

Board Meeting Agenda

1 December 2022

9:00 am to 5.00 pm (virtual [Click here to join the meeting](#))

Apologies: None

Est. Time	Item	Topic	Objective		Page	Supplementary page
B: PUBLIC SESSION						
9.45 am	2	Environmental scanning			<i>Anna</i>	
	2.1	International Update	Note	Paper	3	
	2.2	Domestic Update	Note	Paper	13	
	2.3	XRB Environmental Update	Note	Paper	16	
10.30am	<i>Morning tea</i>					
10.45am	3	GHG assurance			<i>Nicola/Anna</i>	
	3.1	Summary paper	Note	Paper	28	
	3.2	Consultation Document	Approve	Paper	31	
	3.3	Exposure draft	Approve	Paper	59	
	3.4	FAQs	Approve	Paper	79	
	3.5	ISO committee clarification of intent	Note	Paper		1
	3.6	Exposure draft (marked from Oct)	Note	Paper		8
12.30pm	4	Audit Evidence			<i>Bruce</i>	
	4.1	Summary paper	Note	Paper	86	
	4.2	Issues paper	Consider	Paper	88	
	4.3	IAASB Exposure draft	Note	Paper		26
1:00pm	<i>Lunch</i>					
1.45 pm	5	Service Performance Information			<i>Lisa/Bruce</i>	
	5.1	Summary paper	Note	Paper	94	
	5.2	Consultation Document	Approve	Paper	96	
	5.3	Exposure draft	Approve	Paper	108	
2.45 pm	6	Capital Raising		Late	<i>Sharon</i>	
	6.1	Summary paper	Note	Paper	109	
	6.2	Issues paper	Consider	Paper	111	
	6.3	Draft Standard (clean)	Approve	Paper	118	
	6.4	Signing memorandum	Approve	Paper	172	
	6.5	Analysis of submissions	Note	Paper		110
	6.6	Response to EY submission	Note	Paper		115

Est. Time	Item	Topic	Objective		Page	Supplementary page
	6.7	Draft standard (marked)	Note	Paper		133
3.30 pm	<i>Afternoon tea</i>					
3:45 pm	7	<u>Transparency in audit reports</u>			<i>Misha/Rene</i>	
	7.1	Memo	Note	Paper	176	
	7.2	Transparency through the audit report	Note	Paper		202
	7.3	Going concern reporting				217
4:15 pm	8	<u>Post implementation review SAE 3100</u>			<i>Tracey</i>	
	8.1	Summary paper	Note	Paper	179	
	8.2	Progress Report	Note	Paper	181	

Next meeting: 15 February 2023, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 2.1
Meeting date: 1 December 2022
Subject: International Update
Date: 14 November 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 5 October 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 articles are of the most relevance for the NZAuASB:
 - [IOSCO Statement on Financial Reporting and Disclosure during Economic Uncertainty](#). IOSCO emphasizes issuers' need for fair, transparent and timely disclosure about impacts of economic uncertainty. The statement highlights IOSCO's commitment to the consistent application and enforcement of high-quality reporting standards and disclosure regulations.
 - Centre for Audit Quality published an article "[How do auditors maintain independence?](#)" which identifies three key elements to auditor's independence: a robust regulatory regime, oversight of the external auditor and market-driven incentives.

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)

Publications

Digital Technology Market Scan: Homomorphic Encryption, 20 October 2022

IAASB Technology Market Scans, issued approximately every two to three months, cover “exciting trends, including new developments, corporate and start-up innovation, noteworthy investments and what it all might mean for the IAASB.”

“In this Market Scan, we explore Homomorphic Encryption for Analyzing Encrypted Data, a technology which has applications within Protecting Information. This technology has the potential to impact how data is used in the audit—creating opportunities for greater collaboration and access to specialist skills.”

“Homomorphic Encryption (HE) is a set of algorithms that allows computations to be done on encrypted data without the need for decryption. Homomorphic encryption lets data be protected while “in use”, so analysis can be run directly on encrypted information without disclosing it and providing complete confidentiality during analysis.”

