reaching conclusions without being affected by influences that compromise professional judgement (independence of mind); and
 - (b) The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that the assurance practitioner's integrity and objectivity has been compromised (independence of appearance).

Threats

- A4. 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 organisation, 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.

Reducing Threats to an Acceptable Level

- A5. 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 the fundamental principles.
- A6. A reasonable and informed third party means that the third party would have the knowledge and experience to understand the relevant facts and would be able to evaluate the assurance practitioner's conclusions in an impartial manner.

Conditions and Relationships

- A7. Examples of conditions and relationships that may create threats to the fundamental principles include:
- Relative size of assurance fee
 - Accepting or offering gifts or hospitality
 - Close business relationships
 - Family or personal relationships
 - Temporary personnel assignments
 - Employment relationships
 - Recent service with an assurance client
 - Servicing as a director/trustee/officer of an assurance client.

Self-review Threat Prohibition

- A8. A service might create a self-review threat where:
- (a) The results of the service will form part of, or affect the records, the internal controls over GHG emissions, or the GHG disclosures on which the assurance practitioner will express an opinion or a conclusion (e.g., measurement methodologies and estimation tools); and
 - (b) In the course of the assurance engagement, the assurance practitioner will evaluate, or rely on, any judgements made, or activities performed, by the assurance organisation when providing the service, including when:
 - (i) An assurance organisation uses technology to provide a service; or
 - (ii) An assurance organisation provides, sells, resells or licenses technology to the assurance client.
- A9. A self-review threat might also be created when IT services are provided to an assurance client. Providing IT services might create a self-review threat when the IT system forms part of, or affects, the assurance client's records or systems of internal control over GHG measurement or disclosures. Examples of such IT services include:
- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
 - Supporting an assurance client's IT systems, including network and software applications.

- Implementing GHG measurement or reporting software, whether or not this was developed by the assurance organisation.

A10. A self-review threat might be created by services provided at the same time when an assurance engagement is performed or by services provided before the start of the assurance engagement period.

Prohibition on assuming management responsibilities

A11. When an assurance organisation or assurance practitioner assumes a management responsibility for an assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the assurance organisation or assurance practitioner may become too closely aligned with the views and interests of management.

A12. Examples of management responsibilities include:

- Setting policies and strategic direction.
- Directing and taking responsibility for the actions of employees.
- 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 disclosures.
- Taking responsibility for the methodologies and calculations relating to measurement of GHG emissions.

Financial Interest Prohibition

A13. Financial interest is an interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest. Financial interests are classified as either a:

- (a) Direct financial interest: A financial interest:
 - (i) Owned directly by an individual or entity; or
 - (ii) Owned through an intermediary over which an individual or entity has control, or the ability to influence investment decisions.
- (b) Indirect financial interest: A financial interest owned through an intermediary over which an individual or entity has no control or ability to influence investment decisions.

A14. Examples of a direct interest are:

- Holding shares in the assurance client.
- Being a trustee of a trust that holds shares in an assurance client.

A15. Examples of an indirect interest are:

- Shares owned through collective investment schemes.
- Shares owned through pension schemes.

A16. When 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.

Competence

- A17. Skills and competence in assurance are developed through extensive training and practical application of assurance techniques, including performance of assurance engagements in accordance with relevant standards and applicable legal and regulatory requirements.
- A18. Skills and competence in GHG emissions are gained through significant experience in measuring, analysing reporting and/or attesting GHG emissions.
- A19. An assurance practitioner may use the work of an expert if they conclude that the work of that expert is adequate for the assurance practitioner's purposes. However, the assurance practitioner has sole responsibility for the engagement. That responsibility is not reduced by the work of the expert. The assurance practitioner needs to have sufficient understanding of the GHG emissions to be able to:
- (a) When needed, ask appropriate questions of the expert and evaluate whether the answers make sense in the engagement circumstances;
 - (b) Evaluate the expert's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
 - (c) Take responsibility for the conclusions reached.

Reliance on the Work of Others

- A20. When placing reliance on work undertaken by others, it is important to ensure that objectivity is not compromised. As such, it is important to consider whether others involved in the engagement have any interests or relationships that might create a self-review, self-interest, familiarity, intimidation or advocacy threat. Such considerations would normally include whether the individual has any relevant:
- Financial interests;
 - Business and personal relationships; or
 - Provides any other services to the assurance client.

Unmodified and modified conclusions

Unmodified conclusions and opinions

- A21. An example of how a conclusion may be expressed for limited assurance is as follows:

“Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as Greenhouse Gas Protocol Corporate Standard]”.

- A22. An example of how an opinion may be expressed for reasonable assurance is as follows:

“In our opinion, the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as *Greenhouse Gas Protocol Corporate Standard*]”.

Modified conclusions and opinions

A23. An example of how a modified conclusion may be expressed for limited assurance is as follows:

“Modified conclusion –

Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Modified Conclusion section of our report, nothing has come to our attention causes us to believe that the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as Greenhouse Gas Protocol Corporate Standard]”.

A24. An example of how a modified opinion may be expressed for reasonable assurance is as follows:

“Modified opinion –

In our opinion, except for the effect of the matter described in the Basis for Modified Opinion section of our report, the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as *Greenhouse Gas Protocol Corporate Standard*]”.

A25. Where there is a material and pervasive misstatement, an example of how an adverse conclusion may be expressed for both reasonable and limited assurance is as follows:

“Adverse conclusion/opinion –

Because of the significance of the matter described in the Basis for Adverse Conclusion/Opinion section of our report, the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as *Greenhouse Gas Protocol Corporate Standard*]”.

A26. Where there is a material and pervasive limitation of scope, an example of how a disclaimer may be expressed for both reasonable and limited assurance is as follows:

“Disclaimer of conclusion/opinion -

Because of the significance of the matter described in the Basis for Disclaimer of Conclusion/Opinion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1. Accordingly, we do not express a conclusion/opinion on the GHG disclosures.”

Materiality

A27. Materiality is a matter of professional judgement. The concept of materiality is defined within Aotearoa New Zealand Climate Statement 3. A percentage is often applied to a chosen

benchmark as a starting point in determining materiality. Different materiality levels are generally applied to scope 1, 2 and 3 emissions, given the significant range in volumes reported for each scope.

Appendix: Illustrative assurance report

Unmodified Limited Assurance Report on GHG Disclosures

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON GREENHOUSE GAS DISCLOSURES

To the Intended Users

We have undertaken a limited assurance engagement on the Greenhouse Gas (GHG) disclosures ('GHG disclosures') on pages [x] to [y] of the Climate statements for the year ended xx xxxxx 20X1.

Our assurance engagement does not extend to any other information included in the Climate statements 20X1 or referred to in the Climate statements 20X1.

Our Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the GHG disclosures on pages [x] to [y] of the climate statements for the year ended xx xxxxx 20X1 are not prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the XRB, measured in accordance with [recognised measurement criteria such as *Greenhouse Gas Protocol Corporate Standard*].

Emphasis of Matter

We draw attention to Section x which describes {*inherent uncertainty/exclusions, etc.*} Our conclusion is not modified in respect of this matter.

Inherent Limitations in preparing the GHG disclosures

GHG quantification is subject to inherent uncertainty as inconclusive scientific knowledge is used to determine emissions factors and the volumes required to combine emissions of different gases are estimated.

Key Matters

In this section we present those matters included in the GHG disclosures that, in our professional judgement, were **most significant** to the assurance engagement. These matters were addressed in the context of our assurance engagement of the GHG disclosures, and in forming our conclusion, and we do not provide a separate conclusion on these matters.

Comparative Information

{If relevant – i.e. as part of the entity's transition into the mandatory assurance regime }

The comparative GHG disclosures (i.e. GHG disclosures for the period ended 31 xxxx 202x) have not been subject to assurance. As such, these disclosures are not covered by our assurance opinion/conclusion.

Materiality [encouraged disclosure]

Based on our professional judgment, we determined quantitative materiality for the GHG disclosures as follows:

- ...

Competence and Experience of the engagement team [encouraged disclosure]

Our work was carried out by an independent and multi-disciplinary team including assurance practitioners, engineers and environmental scientists. The assurance practitioner is responsible for the assurance conclusion provided.

ABC's Responsibilities

ABC is responsible for the preparation and fair presentation of the GHG disclosures in accordance with the applicable criteria.

Our Responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the GHG disclosures are free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the addressee of the report of ABC.

As we are engaged to form an independent conclusion on the GHG disclosures prepared by management, we are not permitted to be involved in the preparation of the GHG information as doing so may compromise our independence.

Other relationships

Other than in our capacity as assurance practitioners, and the provision of the assurance engagement over GHG disclosures, we have no relationship with, or interests, in the ABC.

Standards Applied

This engagement was undertaken in accordance with NZ SAE 1 and (state which assurance standard and/or professional and ethical standards or accreditation body requirements were applied)

Summary of Work Performed

[In a limited assurance engagement, it is important for the practitioner to insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the basis for the assurance practitioner's conclusion. The following section has been provided as guidance, and the example procedures are not an exhaustive list of either the type, or extent, of the procedures which may be important for the users' understanding of the work done.]

We are required to plan and perform our work to address the areas where we consider that a material misstatement of the GHG disclosures may arise. The procedures we performed were based on our professional judgement. In undertaking our limited assurance engagement on the GHG disclosures, we:

- Obtained, through inquiries, an understanding of ABC's control environment, processes and information systems relevant to the preparation of the GHG disclosures. We did not evaluate the design of particular control activities, or obtain evidence about their implementation;
- Evaluated whether ABC's methods for developing estimates are appropriate and had been consistently applied. Our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate ABC's estimates;
- Undertook site visits at xx of ABC's xx sites;
- Tested, at each site visited, a limited number of items to, or from, supporting records, as appropriate;
- Performed analytical procedures by comparing the expected GHGs emitted to actual GHGs emitted and made inquiries of management to obtain explanations for any significant differences we identified;
- Considered the presentation and disclosure of the GHG disclosures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

[Engagement leader's signature]

[Name of engagement leader]

[Date of the assurance report]

[Address of assurance organisation where engagement leader is based]

Proposed list of topics that will be covered by staff guidance

1. Compliance with professional body requirements and accreditation requirements.

We will explain why we have deactivated PES 1, PES 3 and PES 4 while acknowledging that some assurance practitioners will still need to comply with PS 1 issued by CA ANZ or accreditation body requirements.

2. Professional competence and due care

We will emphasise that assurance practitioners need to follow the competency requirements set by their professional and accreditation bodies (including reference to ISO competency standards). We will emphasise that all assurance practitioners need to ensure they are competent in both assurance and in GHG emissions.

3. Conditions and relationships

We will include examples of how some conditions and relationships might impair independence and what safeguards might be appropriate.

Specific topics for inclusion identified so far:

- An advocacy threat caused by speaking on the same topic as the assurance client at events/conferences, etc.
- Scenario analysis undertaken at a sector or industry level.

4. Familiarity threat due to long association with assurance client

We will discuss implementation of rotation policies (including periods for 'cooling off') and procedures in the assurance organisation as a possible safeguard to mitigate the familiarity threat. We will signpost to requirements in the audit and the ISO context as examples of policies that exist.

5. Independent Review

We will refer practitioners to PES 4 and ISO 14064-3 for further guidance on independent review requirements.

6. Self-review threat

This was the most common issue raised during our outreach. Additional guidance might help to reinforcement the application material included in the standard, including prohibition on preparing GHG disclosures and providing IT services to support the GHG measurement tool.

Possible FAQ to deal with certification services, in particular when providing these services might create a self-review threat.

7. Services provided prior to the start of the assurance engagement

We will emphasise that assurance practitioners need to evaluate whether these services impact on independence/objectivity and other fundamental principles. This is relevant for this narrow scope regime but is equally important to sign post ahead of a broader assurance regime.

8. Services related to other disclosures in the climate statements

We will also guidance in relation to conflicts of interest that may occur when additional services are provided to the climate reporting entity. Scenario analysis and preparation of sector/industry level

disclosures is commonly raised as an example of services that may impact on the ability of the assurance provider to be objective. We will also discuss the need to consider the impact of these services if the scope of the mandatory assurance regime expands in the future.

9. Comparatives upon transition into the mandatory regime

The guidance will cover to what extent work is required over comparative information when the comparatives were not subject to an assurance engagement. This will reinforce the requirement to include an “Other Matter” paragraph in the assurance report which this is the case.

10. Key Matters vs EOM vs Other Matters

We are developing a flowchart outlining when matters should be covered by a Key Matter, an Emphasis of Matter or an Other Matter para or an inherent uncertainty paragraph. We will also include examples of matters that may be covered by each of these tools.

Assurance practitioners providing GHG assurance advised that an inherent uncertainty paragraph could be a useful tool to explain data quality issues or issues with the source of data.

11. What are the “applicable criteria” for GHG assurance engagements

We will explain that the XRB climate reporting standards do not prescribe the measurement methods. The assurance report should specify what measurement standards were used for the climate statements (for example the GHG protocol).

12. Who can undertake GHG assurance engagement

We would likely refer to the fact that MBIE are developing an accredited assurance practitioner regime.

13. Materiality

This would include additional considerations regarding determining materiality for GHG disclosures (i.e., different materiality levels may apply for Scope 1, 2 and 3 emission disclosures and quantitative vs qualitative disclosures).

14. Illustrative assurance report

An illustrative assurance report, based on a limited assurance engagement, has been included in the ED. However, we may develop additional examples which would include prompts/links/explanations to cross reference to reporting requirements included in the climate standard.

15. Temporary nature of the standard

This would provide context for the temporary nature of the standard and signal the timing for what next. This FAQ is likely to develop over time as we understand more about the various moving parts.

16. Recognised assurance standards

This FAQ would recognise that either ISO 14064-3:2019 *Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* or ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* are recognised assurance standards. (to explore whether this should also cover AccountAbility standards).