[IAASB Digital Technology Market Scan: Homomorphic Encryption | IFAC](#)

Status of IAASB projects:

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

International Ethics Standards Board for Accountants (IESBA)

Guidance & Support Tools

Ethics Considerations in Sustainability Reporting, Including Guidance to Address Concerns about Greenwashing, 21 October 2022

“The publication spotlights key provisions in the Code that apply in preparing and presenting sustainability information. It emphasizes the professional accountant’s obligation to be straightforward and honest and refrain from being associated with information that is misleading or false, including in situations where they might experience pressure to do so.”

[Ethics-Considerations-in-Sustainability-Reporting-Greenwashing.pdf \(ifac.org\)](#)

Status of IESBA projects:

[IESBA projects \(ethicsboard.org\)](https://ethicsboard.org)

International Forum of Independent Audit Regulators (IFIAR)

No relevant updates.

International Organisation of Securities Commissions (IOSCO)

IOSCO and IVSC collaborate to explore international valuation approaches and the quality of financial information for investors, 20 October 2022

“IOSCO and International Valuation Standards Council (“IVSC”), a global organisation responsible for setting the International Valuation Standards, have today entered into a Statement of Cooperation aimed at developing a better understanding of the quality and consistency of valuations and the professional standards employed by valuers internationally with the objective of mitigating risks to the quality of financial information for the protection of investors and for the stability of the financial system.”

[IOSCO and IVSC collaborate to explore international valuation approaches and the quality of financial information for investors](#)

IOSCO outlines regulatory priorities for sustainability disclosures, mitigating greenwashing and promoting integrity in carbon markets, 9 November 2022

“IOSCO today at COP 27 has outlined the actions it undertakes to protect investors by mitigating greenwashing in financial markets, to contribute to sustainability disclosure standards benefitting issuers and investors, and to promote well-functioning carbon markets.”

“IOSCO has set out its expectations that both disclosures and assurance standards should be ready for use by corporates for their end-2024 accounts.”

“The IOSCO Board Chairman also highlighted the importance of maximizing interoperability of standards and aligning key climate disclosures. Interoperability across the world will be an important factor in IOSCO’s endorsement decision. IOSCO believes close alignment between the ISSB and those jurisdictions seeking to implement their own sets of standards is essential to ensure capital flows to where it is most needed.”

“IOSCO published a call for action earlier this week, asking all voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and ESG rating and data providers.”

[IOSCO outlines regulatory priorities for sustainability disclosures, mitigating greenwashing and promoting integrity in carbon markets](#)

IOSCO Statement on Financial Reporting and Disclosure during Economic Uncertainty, 14 November 2022

IOSCO encourages “issuers, external auditors, as well as audit committees (or those charged with governance) to be particularly vigilant in times of economic uncertainty in their consideration of how risks and uncertainties that could affect or have affected an issuer’s operations, financial condition, cash flows and prospects can be transparently communicated to investors.”

“Factors affecting current economic conditions include, but are not limited to, supply chain challenges; on-going impacts of the COVID-19 pandemic; evolving impacts of the conflict in Ukraine; escalating energy supply shortages and costs; labor shortages; inflationary pressures; volatility in currency exchange rates; rising interest rates; changes in monetary and fiscal policies; and other responses from central banks and other government authorities.”

[IOSCO Statement on Financial Reporting and Disclosure during Economic Uncertainty](#)

International Federation of Accountants (IFAC)

Significant Improvements in Climate-Related Information Key to Plugging Net-Zero Information Gap, 6 October 2022

“IFAC and A4S hosted their Climate Week NYC event Finance Leaders Plugging the Net-Zero Information Gap: Exploring the critical role of CFOs and finance teams in the climate transition two weeks ago. The event brought together finance and accounting leaders to better understand how they're enabling their organization's decarbonization strategies and transition planning and what obstacles they're facing.” Link to key takeaways and recordings:

[A4S and IFAC Climate Week Event Takeaways and Recording: Finance Leaders Plugging the Net-Zero Information Gap | IFAC](#)

Challenges, Initial Steps and Key Resources for Small Firm Digitalization, Christopher Arnold, Johnson Kong, 13 October 2022

“IFAC's Small and Medium Practices Advisory Group (SMPAG) met recently and discussed challenges for small firms embracing digitalization, recent trends and tools that are being used in practice, digital marketing strategies, and the opportunities available for small firms to flourish. The SMPAG considered digitalization from a broad perspective, including the challenges to digital adoption, how SMPs can implement new software, how digitization may provide new services to clients, and how to leverage technology to make processes more efficient.”

[Challenges, Initial Steps and Key Resources for Small Firm Digitalization | IFAC](#)

Quality Management Series: Small Firm Implementation, Installment One, 31 October 2022

“*Installment One: It is time to get ready for the new quality management standards* addresses the mindset change the new standards require and the shift in focus from quality *control* to quality *management*. It also includes developing a project implementation plan, an introduction to quality objectives, the risk assessment process, and assigning roles and responsibilities. Helpful meeting agenda templates practitioners can use with their colleagues are also included.

The three-part series will provide tips and guidance for practical implementation of the IAASB's standards. Installment two will focus on developing a detailed implementation plan and installment three will address monitoring and remediation. *Installment One* joins IFAC's collection of available resources that support quality management implementation, including webinars, articles and videos, as well as the IAASB first-time implementation guides, all of which are available at ifac.org/qualitymanagement.”

[IFAC-quality-management-small-firm-implementation-installment-one.pdf](#)

2022 G20 Call to Action, 1 November 2022

“With the emergence of widespread economic and political uncertainty in 2022 in the wake of the COVID-19 pandemic, IFAC highlights the interconnection between global cooperation, the sustainability agenda, the need for strong public financial management (PFM) and the fight against corruption.”

[Progress in Times of Uncertainty: G20 Call to Action 2022 | IFAC](#)

Getting to Net Zero: A Global Review of Corporate Disclosures, 9 November 2022

“The report analyses disclosure trends in emissions reduction targets and transition plans of the 40 largest exchange-listed companies in 15 jurisdictions, for a total of 600 companies. The jurisdictions include G7 countries and 8 non-G7 countries for the 2020 reporting year.”

“66% of the analysed companies disclose emissions reduction targets. 90% of companies with an emissions target provide some information about how they plan to reach their target. However, the nature and scope of these targets and plans—in terms of emissions covered, timeframes, and use of carbon offsets—vary widely. Only 24% of companies who report a target and a transition plan also quantify the past or future expenditures associated with implementing transition plan actions.”

[IFAC-Getting-to-Net-Zero-corporate-emissions-disclosures.pdf](#)

Association of Chartered Certified Accountants (ACCA)

Professional scepticism and cognitive biases in audit: lessons learned from inspection findings, October 2022

“A new report by ACCA, in collaboration with the Hellenic Accounting and Auditing Standards Oversight Board (HAASOB), sets out some of the recurring issues around auditors exercising professional judgement and scepticism within auditing.”

The report discusses practical examples inspired by Greek audit inspection findings, demonstrating where the engagement team could have been biased against the selection of certain sources of audit evidence and towards those that are more easily accessible.

[PI-PROF-SCEPTICISM-ENGLISH v7.pdf](#)

Auditing and Assurance Standards Board in Australia (AUASB)

AUASB Bulletin Evaluating the Reliability of Data obtained for Use in Audit Technology Tools, 9 November 2022

“The aim of this publication is to provide examples and considerations relevant to the auditor’s evaluation of the reliability of data where an audit technology tool is used in an audit engagement. This publication may be useful for evaluating the reliability of information to be used as audit evidence in accordance with the ASAs in situations other than for use in an audit technology tool.”

[AUASB Bulletin](#)

European Union (EU)

No relevant updates.

Accountancy Europe

No relevant updates.

Financial Reporting Council (FRC)

FRC Lab publishes tips to effectively communicate net zero commitments, 11 October 2022

“The FRC Lab published a report on disclosing net zero commitments. It provides companies with practical tips and questions to consider when communicating what their net zero commitment includes, how it may impact the strategy and business model, and how performance against targets will be measured.”

[Net Zero Disclosures | Financial Reporting Council \(frc.org.uk\)](#)

FRC publishes Annual Review of Corporate Reporting, 27 October 2022

“FRC reiterated the need for high-quality disclosures from companies during periods of economic uncertainty. To support more informed decision-making, companies must ensure that investors and other stakeholders receive reliable information about a company’s financial performance and

prospects.