17. Assurance engagement to cover matters not required by the Act

To cover the Act's requirements for separation and to the extent deemed appropriate encourage a consistent approach (to be confirmed as to whether a separate assurance report is deemed appropriate).

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	19 October 2022
Subject:	Assurance over Financial Information Prepared in Connection with a Capital Raising
Date:	5 October 2022
Prepared by:	Sharon Walker

 Action Required **For Information Purposes Only**

Objectives

1. The objective of this agenda item is to provide an update to the Board on progress to finalise the capital raising assurance standard.

Background

2. The XRB's assurance standards do not currently specifically address assurance over financial information prepared in connection with a capital raising. Such engagements are not required by regulation, but are sometimes voluntarily sought by the engaging entity.
3. As there is no equivalent international standard, New Zealand practitioners are increasingly looking to ASAE 3450¹ for guidance when performing such an engagement. The NZAuASB approved a project proposal to develop a standard for the performance of, and reporting on, assurance over prospective financial information at its October 2017 meeting. The directive of the Board at that time was to use ASAE 3450 as a base and that the proposed standard would deal with both assurance for engagements involving corporate fundraisings as well as prospective financial information for more general purposes. Following discussions at the Board's September 2019 meeting, the scope of the project was narrowed to deal only with assurance over financial information prepared in connection with a capital raising.
4. The Board also agreed:
 - The NZ standard should be principles based and framework neutral.
 - The NZ standard will build on ISAE (NZ) 3000 (Revised) and applicable review engagement standards, but does not need to duplicate the requirements of those standards.
 - The type of assurance is restricted to limited assurance on all types of financial information.
 - The scope of the engagement is restricted to transactions involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the

¹ ASAE 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*

issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014.

5. Staff has been assisted in this project by Ian McLoughlin, Garth Barnes and Freddie Kuhn from PwC. We would like to acknowledge and thank them for their support and assistance.
6. An exposure draft was developed with significant reliance on ASAE 3450 as its base. Given the number of dual listings on the NZX/ASX, the NZAuASB considered consistency between the proposed SAE and ASAE 3450 an important factor. However, as ASAE 3450 contains direct references to the Corporations Act 2001 and other review standards that have no equivalent in New Zealand, its adoption without amendment was not appropriate.
7. NZAuASB ED 2022/3 Proposed SAE 3450 *Assurance over Financial Information in Connection with a Capital Raising* was issued in June 2022 with an exposure period of 90 days. Submissions were received from PwC (written) and KPMG (interview) and we held a virtual feedback event which attracted around 20 registrations, of which around 15 attended. There was a high level of support for the exposure draft, as drafted, from these respondents. The submissions and messages heard during this outreach is included in the supplemental board pack.
8. Staff shared the exposure draft with Roger Wallis of Chapman Tripp who has shown keen interest in this topic and with NZReg Co, representatives of which attended the virtual feedback event.
9. A written submission was also received from EY which raised some key concerns that staff and the working group need to reflect on and address. EY's key concerns relate to:
 - The need for due diligence participation and reporting ethical standards, similar to those issued by the Accounting Professional Ethics Standards Board (APESB) in Australia;
 - Interaction of the proposed standard with the auditing/assurance standards;
 - Consistency with the ASAE;
 - Relevant accounting framework; and
 - Consistency of illustrative engagement and representation letters and the assurance practitioners report with the New Zealand reporting framework.

Next steps

10. Staff will coordinate with the working group to respond to the concerns raised by EY with a view to approval by the Board of a final standard at its December 2022 meeting.

Recommendation

11. We recommend that the Board NOTE this update.

Material Presented

Agenda item 4.1 Board Meeting Summary Paper

Supplementary papers

Agenda item 4.2.1 Virtual feedback event

Agenda item 4.2.2 PwC

Agenda item 4.2.3 KPMG

Agenda item 4.2.4 EY

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	19 October 2022
Subject:	Public interest entity (PIE)
Date:	5 October 2022
Prepared By:	Tracey Crookston

Action Required

For Information Purposes Only

Agenda Item Objective

1. The objective of this agenda item is for the Board to:
 - a. CONSIDER the staff analysis of submissions received (**agenda item 5.2**).
 - b. APPROVE the amending standard (**agenda item 5.3**) and the signing memorandum (**agenda item 5.4**).

Background

2. The IESBA has broadened the definition of a public interest entity (PIE) in the IESBA Code. The revisions include an overarching objective, a broadly defined list of global categories of PIEs and a list of factors for determining whether an entity is a public interest entity. The IESBA Code includes an expectation that national standard setters will refine the global list of PIEs in the local context.
3. These changes bring the global definition of a PIE closer to the extant NZ definition but also include additional matters which we need to include in the New Zealand Code in order to meet our convergence and harmonisation policy.
4. The IESBA's approach to revising the PIE definition in the IESBA Code included an overarching objective and three key elements:
 - A top-down approach including a broader list of high-level categories of entities as PIEs;
 - A bottom-up approach recognising the important role of local jurisdictions to refine the IESBA categories for local circumstances. For example, by tightening definitions, setting size criteria and adding new types of entities or exempting particular entities; and
 - Determination by firms if any additional entities should be treated as PIEs.
5. Under this combination of a top-down and bottom-up approach, local jurisdictions are expected to revise the IESBA definition as part of the local adoption process. In doing so, consideration needs to be given to the overarching objective, the list of factors and the high-level categories.
6. The NZAuASB issued ED 2022-2 *Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES 1* (the ED) with comments due by 15 August. This ED proposed to adopt the

IESBA revisions and to retain the existing NZ definition of a PIE, which includes all tier 1 entities (not eligible to report in accordance with another tier) as defined in XRB A1.¹

7. When proposing to retain the New Zealand localised PIE definition in the ED the NZAuASB noted the importance of:
 - (a) recognising the purpose and importance of defining PIEs (i.e., additional independence requirements) while being mindful of not going broader than necessary.
 - (b) carefully considering all the categories and factors in the revised IESBA Code.
 - (c) a balance between a principles-based approach while also providing clarity around which entities are PIEs in New Zealand.
 - (d) the IESBA Code's provision that encourages firms to determine whether to treat other entities as public interest entities for the purposes of this part of the Code.
 - (e) not getting tied down in details of entities on the fringes.
 - (f) considering the current pressures on the auditing profession.
8. Prior to issuing the ED, the NZAuASB sought strategic direction from the XRB Board as to whether to explore breaking the link between the PIE definition for independence and the tiered reporting framework. The XRB Board supported the approach of retaining the link.
9. Overall, the XRB Board was mindful of not introducing unnecessary complexity for those applying the standards. In line with this, the Board was cognisant of the need to obtain sufficient evidence before supporting a proposal to:
 - (a) remove the existing link of the PIE definition with XRB A1; and/or
 - (b) extend the breadth of the existing PIE definition.
10. In the ED, the NZAuASB proposed adopting the recent IESBA PIE revisions while retaining the extant NZ definition of PIE. The NZAuASB sought comments from constituents about their views on whether the extant definition is sufficiently consistent with the new global definition.
11. The IESBA PIE revisions also introduce a transparency requirement for firms to disclose when an audit client is a PIE. We have included this transparency requirement in the amending standard.
12. In order to operationalise the IESBA requirement, the IAASB have recently issued an [exposure draft](#) (Track 1) to operationalise the IESBA's transparency requirement and proposed disclosure in the auditor's report. Our recent [comment letter](#) to the IAASB expressed concerns about the value of this information in the auditor's report.
13. The next step (Track 2) in the IAASB's project is to consider the remaining narrow scope amendments to the IAASB standards by revisiting the scope of differential requirements in the ISAs and ISQMs. The IAASB will progress Track 2 at its December meeting. An exposure draft is expected in 2023 and a final standard in 2024.

Outreach undertaken

14. The NZAuASB consulted through its normal channels, the XRB website, Pito Pito article, open for comment profile in several audit and assurance alerts. A PIE virtual feedback forum was held on 17 June to seek feedback from a range of constituents and encourage attendees to submit.

Submissions received

¹ XRB A1 *Application of the Accounting Standards Framework*

15. Three responses were received from: CAANZ, PWC and KPMG. These responses are analysed by staff at **agenda item 5.2**. The submissions are included at **agenda items 5.2.1, 5.2.2 and 5.2.3** in the supplementary papers.
16. Respondents held mixed views. CAANZ was supportive of the retaining the extant NZ PIE definition.
17. PWC had concerns with the second limb of the definition of public accountability in XRB A1 with respect to brokers. Recent staff guidance issued by the NZASB may assist in mitigating this concern and no change has been made as a result.
18. KPMG raised cost concerns related to not-for-profit entities. They recommended defining who the 'public' are when discussing the public interest.
19. KPMG's submission acknowledges that the scope of the NZ definition of PIE only extends to auditor independence requirements. However, they highlight that in multiple locations in the New Zealand Auditing Standards (ISAs (NZ)) international requirements that apply to listed entities have been expanded to FMC HLPAs entities.
20. They consider that this is consistent with the New Zealand view that FMC HLPAs entities represent the more complex and higher risk entities. KPMG therefore considers that in the absence of other guidance, an NFP PIE would also be presumed to be a higher risk entity and similar requirements would be applied.
21. In the interim, we recommend the development of staff guidance to clarify the scope of (and reasons for the difference) between the independence requirements and other differential auditing and quality management requirements.
22. As outlined in paragraph 13, this matter is also currently under review by the IAASB as part of its ongoing project on the implications of the IESBA PIE revisions for the IAASB standards.

Concluding comments

23. Based on our staff analysis of the submissions received (**agenda item 5.2**), we are not recommending changes to the amending standard.
24. We have made one change to the amending standard after the exposure period. The change was made to reflect the terminology we use in our New Zealand legislation – listed issuer is used, not listed entity. In the glossary of the amending standard the definition of publicly traded entity has been amended as follows:

A listed ~~entity~~ issuer as defined by relevant securities law or regulation is an example of a publicly traded entity.

Matters for consideration

25. Board members are being asked to APPROVE the amending standard (**agenda item 5.3**) and signing memorandum (**agenda item 5.4**).

Material Presented – Main papers

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues Paper
Agenda item 5.3	Amending Standard
Agenda item 5.4	Signing Memorandum

Material Presented – Supplementary papers

Agenda item 5.2.1	CA ANZ submission
Agenda item 5.2.2	PWC submission
Agenda item 5.2.3	KPMG submission
Agenda item 5.2.4	Tier 1 Charities – August 2022
Agenda item 5.5	PIE vs FMC HLPAs requirements

Public Interest Entity Definition – Analysis of submissions

1. The purpose of this paper is to:
 - (a) CONSIDER the responses received on ED NZAuASB 2022-2 *Proposed revisions to the definition of Listed Entity and Public Interest Entity in PES 1* (the ED); and
 - (b) AGREE the approach in the amending standard (**agenda item 5.3**).

Structure of this memo

2. This memo is set out as follows:
 - (a) Section A – analysis of responses received:
 - Respondent 1 – KPMG
 - Respondent 2 – PWC
 - Respondent 3 – CA ANZ
 - (b) Section B – staff recommendation

Section A – Analysis of responses received

Respondent 1 – KPMG

3. KPMG's response raises concerns that the NZ approach is capturing entities that they consider it should not be. The concerns raised are in the context of not-for-profit (NFP) entities.
4. KPMG note that the current NZ PIE definition captures large, or publicly accountable, NFP reporting entities as defined in XRB A1.
5. The submission highlights that the NZ PIE definition for NFPs is aligned with the older for-profit framework (i.e., based on a financial reporting tier requirement). KPMG note that this is different to a risk-based framework, for example, the new for-profit framework where the classification of for-profit entities has been aligned with entities the financial markets regulator has defined as being of higher public accountability (i.e., FMC HLPAs).
6. KPMG's concern is that the impact of the application of the tier 1 criteria for for-profits versus NFPs is to create additional costs (e.g., an engagement quality review of the audit file) for NFPs.
7. The submission acknowledges that the definition of an entity as a public interest entity (PIE) only impacts independence requirements. However, in multiple locations in the New Zealand auditing standards (ISAs (NZ)), international requirements that exist only for listed entities have been expanded to also include all FMC HLPAs entities. This is in line with the NZ view that these represent the more complex and higher risk entities.
8. KPMG therefore note that, in the absence of other guidance, from their perspective an NFP PIE would also be presumed to be a higher risk entity and similar ISA (NZ) requirements would be applied.

9. They suggest defining who the public are when discussing the public interest. For example:
 - (a) Should an entity only be considered in the public interest when its activities impact on the majority of the New Zealand population? Foundation North with its NZ wide funding programmes would be an example of this.
 - (b) Should it be based on it providing essential services to a segment of the population whether that is regional, or city based? The Wellington Free Ambulance and Auckland Coastguard would be good examples of such entities.
 - (c) Should it be considered at an even lower level than this? For example, a smaller rural town that relies on a volunteer fire service for emergency response.
 - (d) Could the level of funding received from the general public also be considered as a driver of public interest? For example, an entity that is funded by a bequest from a high net worth individual versus an entity that is largely funded by a large number of small donations from the general public.

Staff response

Defining the public interest

10. There are challenges when defining the 'public' and 'public interest', which is why the IESBA have not defined public or public interest as part their amendments but instead have developed high level categories and factors to consider when determining whether an entity is a public interest entity.
11. Defining what is meant by public interest can be problematic because it "is a political concept ... [and]...it's difficult to pin down exactly what it means".¹ In line with this, legal bodies and legal judgements avoid a definition of public interest. For example, in 2014, the [Australian law commission](#) said 'public interest' should not be defined, but a list of public interest matters could be set out.
12. Staff do not recommend defining the public or the public interest in New Zealand. The revised IESBA code has included principles-based factors to evaluate the extent of public interest². The question that then arises is whether the NZ approach is capturing entities beyond the factors listed.
13. The revised IESBA list of PIE categories does not include large public sector and NFP entities. However, paragraph 400.18 A2 of the Code recognises that national standard setters (NSS) will add categories to tailor the code for local jurisdictions. Examples of categories that may be added include NFP organisations.

NFP entities that are PIEs

14. The need to refine the IESBA's definition further in local jurisdictions has led NSS to adopt different approaches. Singapore is another jurisdiction where NFPs are explicitly covered. The extant approach in Australia is not to explicitly include NFPs above a certain size as a

¹ The Conversation, September 2022, 2017 – Author: Jane Johnston, Associate Professor in Communication and Public Relations, The University of Queensland.

² Para 400.9 of the revisions to the definition of public interest entity

PIE, however firms are required (rather than encouraged) to identify additional PIEs using the factors in the Code.

15. In New Zealand, NFPs will be PIEs if they meet the Tier 1 criteria in XRB A1³ and are not eligible to report in accordance with another tier (i.e., if they are publicly accountable or large). In accordance with XRB A1, an NFP is large if it has total expenses⁴ greater than \$30 million.
16. An August 2022 snapshot from the Charities Services register (**agenda item 5.2.4** in the supplementary papers) indicates that there are approximately 121 tier 1 charities. The snapshot is based on a charity's most recent annual return. Also included in the snapshot are five charities close to the boundary of the tier 1 criteria.
17. When reviewing this list of tier 1 charities, we do not think the New Zealand size criteria has resulted in any significant unintended consequences (i.e., large charities being captured as PIEs that we would consider should not be).
18. We do not consider that KPMG's submission has provided sufficient evidence of a problem with the XRB's approach to the definition of PIE in the context of the independence requirements.
19. An alternative might be to require firms to apply the factors to determine whether a NFP is a PIE, but on balance, given that no other stakeholders have raised this concern, we do not consider a change to this alternative is necessary.

Impact of PIE definition on engagement quality reviews

20. KPMG's submission acknowledges that the scope of the NZ definition of PIE only extends to auditor independence requirements. They note that in the ISAs (NZ) the definition of listed entity, has been expanded to include FMC HLPAs. They suggest that in the absence of other guidance, an NFP PIE would also be presumed to be a higher risk entity and therefore it might be inferred that requirements that apply to FMC HLPAs in the ISAs (NZ) therefore apply to large NFP PIEs. An example provided is adding an engagement quality reviewer (EQR) to the audit file.
21. We note that PES 3⁵ requires an engagement quality reviewer (EQR) for:
 - (a) audits of financial statements of FMC HLPAs.
 - (b) audits or other engagements for which an EQR is required by law or regulation. The FMA requires an EQR is required for all FMC reporting entities⁶. The law does not require an EQR for all PIEs in New Zealand.

³ Application of the Accounting Standards Framework

⁴ Total expenses (includes losses and grant expenses) recognised in surplus(deficit) in accordance with tier 1.

⁵ Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, paragraph NZ34(f)

⁶ In New Zealand, the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2020 require an engagement quality review for all FMC Reporting Entities including FMC Reporting Entities with lower public accountability.

- (c) audits or other engagement for which the firm determines that an EQR is an appropriate response to address one or more quality risks.
22. A firm may determine that a large charity requires an EQR based on risk. However, this requires professional judgement and is up to the individual firm.

IAASB's Listed Entity and Public Interest Entity Project

23. We understand that KPMG's concern relates to the scope of the 'differential' requirements in the ISAs (NZ) versus the differential requirements in the professional engagement standards.
24. The IAASB's narrow scope maintenance standards project on listed entity and PIE contains two tracks. Track 1 is addressing transparency of the PIE independence requirements in the auditor's report. Track 2 is exploring the remaining narrow scope amendments to the IAASB standards by revisiting the scope of any differential requirements in the ISAs and ISQMs.
25. Specifically, the Track 2 project will consider:
- (a) adopting the IESBA definition of PIE into the ISQMs and ISAs, or the Glossary of terms – as the extant differential requirements for listed entities in the ISQMs and ISAs may be amended to apply to all categories of PIEs.
 - (b) adopting the IESBA definition of 'publicly traded entity' into the ISQMs and ISAs, as a replacement for listed entity.
26. The IAASB will progress discussions on Track 2 at its December meeting, however an exposure draft is not expected until September 2023 and a final standard will not be issued until December 2024. (i.e., we need to adopt the IESBA PIE changes before the final IAASB changes are known).
27. While the IAASB is still deliberating on Track 2 and the impact on the ISAs and ISQMs, this does not mean that we should not finalise the New Zealand PIE definition for the purposes of the independence requirements in PES 1. The IESBA changes are effective for periods beginning on or after 15 December 2024.
28. In the interim, KPMG's concerns can be addressed through the development of staff guidance that highlights where the differential requirements are located (i.e., in both ISAs (NZ) and the professional engagement standards) and the scope of those requirements.
29. **Agenda item 5.4** in the supplementary papers summarises the key differential independence requirements in PES 1 when the audit client is a PIE. They relate to fees (dependency and transparency), employment with an audit client, long association personnel (including partner rotation) and the provision of non-assurance services (NAS) to an audit client.
30. **Agenda item 5.5** in the supplementary papers summarises the instances where FMC HLPAs are referred to in the ISAs (NZ). The XRB does not include differential requirements for PIEs in the ISAs (NZ). The standards where FMC HLPAs are referred to relate to quality management, fraud, communications with those charged with governance (including about deficiencies in internal control), audit opinion, KAMs, EOMs, other information, special considerations – special purpose frameworks, single financial statements/items and engagements to report on summary financial statements.

31. There are also differential requirements in PES 3 which requires an EQR for FMC HLPAs entities.

Additional costs

32. We acknowledge the concern about audit costs in the NFP sector, particularly in the context of the pandemic and its effect on donations and fundraising activities.
33. We note that a recent [2022 GT not for profit sector report](#) which looked at levels of support during Covid-19 noted that charities have received strong support from Government and funders during the pandemic. It also notes that while pandemic restrictions have impacted the ability of charities to hold street day appeals for cash donations, that NFPs with more flexibility can pivot and e.g., set up a Givealittle page which has been a successful way to maintain donation income.
34. Similarly, the [2021 JBW Cause Report](#) also predicts a rise over time in donation income noting that “despite the onset of the pandemic last year Kiwis dug into their pockets to support charities. Not so much this year – total giving, including formal philanthropy, is expected to drop by 12 percent... there is some hope in sight. History tells us giving recovers fast after large declines, and we similarly are expecting that after this year”.

Respondent 2 – PriceWaterhouseCoopers (PWC)

35. The PWC response highlights a specific concern with XRB A1 paragraph 8(b), the second limb of the IASB definition of public accountability, with respect to brokers.
36. In accordance with XRB A1, “an entity is deemed to have public accountability in New Zealand if... 8(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion)”.
37. Paragraph 10 then says that “notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).”
38. The PWC response notes that securities brokers are not FMC reporting entities with a higher level of public accountability.⁷ PWC also note that in New Zealand many entities known as brokers or dealers often do not hold assets in a fiduciary capacity.
39. However, because XRB A1 states that ‘most’ brokers/dealers are deemed to have public accountability in paragraph 8(b), by virtue of holding assets in a fiduciary capacity, there is uncertainty as to whether they meet the Tier 1 criteria and should therefore be treated as a public interest entity for audit purposes.

⁷ NB: Brokers are also excluded from the definition of ‘FMC reporting entity’ in section 451 of the Financial Markets Conduct Act (FMCA).

Staff response

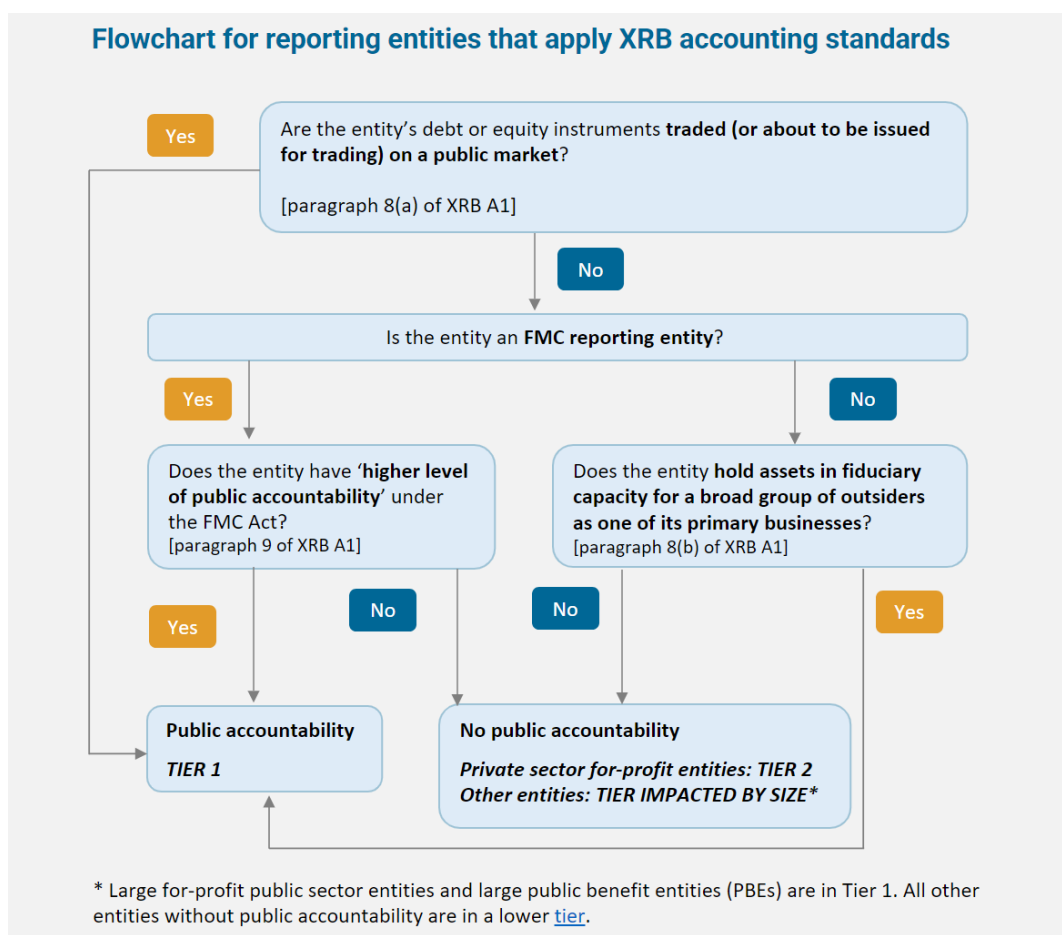
- 40. We have forwarded PWC’s comments to the Accounting Standards Team at the XRB who have prepared [staff guidance](#) that, among other things, clarifies the application of the public accountability definition in XRB A1 with respect to brokers.
- 41. The staff guidance contains a section on broker/dealer considerations as follows:

Broker/dealer considerations

Paragraph 8(b) says that “most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet” the public accountability criterion in this paragraph.

However, in New Zealand, many entities known as ‘brokers’ or ‘dealers’ do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Therefore, judgement is required in determining whether these types of entities meet the public accountability criterion under paragraph 8(b) of XRB A1.

- 42. A further section in the guidance addresses why the XRB A1 fiduciary capacity criterion can result in a different reporting tier for non-FMC reporting entities (e.g., brokers/dealers who hold assets in a fiduciary capacity) versus FMC reporting entities.
- 43. The guidance also contains a flowchart so that entities can step through the requirements and determine their reporting tier. It should assist securities brokers/dealers and their auditors when determining whether (or not) they meet the Tier 1 criteria.



44. The staff guidance also specifically acknowledges the linkage between the Tier 1 reporting requirements in XRB A1 and the definition of public interest entity for audit and assurance purposes.
45. We have forwarded a copy of the staff guidance (and details of where to find it on our website) to the respondent from PWC.

Respondent 3 – Chartered Accountants Australia and New Zealand (CA ANZ)

Comments received

46. CA ANZ are supportive of carrying forward the extant NZ PIE definition in PES 1 (i.e., linking the definition to the Tier 1 criteria in XRB A1). In CA ANZ's view the extant definition is sufficiently consistent with the revised global approach in the IESBA Code.
47. CA ANZ have not identified any categories of entities that are not captured by the extant NZ PIE definition that should be. They have also not identified any categories captured by the extant NZ PIE definition that should not be. They do not make any further comments on the PIE revisions to PES 1.

Staff response

48. As CA ANZ are supportive of the approach in the ED and ITC, there are no further matters to consider when analysing this submission.

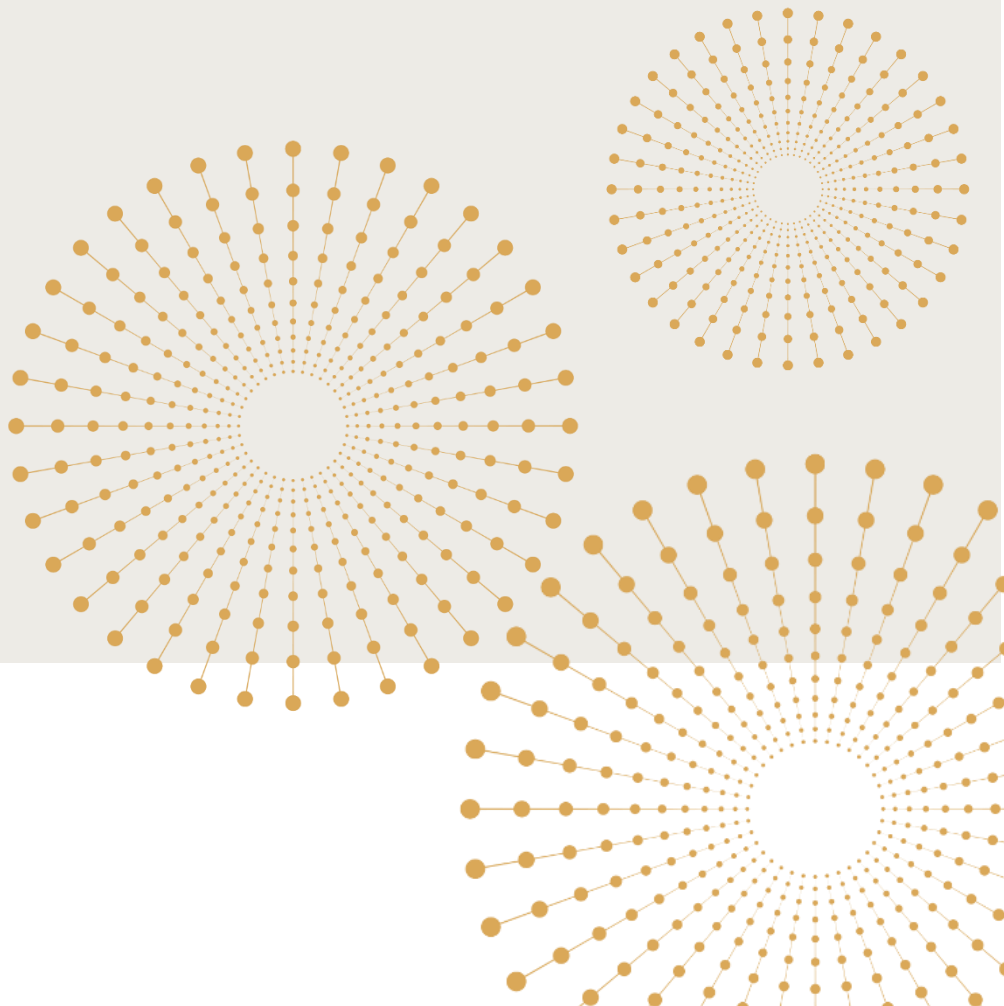
Section B – Staff recommendation

49. In analysing the submissions received on ED 2022-2, we have not received sufficient evidence to support the removal of the link between the PIE definition and XRB A1 or to extend the breadth of the existing PIE definition.
50. Staff recommend carrying forward the proposals in the ED into the amending standard (i.e., carrying forward the extant NZ definition of PIE). Refer to **agenda item 5.3**.
51. As outlined in paragraph 28, staff intend to develop guidance to address KPMG's concerns about the scope of the differential requirements in ISAs (NZ) and the professional engagement standards.

Amendments to Professional and Ethical Standard 1 (PES 1)

Revisions to the definition of public interest entity

**Effective from periods beginning on or after
15 December 2024**



Issued



**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (PES 1):
Revisions to the definition of public interest entity**

This Standard was issued on xx October 2022 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on xx November 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 contains amendments to Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

The amendments are effective for audits of financial statements for periods beginning on or after 15 December 2024. Early adoption is permitted.

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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Part A – Introduction

This standard contains amendments to the definition of Public Interest Entity in Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)*.

Part B – Amendments to PES 1 – Part 4A section 400 and Glossary

Deleted text is in strikethrough and new text is underlined.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

...

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part ~~reflect the extent of public interest in certain entities which are defined to be~~ are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. ~~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.~~

400.9 ~~Factors to be considered in evaluating the extent of public interest in the financial condition of an entity include:~~

- ~~The nature of the business~~ or activities, such as the holding of assets in a fiduciary capacity for a large number of stakeholders taking on financial obligations to the public as part of the entity's primary business. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

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

Reports that Include a Restriction on Use and Distribution

400.119 An audit 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

400.120 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

~~R400.131~~ A firm performing an audit engagement shall be independent.

~~R400.142~~ 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 engagement.

NZ ~~R400.142.1~~ Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Prohibition on Assuming Management Responsibilities

~~R400.153~~ A firm or a network firm shall not assume a management responsibility for an audit client.

~~400.153 A1~~ Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

~~400.153 A2~~ When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

~~400.153 A3~~ Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to

the employees' work for the entity.

- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

400.153 A4 Subject to compliance with paragraph R400.164, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

R400.164 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the activities; and
 - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Public Interest Entities

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

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

NZ R400.17.1 When considering the factors in 400.9 and the categories in **R400.17**, a firm shall treat an entity as a public interest entity, when it meets the tier 1 criteria in accordance with XRB A1¹ and is not eligible to report in accordance with the accounting requirements of another tier.

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

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

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

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

400.18 A2 Paragraph R400.17(d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

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

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

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, a predecessor firm has applied

¹ XRB A1 Accounting Standards Framework

independence requirements for public interest entities to the entity.

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

Public Disclosure – Application of Independence Requirements for Public Interest Entities

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

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

~~[Paragraphs 400.15 to 400.19 are intentionally left blank]~~

Related Entities

R400.220 As defined, an audit 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 client in this Part include related entities over which the client has direct or indirect control. When the audit 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 team shall include that related entity when identifying, evaluating and addressing threats to independence.

~~[Paragraphs 400.231 to 400.29 are intentionally left blank]~~

...

...

GLOSSARY

...

[NZ] Public interest entity For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

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

The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.18 A1 and 400.18 A2.

Notwithstanding (a)-(d) above, Any entity that meets the Tier 1 criteria in accordance with XRB A1¹ and is not eligible to report in accordance with the accounting requirements of another tier is a public interest entity.

Publicly traded entity

An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed issuer as defined by relevant securities law or regulation is an example of a publicly traded entity.

Part C – Consequential Amendments to PES 1 Part 4A section 600

Deleted text is in strikethrough and new text is underlined.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

...

Requirements and Application Material

General

...

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

600.7 A1 When a firm or network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.164 have been complied with.

Identifying and Evaluating Threats

All Audit Clients

...

600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

...

- The extent to which the client determines significant matters of judgement (Ref: Para. R400.153 to R400.164).

...

Providing advice and recommendations

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

- (c) Does not assume a management responsibility (Re: Para. R400.153 and R400.164); and

...

Considerations for Certain Related Entities

R600.26 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.153, a firm or a network firm may assume management responsibilities or provide certain non-assurance services

that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

...

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

...

Requirements and Application Material

...

Audit Clients that are Not Public Interest Entities

...

601.5 A2 Examples of services that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.

...

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.164 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5(b).

...

SUBSECTION 605 – INTERNAL AUDIT SERVICES

...

Requirements and Application Material ...

...

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.153 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

...

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

...

Requirements and Application Material

...

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.153 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

...

SUBSECTION 609 – RECRUITING SERVICES

...

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.15~~3~~ precludes a firm or network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

...

Part D – Effective Date

Effective Date

This standard is effective for audits of financial statements for periods beginning on or after 15 December 2024. Early adoption is permitted.

Date: 19 October 2022

To: Michele Embling, Chair External Reporting Board

From: Marje Russ, Chair NZAuASB

Subject: Certificate Signing Memorandum:
Amendments to Professional and Ethical Standard 1 (PES 1): Revisions to the definition of Public Interest Entity

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Amendments to PES 1: Revisions to the definition of Public Interest Entity*.

Background

Revisions to the IESBA Code

2. In April 2022, the International Ethics Board for Accountants (IESBA) issued [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).
3. In approving the amendments to the international Code, the IESBA has relied on an overall framework that includes the following key elements:
 - an overarching objective that explains the need for additional independence requirements for entities that are defined as public interest entities (PIEs).
 - a top-down list of mandatory high-level PIE categories subject to local refinement.
 - a bottom-up list of PIE categories that could be added by the relevant local standard setting bodies to the local PIE definitions.
 - an encouragement for firms to determine whether to treat additional entities as PIEs together with a transparency requirement for firms to disclose whether an audit client is a PIE.
4. The revisions to the IESBA Code are effective for audits of financial statements for periods beginning on or after 15 December 2024 with early adoption permitted.

International due process

5. The IESBA issued its [exposure draft](#) (ED) in January 2021 with comments due by May. The IESBA received 69 responses from various respondents (including preparers, regulators, those charged with governance etc.) The responses to the PIE ED were considered at several IESBA meetings during mid-late 2021.

6. At its November-December 2021 virtual meeting, the IESBA board members unanimously approved (17 votes) the final revisions and determined that the changes made to the final standard did not require re-exposure.
7. The standard was subsequently approved by the Public Interest Oversight Board (PIOB). The PIOB concluded that due process was followed in developing the standard and that proper regard was paid to the public interest.

Domestic due process

8. The NZAuASB submitted to the IESBA in April 2021. The [submission](#) noted New Zealand's historically broader definition of PIE and was broadly supportive of the IESBA's approach. The submission also noted some concerns with the proposed transparency requirement.
9. In formulating its response, the NZAuASB held a virtual roundtable to seek views from various stakeholders, including auditors, academics and preparers. The NZAuASB also met with regulators including the FMA and CA ANZ and sought views from the public sector.
10. In developing the New Zealand exposure draft, having worked through the IESBA's top-down and bottom-up approach, the NZAuASB was of the view that the existing New Zealand definition of PIE is broadly consistent with the global definition.
11. The existing New Zealand definition of PIE is linked to the tier 1 reporting criteria in XRB A1. The Board noted in the exposure draft that the XRB's objective of linking the PIE definition to the tier 1 criteria in XRB A1 was, and still is, for understandability and simplicity (i.e., not introducing unnecessary complexity to the multi-sector, multi-tier approach).
12. The Board also considered it appropriate that entities that can only report using tier 1 financial reporting requirements should be audited under the most rigorous and stringent independence rules.
13. The New Zealand [exposure draft](#) was issued in May 2022 with comments due by 15 August. The NZAuASB consulted through its normal channels, a landing page on the XRB website, Pito Pito article, open for comment profile in several audit and assurance alerts. A PIE virtual feedback forum was held on 17 June 2022 to seek feedback from a range of constituents and encourage attendees to submit on the ED's proposals.
14. Three responses were received from constituents: CAANZ, PWC and KPMG. These responses and the staff analysis were considered by the NZAuASB at its October meeting.
15. Respondents held mixed views. CAANZ was supportive of the retaining the extant NZ PIE definition. PWC had concerns with the second limb of the definition of public accountability in XRB A1 with respect to brokers. Recent staff guidance issued by the NZASB may assist in mitigating this concern and no change has been made as a result.

16. KPMG raised cost concerns related to not-for-profit (NFP) entities. They recommended defining who the 'public' are when discussing the public interest.
17. KPMG's submission acknowledges that the scope of the NZ definition of PIE only extends to auditor independence requirements. However, they highlight that in multiple locations in the New Zealand Auditing Standards (ISAs (NZ)) international requirements that apply to listed entities have been expanded to FMC HLPAs entities.
18. They consider that this consistent with the New Zealand view that FMC HLPAs entities represent the more complex and higher risk entities. KPMG therefore asserts that in the absence of other guidance, an NFP PIE would also be presumed to be a higher risk entity and similar requirements would be applied.
19. In the interim, to address KPMG's concerns, we recommend the development of staff guidance to clarify the scope of (and reasons for the difference) between the independence requirements and other differential auditing and quality management requirements.
20. This matter is also currently under review by the IAASB as part of its ongoing project on the implications of the IESBA PIE revisions for the IAASB standards.
21. After considering the staff analysis of responses, the NZAuASB agreed to adopt the IESBA revisions, retain the existing New Zealand definition of PIE and approved the amending standard.

Harmonisation with Australia

22. In Australia, historically APES 110 *Code of Ethics for Professional Accountants* (APES 110) has also been broader than the previous IESBA approach, but in a slightly different manner to New Zealand because of its different regulatory framework.
23. The Accounting Professional and Ethical Standards Board (APESB) Code deems certain entities to be PIEs, including Australian Prudential Regulation Authority (APRA) regulated entities, disclosing entities under the Corporations Act 2001 and other issuers of debt and equity instruments to the public.
24. Historically, the APESB required (rather than encouraged) firms to determine whether to treat additional entities, or certain categories of entities, as PIEs because they have a large number and wide range of stakeholders.
25. The APESB has not explicitly deemed public sector or not-for-profit entities as PIEs. However, the APESB has published an [Independence Guide](#) which sets out some illustrative examples of entities that would likely be PIEs when applying the factors set out in the Australian Code, including an example of a very large charity.
26. The APESB issued an [exposure draft](#) that proposes revisions to the definition of listed entity and public interest entity in APES 110 consistent with the recent IESBA revisions. Respondents' feedback is being sought on whether there are categories of entities that are not currently captured by the extant Australian provisions on PIEs but should be

going forward. They propose to retain the requirement for firms to determine whether to treat additional entities as PIEs. The comment period closes on 28 October.

27. We expect to remain substantively similar but with the existing differences due to the different legal and regulatory framework. We will update the comparison to Australia at the end of PES 1 when the revised Australian standard is finalised.

Privacy

28. 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

29. 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

30. The adoption of Amendments to Professional Engagement Standard 1: *Revisions to the Definition of Public Interest Entity* 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

31. 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

32. The NZAuASB recommends that you sign the attached certificate of determination and signing memorandum on behalf of the XRB Board.

Attachments

- Amendments to Professional Engagement Standard 1: *Revisions to the definition of Public Interest Entity*.
- Certificate of Determination
- Approval Certificate

Marje Russ

Chair NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	19 October 2022
Subject:	Service Performance Information Project Update
Date:	4 October 2022
Prepared By:	Lisa Thomas

Action Required

For Information Purposes Only

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 matters identified in the issues paper at agenda item 6.2.

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 (GPFR).
3. Given this information is part of the 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.
4. 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 expressed concern that the standard is not fit for purpose for the public sector and indicated an intent to continue to apply AG-4 *The Audit of Performance Reports* in public sector audits.
5. The effective date of NZ AS 1 was deferred until 1 January 2023 to enable time to address these concerns.
6. We formed an advisory group¹ in early 2022, which meets monthly, to discuss the development of a standard for service performance information that meets the requirements of the public sector.
7. A first full read of the developing standard was conducted by the advisory group in early October. No fatal flaws were identified at this stage, but work is ongoing as there was much discussion of

¹ The advisory group consists of Greg Schollum (Deputy Controller and Auditor-General), David Eng (Director of Performance Reporting), Mark Maloney (OAG), Grant Taylor (EY), John Kensington (XRB), chaired by Karen Shires (PwC).

areas that required further development and refining. A key area where work is ongoing is on materiality.

8. The requirements section of developing draft standard is at agenda item 6.3. Application guidance to support the requirements is well progressed, however like the requirements is still being discussed and refined by the advisory group.

Matters to Consider

9. Agenda item 6.2 outlines the key features of the developing standard and key areas still being explored. The requirements section of developing draft standard is at agenda item 6.3 to keep the Board updated and to seek any fatal flaw feedback. The objective of the update is to ensure that there are no surprises for the NZAuASB or the advisory group as we get closer to reaching a version of the document that is ready for exposure. We continue to aim to seek approval of the exposure draft in December (if the advisory group is satisfied with the draft at that time).

Recommendations

10. We recommend that the Board NOTES the update on the project and PROVIDES feedback on the issues paper at agenda item 6.2.

Next steps:

The next steps to develop an exposure draft for issue are to:

- Refine the materiality requirements and continue to update the standard for feedback from the advisory panel and the NZAuASB.
- Develop illustrative engagement letters and audit reports.
- Compare the existing SPI auditing standards to the developing exposure draft.
- Develop a flowchart diagrammatic summary of the standard.
- Meet with the Advisory group on 28 October and 7 November.
- Develop a consultation document with key questions to explore with stakeholders.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues Paper
Agenda item 6.3	Extract of requirements from developing draft standard

AGENDA ITEM 6.2

Developing Standard - *Service Performance Information*

Lisa Thomas

1

Key Features

The requirements of the developing standard at agenda item 6.3 are still being refined by the advisory group. It is very much a developing, work in progress, draft.

Some key features of the developing standard are:

- Two step approach
- 3 layers of service performance information (SPI)
- Assessment of appropriate and meaningful
- Disclosure and availability of the measurement bases and evaluation methods

2

Two Step Approach

- Service performance reporting requirements enable the entity to determine how it selects, aggregates, measures, and presents its SPI.
- A key step in the audit is to assess whether the information reported is appropriate and meaningful to enable the intended user to assess the performance of the entity.
- This assessment must be completed prior to the auditor starting to “tick n bash” the information that is reported. The auditor needs to assess if the “right” information is reported before determining if the information is materially misstated.
- This two-step approach has been incorporated into the standard using less technical language than NZ AS 1 and is emphasized in:
 - The objective (para 6)
 - How to articulate the two step approach in the objective at paragraph 6 is still being refined by the advisory group.
 - Materiality (para 26)
 - Audit Evidence (para 33)
 - Forming an opinion (para 43)

Does the Board have any fatal flaw comments on the way the two step approach is being articulated in the developing standard?

3

Service Performance Criteria

- The developing standard moves away from the technical language used in NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1). NZ AS 1 uses the term service performance criteria. In the developing standard this term is replaced and described using 3 layers:
 - Service performance activities e.g., provide safe drinking water to stakeholder
 - Performance measures or descriptions e.g., 100% of water supplied was safe
 - Measurement basis or evaluation method e.g., Drinking Water Standards for New Zealand
- Examples of how this language is used can be seen at:
- The objective (para 6)
 - Understanding the service performance reporting (para 15)
 - Audit Evidence (para 33)

Does the Board have any fatal flaw comments on this language?

4

4

Appropriate and Meaningful

- PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) requires an entity to report SPI that is appropriate and meaningful (A&M). This is achieved by applying qualitative characteristics and pervasive constraints.
- This approach is also adopted in the Tier 3 reporting exposure draft.
- NZ AS 1 requires the auditor to evaluate the “suitability” of the service performance criteria against the qualitative characteristics.
- In the developing standard ([para 23](#)), the language has been aligned to PBE FRS 48 and requires the auditor to evaluate whether the service performance information is appropriate and meaningful.
- Rather than directly referencing the qualitative characteristics for this evaluation, the developing standard uses plain English questions to prompt the auditor to consider the qualitative characteristics.
- The advisory group is still considering the location of some of the application guidance to support these prompts.

Does the Board have any fatal flaw comments on this approach?

5

5

Measurement basis or evaluation method

Availability

- PBE FRS 48 enables the entity to select the measurement basis or evaluation method it uses for its performance measure. i.e., how the measure is measured. For example, if the entity’s performance measure for water quality was “Satisfactory” or “Not Satisfactory” what is the measurement basis used to determine “Satisfactory”. Is it the New Zealand Water Quality Standards, or an internally generated water quality measurement criteria.
- It is unclear whether there is a requirement for the entity to disclose its basis of preparation for Service Performance Information.
- The advisory group believe that disclosure of the measurement basis or evaluation method is an important aspect of the SPI being appropriate and meaningful, particularly understandable.
- A precondition for assurance is that the criteria are available to intended users (refer assurance framework)
- The developing standard currently contains requirements at [para 23 \(f\) and 43 \(b\)](#).
- Staff are currently discussing options to address this issue with the XRB accounting team.

6

6

Measurement basis or evaluation method

Audit report

- An assurance report should identify the criteria the underlying subject matter was measured or evaluated against, so that the intended users understand the basis for the practitioner's conclusion.
- As PBE FRS 48 enables the entity to select what measurement basis or evaluation method to use, reference to the "applicable financial reporting framework" does not provide sufficient information to the intended users to understand the basis for the practitioner's conclusion.
- This has been addressed in the draft standard in the reporting section (para 46), where the measurement basis or evaluation method is required to be referred to in the opinion. For example:

In our opinion the accompanying general purpose financial report presents fairly, in all material respects:

- *The entity information as at 31 December 20X3*
- *The financial position of the [entity] as at 31 December 20X3, and its financial performance, and its cashflows for the year then ended; and*
- *The service performance for the year ended 31 December 20X3 in accordance with the entity's measurement basis or evaluation method on pages X, and X-X*

in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit) issued by the New Zealand Accounting Standards Board.

This requirement is based on the satisfactory resolution of the measurement basis or evaluation method being disclosed and available to users as discussed on the previous slide.

7

7

Materiality

- Paragraph 26 of developing standard, requires the auditor to apply the concept of materiality in two main aspects of the audit being:
 1. Whether the information reported is appropriate and meaningful
 2. Whether there are material misstatements in what is reported.
- Due to the variety of service performance activities and performance measures or descriptions an entity may disclose it is very unlikely that a single level of materiality could be applied to assess material misstatements and aggregation of misstatement would be challenging.
- Materiality is an issue still being considered by the advisory group, particularly around application material on what activities are material, the impact an individual material misstatements may have on the auditor's opinion, and the need for a stand back requirement to consider collective misstatements.

8

8

What has changed?

In summary, the developing standard is fundamentally similar to NZ AS 1. Changes are a move away from the use of technical language and aligning the language with that used in the applicable financial reporting frameworks. For example:

- NZ AS 1 uses the term “Service performance criteria”. This term has been replaced in the developing standard and described using 3 layers.
- The requirement in NZ AS 1 to assess the “suitability” of the service performance criteria has been changed to an assessment of “appropriate and meaningful” in the developing standard.
- The requirement to assess against the qualitative characteristics has been replaced by plain English questions prompting the auditor to consider the risks associated with the qualitative characteristics.

EXTRACTS OF REQUIREMENTS FROM DEVELOPING DRAFT STANDARD**Scope**

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general-purpose financial report. The auditor performs the audit of service performance information concurrently with the audit of the financial statements.
2. This NZ AS establishes requirements and provides guidance not addressed by other International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information.
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general-purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For the purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general-purpose financial report.

Effective Date

4. This NZ AS is effective for audits of service performance information included in the general-purpose financial report for periods beginning on or after XX 2023. Early adoption is permitted.

Objectives

5. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information included in the general-purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework.
6. The objective of the standard may be achieved by considering the following two steps:
 - i. Assess whether each of the following aspects of the service performance information are appropriate and meaningful:
 - The service performance activities the entity has selected to report on. For example, provide safe drinking water to stakeholders.
 - The performance measures or descriptions the entity has used to report on what it has done in relation to those activities during the reporting period. For example, 100% of water supplied was safe.
 - The measurement basis or evaluation method used to measure or evaluate the performance measure or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.
 - ii. Obtain audit evidence to determine whether the service performance information presented is materially misstated.

Definitions

7. For the purposes of this NZ AS, the following terms have the meanings attributed below:
 - a) General purpose financial report: Comprise the financial statements and service performance information and, where applicable, entity information, prepared in

accordance with the applicable financial reporting framework. The general-purpose financial report may be referred to as a Performance Report.

- b) **Misstatement:** Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud when:
- A service performance activity or performance measure or description, or a measurement basis or evaluation method is not appropriate and meaningful; or
 - Incorrectly measuring or evaluating the entity's service performance.
- c) **Risk of Material Misstatement:** The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:
- i. **Inherent risk** – The susceptibility of an assertion about a performance measure or description, measurement basis or evaluation method or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - ii. **Control risk** – The risk that a misstatement that could occur in an assertion about a performance measure or description, measurement basis or evaluation method or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's system of internal controls.

Requirements

General Requirements

Conduct Engagement in Accordance with the ISAs (NZ)

8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information.
9. The auditor shall not assert compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ) in relation to the audit of service performance information.

Professional Judgement and Professional Scepticism

10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism.

Documentation

11. The auditor shall include in the audit documentation:
 - Key elements of the auditor's understanding in accordance with paragraphs 14-19; and the sources of information from which the auditor's understanding was obtained.
 - Significant professional judgements made in audit procedures performed, the audit evidence obtained, and conclusions reached.
 - As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

Agreement on Audit Engagement Terms

12. The terms of the engagement shall include¹:

- a) The responsibilities of the auditor with respect to the service performance information:
 - i. *{To update - Work in progress}*
 - ii. To obtain an understanding of the process applied by the entity to select its service performance activities, performance measure or descriptions and the measurement bases or evaluation methods.
 - iii. To evaluate whether the service performance information is prepared in accordance with appropriate measurement bases or evaluation methods and the applicable financial reporting framework.
 - iv. To evaluate the overall presentation, structure and content of the general-purpose financial report, and whether the general-purpose financial report represents the underlying transaction, events and service performance in accordance with the applicable financial reporting framework.
- b) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
 - i. The selection of service performance activities, performance measures or descriptions and measurement or evaluation methods that will present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.
 - ii. The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods and in accordance with the applicable financial reporting framework.
 - iii. Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.
- c) Reference to the expected form and content of the auditor's report, including whether it will include additional information about service performance activities, performance measures or descriptions or measurement bases and evaluation methods selected, detailed findings or recommendations to meet the needs of the intended users.

Obtaining an Understanding

Understanding the Entity

13. The auditor shall obtain an understanding of:

- a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.
- b) What activities or services the entity performs.
- c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.

¹ ISA (NZ) 210 Agreeing the Terms of Audit Engagements

- d) What is considered important to those stakeholders and users and what they may use that information for.

Understanding Laws and Regulations

14. The auditor shall obtain an understanding of²:
- a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and in particular laws and regulations that specify the form, content, preparation, publication, and audit of service performance information; and
 - b) How the entity is complying with that framework.

Understanding the Service Performance reporting

15. The auditor shall obtain an understanding of:
- a) The applicable financial reporting framework relevant to the service performance information.
 - b) The process, including the rationale and logic and level of engagement with intended users the entity undertook to determine what service performance activities, performance measures or descriptions and measurement bases or evaluation methods to report.
 - c) The measurement bases or evaluation methods the entity is measuring or evaluating its performance measures or descriptions against.
 - d) Changes to service performance activities, performance measures or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.

Understanding the Components of the Entity's System of Internal Control

16. The auditor shall obtain an understanding of:
- a) The control environment relevant to the preparation of the service performance information;
 - b) The entity's risk assessment process to identify business risks relevant to the preparation of the service performance information;
 - c) The entity's process for monitoring the system of internal control relevant to the preparation of the service performance information;
 - d) The entity's information system and communication relevant to the preparation of the service performance information;
 - e) The control activities component.
17. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.
18. The auditor shall develop an audit plan with a single audit approach to concurrently cover the service performance information and the financial statements.

² ISA (NZ) 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements*

Planning

19. In establishing the overall audit strategy, the auditor shall:³
- a) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
 - b) Have the necessary skills available to examine and provide comment to the entity at the time the entity is developing its service performance information on whether it is appropriate and meaningful.
20. The auditor shall discuss with those charged with governance:
- a) What service performance activities and performance measures or descriptions the entity intends to report as part of its service performance information;
 - b) What measurement basis or evaluation method the entity intends to use to measure its performance; and
 - c) Where the entity intends to report its service performance information within the general purpose financial report.
21. Any concerns identified shall then be communicated to those charged with governance as soon as practicable.

Compliance With the Applicable Financial Reporting Framework

22. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework.

Appropriate and Meaningful

23. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether:
- a) The service performance information relates to a service performance activity that significantly contributes to the entity's core purpose, functions or objectives.
 - b) The service performance information fairly reflects the auditor's understanding of the entity's performance from all other audit work performed on the audit.
 - c) The service performance information is likely to meet the needs of the intended user to enable an informed assessment of the entity's service performance.
 - d) There is likely to be evidence to support the performance measure or description.
 - e) The service performance information is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.
 - f) The measurement bases or evaluation methods used to assess each performance measure or description are:
 - Available to intended users.
 - Expected to be supported by audit evidence.

³ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

- Capable of measurement or evaluation in a consistent manner from period to period.
- g) The comparative information has been presented using a consistent format, layout and classification that enables users to readily understand the entity's service performance over time and against forecasts.

Compliance With Laws and Regulations

24. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information.⁴

Materiality (identified as a section requiring further work by the advisory group)

25. The auditor shall use the understanding gained in paragraphs 14-18 when determining materiality.

26. The concept of materiality is applied by the auditor when assessing whether:⁵

- a) The service performance information is appropriate and meaningful; and
- b) The performance measures or descriptions, measurement basis or evaluation methods contain individual and collective misstatements, that based on the auditor's judgement, are likely to significantly influence the decisions of the intended users based on the information.

27. The auditor shall determine and document materiality levels and/or materiality for service performance information for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Identifying and Assessing Risks of Material Misstatement

28. The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019) to obtain audit evidence that provides an appropriate basis for identification and assessment of risks of material misstatement, whether due to fraud or error:

- At the service performance information level; and
- At the assertion level for performance measures, descriptions or disclosures.

29. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.

The Auditor's Responses to Assessed Risks

30. The auditor shall design and perform procedures whose nature, timing and extent:

- a) Are responsive to assessed risks of material misstatement at the service performance information level and at the assertion level; and
- b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.

31. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of controls over the service performance information when:

⁴ ISA (NZ) 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁵ ISA (NZ) 320 *Materiality in Planning and Performing an Audit*, paragraph 5

- a) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively; or
 - b) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence.
32. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.

Audit Evidence

33. The auditor shall obtain sufficient appropriate audit evidence to reduce the risk to an acceptably low level of expressing an inappropriate opinion when:
- a) The service performance activity, performance measure or description, or measurement basis or evaluation method is not appropriate and meaningful; or
 - b) The performance measures or descriptions are materially misstated; or
 - c) Whether the performance measures or descriptions have not been measured or evaluated in accordance with the measurement basis or evaluation method.
34. Where possible the auditor shall draw on relationships that exist between the performance information and the financial statements.
35. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management expert.⁶
36. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

Communicating With Those Charged With Governance

37. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance:⁷
- a) Any significant risks identified with the service performance information.
 - b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement.
 - c) Significant difficulties, if any, encountered during the audit.
 - d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management.
 - e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations.
 - f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.⁸

⁶ ISA (NZ) 500 *Audit Evidence*

⁷ ISA (NZ) 260 (Revised) *Communication with Those Charged with Governance*

⁸ ISA (NZ) 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

- g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the statement of service performance in the auditor's report and request that they are corrected.⁹
- h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.¹⁰

Special Considerations: An Entity Using a Service Organisation, Groups and Using the Work of Another Practitioner

38. When planning the audit of service performance information, the auditor shall:

- a) Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit of service performance information sufficient to identify and assess the risks of material misstatement and design, and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.¹¹
- b) Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process in order to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.¹²
- c) Where the service performance information includes information upon which another practitioner has expressed an opinion, communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner, and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information.

Using The Work of an Auditor's Expert

39. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.¹³

Written Representations

40. The auditor shall request written representations from those charged with governance that they have fulfilled their responsibility for:¹⁴

- i. The selection of service performance activities, performance measures or descriptions and measurement bases or evaluation methods that present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework;

⁹ ISA (NZ) 450 *Evaluation of Misstatements Identified during the Audit*

¹⁰ ISA (NZ) 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*

¹¹ ISA (NZ) 402 *Considerations Relating to an Entity Using a Service Organisation*

¹² ISA (NZ) 600 *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

¹³ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

¹⁴ ISA (NZ) 580 *Written Representations*

- ii. The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods in accordance with the applicable financial reporting framework;
- iii. Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

Forming An Opinion and Reporting

- 41. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.¹⁵
- 42. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
 - a) Whether sufficient, appropriate audit evidence has been obtained;
 - b) Whether uncorrected misstatements are material, individually or collectively; and
 - c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the measurement bases or evaluation methods and the applicable financial reporting framework.
- 43. The auditor shall conclude whether, in view of the applicable financial reporting framework:
 - a) The entity has presented service performance information that is appropriate and meaningful.
 - b) The measurement bases or evaluation methods are available to intended users.
 - c) When the general-purpose financial report is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:
 - i. The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matter disclosed;
 - ii. The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
 - iii. The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.
- 44. The auditor shall consider:
 - a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
 - b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

¹⁵ ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*

Report Content

45. The auditor's report on the service performance information shall be included in a single report on the general-purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information.
46. The opinion section of the auditor's report shall:
- a) Identify the service performance information;
 - b) State that the service performance information has been audited;
 - c) Refer to the measurement bases or evaluation methods used to assess the service performance information; and
 - d) Identify the applicable financial reporting framework.
47. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
- a) In our opinion the accompanying general purpose financial report presents fairly, in all material respects, the service performance for the year then ended in accordance with the entity's measurement bases or evaluation method in accordance with [*the applicable financial reporting framework*]; or
 - b) In our opinion the accompanying general purpose financial report gives a true and fair view of the service performance for the year then ended in accordance with the entity's measurement bases or evaluation method in accordance with [*the applicable financial reporting framework*].
48. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:
- a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard 1;
 - b) Describe, in the responsibilities for the general-purpose financial report section, the responsibilities of those charged with governance:
 - For the preparation of service performance information in accordance with the entity's measurement bases or evaluation method in accordance with the applicable financial reporting framework;
 - For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error.
 - c) In the "auditor's responsibilities for the audit of the general-purpose financial report" section describe the audit of the service performance information by stating that, in accordance with the ISAs (NZ) and this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:

- Whether the selected service performance information is prepared in accordance with the measurement bases or evaluation method selected and the applicable financial reporting framework.
- The overall presentation, structure and content of the general-purpose financial report, and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

Key Audit Matters

49. The auditor may be required, or may voluntarily report key audit matters in the auditor's report in accordance with ISA (NZ) 701. If reported, key audit matters shall include matters related to the audit of the service performance where, in the auditor's judgement, such matters were of most significance to the audit of the general-purpose financial report.

Modifications to the Opinion in the Independent Auditor's Report

50. The auditor shall modify the opinion, with respect to the service performance information when:

- a) The auditor concludes that either individually or collectively the service performance activities, performance measure or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework;
- b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement; or
- c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.

51. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements.

52. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as appropriate. The opinion with respect to the financial statements shall use the heading "Opinion on the Financial Statements".

53. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.

Emphasis of Matter Paragraphs and Other Matter Paragraphs

54. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.

55. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor's judgement, is relevant to users' understanding of the audit of service performance information, the auditor shall include an Other Matter paragraph in the auditor's report.

Comparative Information

56. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general-purpose financial report agrees with the information presented in the published prospective service performance information.

Other Information

57. The auditor shall read the other information and consider whether there is a material inconsistency between:

- a) The other information and the service performance information; and
- b) The other information and the auditor's knowledge obtained in the audit of the general-purpose financial report.

STAFF WORKING DRAFT

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	19 October 2022
Subject:	RBNZ Orders in Council
Date:	5 October 2022
Prepared by:	Sharon Walker

 Action Required **For Information Purposes Only**

Objectives

1. The objective of this agenda item is to:
 - provide the Board with an UPDATE on current thinking around the standards that apply to assurance over required bank disclosures; and
 - receive Board FEEDBACK on the draft FAQs.

Background

2. The Reserve Bank requires all registered banks to publish six-monthly disclosure statements. The requirements are imposed by two Orders in Council (OiC) made under section 81 of the Banking (Prudential Supervision) Act 1989: the 'local OiC', applying to banks incorporated in New Zealand, and the 'branch OiC' applying to overseas incorporated registered banks operating as a branch in New Zealand.
3. The OiCs require every disclosure statement to be subject to a specified level, or to multiple levels of assurance by an auditor, for the full- and half-year disclosure statements.
4. The XRB and interested practitioners have had ongoing discussions with the Reserve Bank over concerns about the length, complexity and readability of the auditors' reports on bank disclosure statements. The introduction of reporting on Key Audit Matters in the auditor's report required by ISA (NZ) 700 (Revised)¹ since 2016 exacerbated the concerns.
5. In response to the concerns raised, the Reserve Bank recently revised its requirements for assurance reports on bank disclosure statements. Amongst other matters, the revised OiCs allow for multiple assurance reports whereas previously a single report was required.
6. In response to the [consultation](#), two respondents queried the standards under which the limited assurance engagement on the disclosure of capital adequacy and other information is required to be undertaken. In its [feedback statement](#), the Reserve Bank deferred to the XRB to facilitate discussions with interested practitioners on the appropriate approach to take.

Update on recent discussions

7. Staff met with interested practitioners in August 2022. Current practice is to perform the engagement and report in accordance with NZ SRE 2410 (Revised)². This is largely because

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

² NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*

the required disclosure information is often intermingled with the annual or interim financial statements. NZ SRE 2410 applies to interim reviews of historical financial information; however, it may be applied, adapted as necessary, when an entity's auditor undertakes an engagement to review historical financial information other than financial statements of an audit client.

8. Given the nature of the information being assured, however, performance of the engagement in accordance with the other assurance engagement standards might also be appropriate, e.g., ISAE (NZ) 3000 (Revised)³ and possibly SAE 3100⁴. Internationally practice varies with some jurisdictions applying auditing or review engagement standards and others applying the other assurance standards (i.e., 3000).
9. We have heard that in Australia some large banks are obtaining reasonable assurance over capital adequacy disclosures. At this stage these are private opinions being provided to the directors and are not available to the public. These reasonable assurance engagements are being performed under ASAE 3000.
10. A key message we heard from the interested practitioners was the need and preference for consistency. It will not serve the market to have variations in practice.
11. There was a clear preference among the interested practitioners for a move towards performing the limited assurance engagement on the full and half-year disclosures in accordance with ISAE (NZ) 3000 (Revised). Use of ISAE (NZ) 3000 (Revised):
 - Allows flexibility for developments in reporting, i.e., future proofing.
 - Applies the same basic requirements regardless of whether the practitioner is performing a reasonable assurance or limited assurance engagement.
 - Permits consistency in reporting. The basic elements of the report are the same regardless of whether limited or reasonable assurance is obtained.
12. ISAE (NZ) 3000 (Revised) is a more recent standard than NZ SRE 2410 and responds to a developing market. It is up to date and is being maintained internationally. ISAE (NZ) 3000 might be more relevant if assurance moves towards reasonable assurance.
13. While NZ SRE 2410 has been amended to reflect recent changes in reporting requirements, it has not been amended to reflect substantive changes to the auditing standards in recent years. Further, the international standard on which it is based is no longer being maintained by the IAASB. There is a risk that it will not be fit for purpose for future use.
14. Use and acceptance of engagements performed under ISAE (NZ) 3000 (Revised) is increasing. The market is seeing more and more ISAE 3000 type assurance engagements performed both in New Zealand and globally as assurance over reporting measures other than historical financial information becomes more popular.
15. Staff recommend the assurance engagement on the disclosure of information on capital adequacy and liquidity ratios be undertaken in accordance with ISAE (NZ) 3000 (Revised). A draft FAQ has been included for Board consideration.
16. We are still exploring whether SAE 3100 (Revised), *Assurance Engagements on Compliance*, also applies. SAE 3100 applies to assurance engagements to provide an assurance report on

³ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁴ SAE 3100, *Assurance Engagements on Compliance*

an entity's compliance with the compliance requirements, i.e., whether the entity has complied in all material respects with the compliance requirements throughout the specified period or at a specified date, using the criteria.

17. This is a possible area that may also be relevant to consider in the planned post implementation review of SAE 3100 which is currently on the NZAuASB's work plan for this year.

Next steps

18. Staff will work with the Reserve Bank staff to address communications around the change and the most suitable time to implement a change.
19. Key messages to communicate include:
- That the nature and scope of the underlying assurance work is the same under NZ SRE 2410 and ISAE (NZ) 3000. There will however be some change in the reporting. Staff analysis to be completed.
 - With the changes to the Orders in Council, the timing is right for a change. Work with Reserve Bank staff to determine the best time to implement the change.
 - Use of a 3000 approach will provide future proofing for further developments in reporting.
 - There will be consistency in the assurance approach and form of report regardless of the level of assurance sought.
20. Staff will continue to refine the draft FAQs with interested practitioners.
21. Staff will continue to explore whether SAE 3100 applies.

Recommendation

22. We recommend that the Board NOTE this update and PROVIDE feedback on the draft FAQs.

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Draft FAQs

Frequently Asked Questions

Q: What is the appropriate assurance standard for the limited assurance engagement on the disclosure of capital adequacy and other information required by the Reserve Bank Orders in Council?

A: It is appropriate to perform the limited assurance engagement on the disclosure of capital adequacy and liquidity ratios by New Zealand-incorporated banks, or for overseas bank branches the limited assurance engagement on the disclosure of information on credit and market risk disclosures and capital adequacy, in accordance with ISAE (NZ) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

[Staff are still exploring whether 3100 might also apply]

Q: Why is the standard under which the limited assurance engagement on the disclosure of capital adequacy and other information is performed changing?

A: Given the nature of the information being assured, performance of a limited assurance engagement in accordance with ISAE (NZ) 3000 (Revised) is considered appropriate. Using ISAE (NZ) 3000 (Revised) would also allow a seamless transition to reasonable assurance if this were deemed appropriate in the future.

Performing the limited assurance engagement on the full- and half-year disclosures in accordance with ISAE (NZ) 3000 (Revised):

- Applies many of the same requirements regardless of whether the practitioner is performing a reasonable or limited assurance engagement, as well as making it clear where the differences are.
- Promotes consistency in practice.
- Enables the same level of confidence in the underlying information.
- Is future proof, i.e., it provides for a transition to reasonable assurance if deemed appropriate in the future.

Q: The limited assurance engagement on the disclosure of capital adequacy and other information has previously been performed under NZ SRE 2410 (Revised). How is the work required different under ISAE (NZ) 3000 (Revised)?

A: The nature and scope of the underlying assurance work is the same under both NZ SRE 2410 and ISAE (NZ) 3000 (Revised), however the assurance report will have some differences, for example reference will be made to a different assurance standard. *(Staff analysis to be completed)*

Q: When does the change to the standard under which the limited assurance engagement on the disclosure of capital adequacy and other information take effect?

A: The Reserve Bank's Amending Orders will come into force on 31 December 2022, and changes will apply to disclosure statements with reporting dates from that date onwards.

ISAE (NZ) 3000 (Revised) should be used for assurance engagements over bank disclosure statements to which the Amending Orders apply for [date]. *[Appropriate timing tbc with Reserve Bank staff]*

DRAFT

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	19 October 2022
Subject:	Auditor reporting research
Date:	6 October 2022
Prepared By:	Misha Pieters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the Board to NOTE the draft research report on Key Audit Matters (KAMs) before it is issued.

Background

2. The XRB, in conjunction with the FMA, have previously issued two reports on the New Zealand experience of reporting of KAMs, which are up on our website [Publications » XRB](#).
3. The NZAuASB has an action item to research and develop a report on Key Audit Matters, through the Covid pandemic, as part of ongoing monitoring of the auditor's report. The initial aim was to conduct this research and issue a report in June 2022. However, due to resourcing and Covid restrictions, it took time to find an academic to undertake the research. This research was included in the 2022/2023 work plan discussed at the August NZAuASB meeting.
4. We entered into a research agreement with the University of Auckland to develop a KAM research report for publication in late October 2022. The principle investigator was Lina Li. We acknowledge and thank Lina for her research.
5. The XRB commissioned this research with the objective of understanding:
 - To what extent KAMs (a) avoid using overly technical terms (b) were specific to the circumstances of the entity, (c) avoid the use of boilerplate language (d) have changed or improved over time.
 - The level of diversity of KAM communications on similar matters in particular industries and over the period for which KAM reporting has been required.
 - The use of the material uncertainty related to going concern paragraphs, emphasis of matter paragraphs or modified audit opinions.
6. We note that the FRC in the UK also recently issued its research findings on [auditor reporting](#).

Key findings

7. The key findings are summarised in the executive summary in the draft report at agenda item 8.2.

Recommendations

8. We recommend that the Board NOTE the contents of the draft report before it is issued. The Communications team is working on a draft for publication with the aim to issue the report in early November.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Draft Auditor reporting report

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 19 October 2022

Subject: Application of the modified audit reports policy

Date: 5 October 2022

Prepared By: Tracey Crookston

Action Required

For Information Purposes Only

Agenda Item Objective

1. The objective of this agenda item is for the Board to:
 - a. CONSIDER the application of the modified audit reports policy paper **at agenda item 9.2**.
 - b. AGREE that there are no implications for the auditing and assurance standards from the modified audit reports received from 1 December 2021 to 30 September 2022.

Background

2. The application of the modified audit reports policy paper at **agenda item 9.2** has been prepared jointly by the assurance team and the accounting team. It is being considered by NZASB members at the 18 October NZASB meeting.
3. We received 14 modified audit reports during the period of the review. There have been no issues identified with the assurance standards.
4. The paper identifies a trend, consistent with the previous review period, of an increasing number of disclaimers of opinion being issued. We have previously addressed this by preparing an [insights piece](#) to explain that disclaimers of opinion are not given lightly. We also prepared a short video for LinkedIn.

Material Presented

Agenda item 9.1 Board Meeting Summary Paper
Agenda item 9.2 Issues Paper
Agenda item 9.3 Modified Audit Reports Policy

Date: 6 October 2022

To: NZASB Members and NZAuASB Members

From: Carly Berry and Tracey Crookston

Subject: **Application of the Modified Audit Report Policy**

Purpose and introduction¹

1. The purpose of this paper is to inform the Boards of the modified audit reports received from 1 December 2021 to 30 September 2022 and to consider whether there are any implications for the accounting standards or the auditing and assurance standards.
2. Modified audit reports are received from auditors who are required to submit modified audit reports to the XRB under the Companies Act 1993 and the Financial Markets Conduct Act 2013.
3. We have included in this agenda item, for your information, the Financial Market Authority's (FMA) [Approach to oversight of financial statements](#) published in July 2022. In this document, the FMA sets out some of the areas of attention for the 2022-2025 reporting cycles. In summary, these four areas of attention are as follows:
 - (a) Significant accounting judgements and sources of estimation uncertainty
 - (b) Related party disclosures
 - (c) Non-GAAP financial information
 - (d) Climate-related matters
4. The full document is included at agenda item 2.4.2 (of the NZASB supporting papers).

Recommendation

5. We recommend that, from the modified audit reports received from 1 December 2021 to 30 September 2022:
 - (a) The NZASB Board AGREES that there are no current implications for the accounting standards.
 - (b) The NZAuASB Board AGREES that there are no current implications for the auditing and assurance standards.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Background

6. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of those Acts have not been complied with.
7. The Modified Audit Reports Policy (the Policy) sets out the processes to be followed by the XRB Board and its sub-Boards, the NZASB and the NZAuASB, in respect of such audit reports. The Policy also applies when modified audit reports are referred to the XRB by any other party.
8. The Policy is included at agenda item 9.2 (supporting papers) for reference purposes. As part of our regular policy refresh, staff are currently reviewing and updating the Policy.
9. The key aspects of the Policy in respect to the Boards' review are as follows:
 - (a) For the NZASB – focus on modified audit opinions in relation to material misstatements in the financial statements.
 - (b) For the NZAuASB – focus on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
 - (c) For both Boards – consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any potential issues about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
10. No action needs to be taken by the Boards if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard. Non-compliance is a matter for the appropriate regulator.

Modified audit reports received in the review period

11. In the period from 1 December 2021 to 30 September 2022, we have received 14 modified audit reports. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website and any other reports received from regulators.
12. As part of our process, we engage with the FMA and the Companies Office to share information on modified audit reports received to ensure we have a complete set of modified audit reports (as some entities may submit to the regulator and/or Companies Office and not the XRB even though there is a legal requirement to do so).
13. [Appendix A](#) provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.
14. [Appendix B](#) provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from the Accounting Team and the Assurance Team. In all cases the proposed action is 'None' as we have not identified any modified audit reports that indicate an issue with the accounting standards or the auditing and assurance standards.

Current review period observations

15. In the current review period, of the 14 modified audit reports received:
 - (a) five of the modifications are the same as for the previous review period. This is because the reason for the modification in the previous reporting period often impacts on the next period (e.g., valuation of property, plant and equipment).
 - (b) five of the modifications have more than one reason. In Appendix B, each basis for modification is noted separately.

No current implications for the accounting standards

16. The Accounting Team’s review has not identified any current implications for the accounting standards from the modified audit reports received from 1 December 2021 – 30 September 2022. However, have noted the mixed group measurement issues identified during our review (see [Appendix B](#)—entry #447 and #448). We are aware that such mixed group measurement issues could become more widespread in the future, pending the outcome of the IPSASB’s *Measurement* project. Once this IPSASB project is finalised, we will consider the implications of including concepts such as Current Operational Value within PBE Standards at a mixed group level (especially when the parent is for-profit). The IPSASB *Measurement* project will give us a good opportunity to consider the matter further.

No implications for the auditing and assurance standards

17. The Assurance Team’s review has not identified any current implications for the auditing and assurance standards from the modified audit reports received from 1 December 2021—30 September 2022.
18. The trend of an increasing number of disclaimers of opinion is consistent with the last review of modified audit reports. In response to that trend, the assurance team developed an insights piece which can be found [here](#), to explain that disclaimers of opinion are not given lightly by auditors. A short video was also released via LinkedIn.

Question for the NZASB Board

Q1A. Does the NZASB Board AGREE that there are no current implications for the accounting standards from the modified audit reports received from 1 December 2021 to 30 September 2022?

Question for the NZAuASB Board

Q1B. Does the NZAuASB Board AGREE that there are no current implications for the auditing and assurance standards from the modified audit reports received from 1 December 2021 to 30 September 2022?

Attachments (in supporting papers)

Agenda item 9.2: Modified Audit Reports Policy

Appendix A – Summary of modified audit reports received in the review period

Modification in relation to:	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Unable to obtain sufficient appropriate audit evidence
Carrying amount of goodwill and other indefinite life intangibles	–	–	1
Accounting records	–	1	–
Going concern	–	4	1
Valuation of inventory	–	2	1
Valuation of related party advances	–	–	1
Valuation of receivables	–	2	–
Valuation of taxation balances	–	1	–
Carrying amount of right-of-use asset	–	1	–
Carrying amount of property, plant and equipment	–	–	5
Share-based compensation	–	1	–
Revenue and accrued income recognition	–	1	–
Disposal of material foreign subsidiaries	–	2	–
Interest in a joint arrangement	–	1	–
Sub-total	0	16	9
Total			25²

² 14 audit reports received but in five instances (#433, #434, #437, #442 and #448) there is more than one reason for the modification.

Appendix B — Modified Audit Reports received in the review period

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
1.	432 Wool Broking BD: 30 June 2021 AR: 30 Oct 2021	Qualified Opinion Unable to obtain sufficient appropriate audit evidence to support the value of a related party advance at balance date.	NZ IFRS 9 <i>Financial Instruments</i>	No	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
2.	433 Tertiary education provider BD: 30 June 2021 AR: 30 Nov 2021	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence to enable the auditor to form an opinion on whether the going concern assumption in the preparation of the financial statements is appropriate. As a result, the auditor was unable to obtain sufficient appropriate audit evidence to support the value of the right-of-use asset (representing over 90% of the entity's total assets at balance date) – i.e., unable to determine whether an impairment of the right-of-use asset would be appropriate and to what extent.	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IFRS 16 <i>Leases</i>	No	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
3.	434 Issuer of debt securities (company and branch) BD: 31 Dec 2020 AR: 8 Dec 2021	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence in relation to the following: <ul style="list-style-type: none"> • Parent entity support for the going concern basis of accounting – could not access the financial information of the parent company [company only] • Head office and parent entity financial support in winding up the Branch’s business – could not access the financial information of the parent company [branch only] • Revenue and accrued income recognition from a revenue sharing arrangement – no support available [company and branch] • Opening balances as at 1 January 2020 – due to malware attack on IT systems [company and branch] 	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	Yes – with respect to the malware attack	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
4.	435 Test entry	N/A	N/A	N/A	N/A	N/A
5.	436 Test entry	N/A	N/A	N/A	N/A	N/A

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
6.	437 Manufacturing BD: 31 Mar 2021 AR: 29 Apr 2022	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence due to insufficient data / supporting information relating to the following: <ul style="list-style-type: none"> • The disposal of material foreign subsidiaries • The impairment of significant receivables • Share-based compensation • Closing balance of inventory 	NZ IAS 2 <i>Inventories</i> NZ IFRS 2 <i>Share-based Payment</i> NZ IFRS 9 <i>Financial Instruments</i> NZ IFRS 10 <i>Consolidated Financial Statements</i>	No	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
7.	438 Construction BD: 31 Dec 2019 AR: 5 May 2022	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence in relation to the company's interest in a joint arrangement. The financial statements of the joint arrangement have not been audited and sufficient appropriate audit evidence could not be obtained via alternate means.	NZ IFRS 11 <i>Joint Arrangements</i>	No	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
8.	439 Construction BD: 31 Dec 2019 AR: 5 May 2022	Refer to #438 above – this entry was created in the website due to an upload of an updated version of the financial statements.				

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
9.	440 Primary industries BD: 30 Jun 2021 AR: 11 May 2022	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence to enable the auditor to form an opinion on whether the going concern assumption in the preparation of the financial statements is appropriate.	NZ IAS 1 <i>Presentation of Financial Statements</i>	No	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
10.	441 Finance BD: 31 Mar 2022 AR: 30 Jun 2022	Qualified Opinion Unable to obtain sufficient appropriate audit evidence to support critical assumptions and estimates used to determine the recoverable amount of the goodwill and other indefinite life intangible assets allocated to the research and advisory CGUs.	NZ IAS 36 <i>Impairment of Assets</i>	Yes	None. No issues identified with accounting standards.	None. No issues identified with the assurance standards.
11.	442 Manufacturing BD: 31 Mar 2022 AR: 29 Jul 2022	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence due to insufficient data / supporting information relating to the following: <ul style="list-style-type: none"> • Opening balance of inventory • The impairment of loan receivables • Taxation balances – tax calculations not yet prepared • The disposal of a material foreign subsidiary 	NZ IAS 2 <i>Inventories</i> NZ IAS 12 <i>Income Tax</i> NZ IFRS 9 <i>Financial Instruments</i> NZ IFRS 10 <i>Consolidated Financial Statements</i>	Yes – with respect to inventory and the material foreign subsidiary (see #437)	None. No issues identified with accounting standards.	None. No issues identified with the assurance standards.
12.	443	N/A	N/A	N/A	N/A	N/A

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
	Test entry					
13.	444 Primary industries BD: 30 Jun 2021 AR: 10 Jun 2022	Qualified Opinion The client has a revaluation policy for its property, plant and equipment. The auditor has evidence that there has been a material change in the value of plant and equipment since the client's last revaluation, but the client did not carry out a revaluation as at 30 June 2021. Therefore, the auditor has been unable to determine the amount of any adjustment required to the carrying amount of property, plant and equipment.	NZ IAS 16 <i>Property, Plant and Equipment</i>	No	None. No issues identified with accounting standards.	None. No issues identified with the assurance standards.
14.	445 Primary industries [parent of #444 above] BD: 30 Jun 2021 AR: 30 Jun 2022	Qualified Opinion Same reasoning as #444 above	NZ IAS 16 <i>Property, Plant and Equipment</i>	No	None. No issues identified with accounting standards.	None. No issues identified with the assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
15.	446 Transport and logistics BD: 31 Mar 2022 AR: 20 Sep 2022	Qualified Opinion Financial statements disclose facts and circumstances relating to going concern together with management's assessment of the appropriateness of the use of the going concern assumption. The disclosures however do not clearly state that these circumstances give rise to the existence of a material uncertainty relating to going concern.	NZ IAS 1 <i>Presentation of Financial Statements</i>	No	None. No issues identified with accounting standards.	None. No issues identified with the assurance standards.
16.	447 Council- controlled trading organisation BD: 30 Jun 2021 AR: 6 Dec 2021	Qualified Opinion The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). The subsidiary has concluded, under PBE accounting standards, that certain property, plant and equipment, used for operational purposes, are not impaired. However, the Group is a for-profit entity, which requires it to assess the value of the assets on a commercial basis to determine whether there is an impairment under NZ IAS 36 (as there is an indicator of impairment) – this was not done by the Group. Therefore, the auditor has been unable to determine whether there is an impairment which is material to the Group's financial position. Consequently, the auditor is unable to determine whether any adjustments are required to the financial statements or to the financial-related performance measures presented in the statement of service performance.	NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Yes	No issues identified with accounting standards. However, we are aware that such mixed group issues could become more widespread in the future— refer to paragraph 16 of memo.	None. No issues identified with the assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
17.	448 Council-controlled trading organisation BD: 30 Jun 2021 AR: 28 Feb 2022	<p>Qualified Opinion</p> <p><i>Matter 1</i></p> <p>The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). The subsidiary has concluded, under PBE accounting standards, that certain PP&E assets (held for operational purposes) are not impaired. However, the Group is a for-profit entity, which requires it to assess the value of the assets on a commercial basis to determine whether there is an impairment under NZ IAS 36 (as there is an indicator of impairment) – this was not done by the Group. The impairment to these assets is expected to be material to the Group’s financial position.</p> <p><i>Matter 2</i></p> <p>There is limited evidence to support the write-down values of a dormant subsidiary’s property, plant and equipment and inventories.</p> <p>For both above matters, the auditor was unable to determine whether any adjustments are required to the financial statements or to the financial-related performance measures presented in the statement of service performance.</p>	NZ IAS 2 <i>Inventories</i> NZ IAS 16 <i>Property, Plant and Equipment</i> NZ IAS 36 <i>Impairment of Assets</i>	Yes – only for Matter 1	None. No issues identified with accounting standards. However, see #447 above (in relation to Matter 1).	None. No issues identified with the assurance standards.



5 September 2016

External Reporting Board Policy for dealing with audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013

Purpose of the Policy

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the External Reporting Board (XRB), and other specified parties, if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.
2. This Policy sets out the processes that the Board of the XRB and its sub-Boards, the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB), will follow when audit reports are sent to the XRB by auditors in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The Policy also applies when audit reports are referred to the XRB by any other party.

Policy¹

3. Audit reports received by the XRB will be reviewed by both the NZASB and the NZAuASB.
4. The NZASB's review will be focused on modified audit opinions in relation to material misstatements in the financial statements.
5. The NZAuASB's review will be focused on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
6. Where the reviews raise issues or trends that relate to XRB strategy, these will be referred to the XRB Board for consideration.
7. Reviews by the NZASB and the NZAuASB will consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
8. No action needs to be taken by the XRB, the NZASB or the NZAuASB if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard (that is, a standard that is applicable, clear, complete and has

¹ The Background and Basis for the Policy is set out in Appendix 1.

appropriate accompanying guidance). Such non-compliance is a matter for the appropriate regulator to deal with.

9. Where the modification of the audit opinion has implications for standards, the NZASB and the NZAuASB will consider their respective standards' convergence and/or harmonisation policies. Matters raised may need to be addressed through, or in cooperation, relevant international standards Boards rather than unilaterally, or, where appropriate, through the provision of additional New Zealand guidance.
10. The actions that may be taken by the NZASB and/or the NZAuASB where the modified audit opinions have implications for any XRB standards include, for example:
 - a. amend a domestic standard;
 - b. raise an issue with the relevant international standards board;
 - c. issue guidance; and/or
 - d. re-examine the initial cost-benefit analysis undertaken when the relevant standard was developed.
11. Reviews by the XRB Board (when necessary) will consider the implications for the XRB strategy to ensure that the multi-standards, multi-tier system remains appropriate. The actions that the XRB Board may take where the modified audit opinions have implications for XRB strategy and/or the standards frameworks include, for example:
 - a. Review the XRB strategy and/or standards frameworks;
 - b. Refer a matter an appropriate party for their further action (for example, the regulators and/or policy makers);
 - c. Refer a matter to the appropriate professional body after consultation with the regulators (for example in the rare and unusual circumstances where an audit qualification was considered to be incorrect);
 - d. Engage with or liaise with policy makers and/or regulators;
 - e. Engage with relevant organisations or industries directly and after consultation with the regulators, to determine the cause of the non-compliance, before taking any further action (for example, where the modified audit opinions indicate a trend of persistent non-compliance by a particular industry or with a particular standard); and/or
 - f. Engage with auditors on their duties under the Companies Act 1993 and the Financial Markets Conduct Act 2013 to send audit reports with modified audit opinions to the XRB.
12. In each instance before the XRB Board takes any action, it would, where necessary, liaise with the regulators and/or policy makers.

Review of this Policy

13. This Policy will be reviewed every three years to ensure that it is still appropriate.

Appendix 1: Background and Basis for the Policy

Legislative provisions

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

Companies Act 1993

2. Part 11 of the Companies Act 1993 specifies, among other matters, the requirements for a company's financial reporting and audit of its financial statements. It specifies the companies that must prepare financial statements, and that those financial statements must comply with generally accepted accounting practice (GAAP)². Part 11 also specifies whose financial statements must be subject to audit and that the audit must be carried out in accordance with applicable auditing and assurance standards³. GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Companies Act 1993 by reference to the Financial Reporting Act 2013. GAAP, applicable financial reporting standards and applicable auditing and assurance standards in the Financial Reporting Act 2013 refer to standards issued by the XRB⁴.
3. Within Part 11, section 207C of the Companies Act 1993 provides that the auditor's report of a company must be sent to the Registrar of Companies and the XRB if the requirements of the Companies Act 1993 have not been complied with:

"If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board".

4. In the context of the requirements of Part 11 of the Companies Act 1993 about audits of a company's financial statements, the reference to non-compliance with "*the requirements of this Act*" in section 207C is read to mean non-compliance with applicable financial reporting standards and applicable auditing and assurance standards.

Financial Markets Conduct Act 2013

5. Part 7 of the Financial Markets Conduct Act 2013 sets out the financial reporting requirements of an "FMC reporting entity"⁵, including the requirements for the

² Sections 200 – 202 of the Companies Act 1993.

³ Sections 206 – 207A of the Companies Act 1993.

⁴ Section 5 of the Financial Reporting Act 2013.

⁵ The meaning of an "FMC reporting entity" is set out in section 451 of the Financial Markets Conduct Act 2013.

preparation⁶ and audit of the financial statements⁷. Financial statements of an FMC reporting entity must comply with GAAP⁸ and the audit of those financial statements must comply with applicable auditing and assurance standards⁹.

6. Similar to the Companies Act 1993, GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Act by reference to the Financial Reporting Act 2013 (and hence refer to standards issued by the XRB).
7. Within Subpart 3 *Preparation, audit, and lodgement of financial statements* of Part 7 *Financial reporting* of the Financial Markets Conduct Act 2013, section 461G on the auditor's report states:

- “(1) The auditor's report on the financial statements or group financial statements that are required to be audited under this subpart must comply with the requirements of all applicable auditing and assurance standards.*
- (2) If the auditor's report indicates that the requirements of this Part have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report, and a copy of the financial statements or group financial statements to which it relates, to—*
 - (a) the FMA; and*
 - (b) the External Reporting Board; and*
 - (c) in the case of an issuer of debt securities or a manager of a registered scheme, the supervisor.”*

8. In the context of the requirements of Subpart 3 of Part 7 of the Financial Markets Conduct Act 2013 about financial statements and audit of an FMC reporting entity's financial statements, the reference to non-compliance with *“the requirements of this Part”* in section 461G is read to mean non-compliance with the applicable financial reporting standards and applicable auditing and assurance standards.

Functions of the XRB

9. The functions of the XRB are set out in the Financial Reporting Act 2013. Section 12 of the Financial Reporting Act 2013 provides:

- “The Board has the following functions:*
- (a) to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—*
 - (i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or*
 - (ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:*
 - (b) to prepare and, if it thinks fit, issue auditing and assurance standards for—*

⁶ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

⁷ Section 461D of the Financial Markets Conduct Act 2013.

⁸ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

⁹ Sections 461F – 461G of the Financial Markets Conduct Act 2013.

- (i) *the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or*
- (ii) *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; or*
- (iii) *any other purpose approved by the Minister by notice in writing to the Board:*
- (c) *to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:*
- (d) *to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):*
- (e) *to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:*
- (f) *to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments."*

Interpretation of the legislative intent of the provisions of the Companies Act and the Financial Markets Conduct Act for the XRB

10. In determining the intent of legislation in providing for the XRB to receive the audit reports under section 207C of the Companies Act 1993 and Section 461G of the Financial Markets Conduct Act 2013, regard needs to be had to the functions (and role) of the XRB under the Financial Reporting Act 2013.
11. Under the Financial Reporting Act 2013, the key function of the XRB is the setting of accounting and auditing & assurance standards, and the development and implementation of a strategy for an accounting standards framework (XRB strategy). The standard-setting and strategic functions of the XRB are in contrast to the functions of the other specified parties. Those parties have, among other functions, regulatory powers to take enforcement action (where necessary). The functions of the XRB do not extend to the ability to take enforcement action against an entity's non-compliance with the respective Acts. Therefore, unlike the other specified parties, the XRB does not have a legislative responsibility to take any direct regulatory action or make contact with the preparers or auditors of the financial statements about any aspect of the non-compliance.
12. Any action the XRB takes in relation to receiving the audit reports should be consistent with the XRB's role and functions: the actions taken should be for the primary objective of assessing, based on the nature of the non-compliance, whether the non-compliance set out in the audit reports indicates a need to clarify and/or modify accounting standards, auditing & assurance standards and/or the XRB strategy.

What type of audit opinions are we concerned with?

13. Audit reports may contain unmodified audit opinions (unqualified opinions) or modified audit opinions (qualified opinions, adverse opinions or disclaimers of opinion).

14. In the context of the requirements of section 207C of the Companies Act 1993 and section 461G of the Financial Markets Conduct Act 2013, audit reports that are sent to the XRB would be all audit reports that contain modified audit opinions. These would be audit reports that contain audit opinions that indicate non-compliance with the financial reporting and/or audit requirements of the Companies Act 1993 or the Financial Markets Conduct Act 2013.
15. Accounting standards require financial statements to present fairly the financial position, financial performance and cash flows of an entity. There is a presumption in accounting standards that application of applicable financial reporting standards, with additional disclosures when necessary, results in financial statements that achieve such a fair presentation¹⁰. In auditing standards¹¹, the recognition of this presumption requires the financial reporting framework that is used to be a “fair presentation framework”. Auditing standards acknowledge that in complying with a fair presentation framework, additional disclosures may sometimes be necessary and, in extremely rare circumstances, departures may also be necessary.
16. Auditing standards¹² set out the types of modified audit opinions and the circumstances when a modification of an audit opinion is required. An auditor is required to modify the opinion in the auditor’s report when:
 - a. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
17. A material misstatement of the financial statements, based on the audit evidence obtained, may arise in relation to:
 - a. The appropriateness of the selected accounting policies;
 - b. The application of the selected accounting policies; or
 - c. The appropriateness or adequacy of disclosures in the financial statements.
18. A material misstatement of the financial statements, based on auditor’s inability to obtain sufficient appropriate audit evidence (also referred to as “a limitation on the scope of the audit”), may arise in relation to:
 - a. Circumstances beyond the control of the entity;
 - b. Circumstances relating to the nature or timing of the auditor’s work; or
 - c. Limitations imposed by management.
19. The XRB’s interest (and ability to take some action) is more likely to be in those modified audit opinions that indicate material misstatements in the financial statements that arise from audit evidence obtained by the auditor. As these modified

¹⁰ NZ IAS 1 *Presentation of financial statements* and PBE IPSAS 1 *Presentation of financial statements*.

¹¹ ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

¹² See ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

opinions focus on material misstatements in financial statements, the issues that arise are more likely to be related to accounting standards (than to auditing & assurance standards or the XRB strategy).

20. The XRB interest (and ability to take action) is less likely in relation to the audit reports received that cover modified opinions that arise from “a limitation on the scope of an audit”. This is because these are often more likely to arise from “practical” issues and are often less likely to arise as a direct result of applying, or not applying, XRB standards or the XRB strategy. Therefore, the XRB is less likely to need to modify accounting standards, auditing & assurance standards or the XRB strategy or take other action (for example, issuing further guidance) in response to this type of modified audit report.
21. Nevertheless, limitations imposed by management may be related to, for example, the governing body considering that an accounting standard requirement is not practicable. Similarly, while auditors not complying with auditing & assurance standards falls, prima facie, within the role of the regulator to take action (rather than within the role of the XRB), such non-compliance may indicate that further guidance is required.
22. As such, for the purpose of this policy, all modified audit opinions will be reviewed to determine if any XRB action is required.

What entities and standards are involved?

23. The Companies Act 1993 covers all companies incorporated under that Act. These may be for-profit companies or public benefit entities (PBEs).
24. The Financial Markets Conduct Act 2013 covers FMC reporting entities. These may be entities under any organisational structure (companies, credit unions, building society etc).
25. Entities under both Acts may be in:
 - a. For-profit Tier 1 and Tier 2¹³; or
 - b. PBE Tier 1, Tier 2 or Tier 3¹⁴.
26. Therefore, the modified audit opinions could potentially affect all the accounting standards (except the Tier 4 standards) and all auditing & assurance standards issued by the XRB.

¹³ A Tier 2 for-profit entity that is not an FMC reporting entity may opt out of the audit requirements.

¹⁴ A Tier 4 PBE is not required to have an audit. A Tier 3 PBE with expenses of less than \$1 million is also not required to have an audit.