The FRC's Annual Review of Corporate Reporting published today, performed 252 reviews of companies' accounts and, while the overall quality of corporate reporting within the FTSE 350 had been maintained, 27 companies were required to restate aspects of their accounts.

The FRC was disappointed to find errors in cash flow statements, an area where both companies and their auditors must improve. The review also identified scope for improvement in reporting on financial instruments and deferred tax assets.

In times of economic uncertainty companies must clearly identify their principal risks, ensure these are reflected in their business strategy and disclosed in their annual report and accounts. To support better disclosures, the review includes examples of key matters companies must consider during uncertain times such as the need to disclose significant judgements in relation to going concern assessments.

[Accountants | Corporate Reporting Review | Annual Activity Reports | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/Accountants/Corporate-Reporting-Review/Annual-Activity-Reports/Financial-Reporting-Council)

FRC publishes latest local audit inspection results, 28 October 2022

The Financial Reporting Council (FRC) has today published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

Overall, 70% of financial statements audits for the 2021/22 inspection cycle required no more than limited improvements, the same as in the previous year. This is a significant improvement on the 46% average over the preceding three years.

Encouragingly, 93% of the auditor's work on Value for Money (VfM) arrangements required no more than limited improvements.

However, four inspections* across three firms (BDO LLP, Deloitte LLP and Grant Thornton UK LLP), were assessed as requiring significant improvements. This is unacceptable. Findings included:

- Material errors in two sets of audited financial statements.
- Insufficient justification to support the modification of an audit opinion.
- Unadjusted audit differences reported by the auditor being material.
- Changes being made to a VfM audit file provided to FRC inspectors after the FRC notified the firm of its inspection.

The timeliness of auditor reporting and impact on the FRC to undertake timely reviews also remains an ongoing concern. For 31 March 2021 audits of local government bodies, 91% were not completed by the target date of 30 September 2021."

[Major Local Audits \(frc.org.uk\)](https://www.frc.org.uk/Major-Local-Audits)

Improvements in Corporate Governance reporting but many still falling short, 03 November 2022

FRC " published its Annual Review of Corporate Governance Reporting which found an improvement in the quality of reporting against the UK Corporate Governance Code.

FRC has seen year-on-year improvements in reporting, and importantly more companies are disclosing the areas within the Code that they have chosen to explain rather than comply. However, the report also found that too few companies are providing meaningful explanations.

A common theme throughout the report is the lack of disclosure in relation to the outcomes and impacts of governance policies and practices. Companies need to demonstrate, within their reporting how their governance has been improved.

The FRC was also disappointed to see minimal disclosure about board engagement with major shareholders - with some companies simply stating that there had been meetings without providing further information on their engagement and its outcome. Such explanations are important to give investors and the public information which is critical for market confidence and lowering the cost of capital."

[Review of Corporate Governance Reporting 2022 \(frc.org.uk\)](https://www.frc.org.uk/Review-of-Corporate-Governance-Reporting-2022)

Consultation on audit committees standard, 8 November 2022

“FRC has launched a consultation on its draft proposal for a minimum standard for audit committees. This follows the Government’s Response to its consultation on Restoring Trust in Audit and Corporate Governance, which set out its intention to give ARGA statutory powers to mandate minimum standards for audit committees in their role on the external audit.

The purpose of the standard will be to increase performance across audit committees in the FTSE350, ensuring a consistent approach and supporting a well-functioning audit market. The FRC is now seeking the views of its stakeholders on the draft standard, particularly those from FTSE 350 companies, to whom the standard will apply.

Following the consultation, the plan is for the standard to be available to committees on a voluntary basis by the end of 2023, ahead of the planned legislation that will make the standard mandatory.”

[Consultation Document - Audit Committee Standard \(frc.org.uk\)](https://www.frc.org.uk/consultation-document-audit-committee-standard)

[Draft Minimum Standard for Audit Committees \(frc.org.uk\)](https://www.frc.org.uk/draft-minimum-standard-for-audit-committees)

Institute of Chartered Accountants in England and Wales (ICAEW)

Service performance reporting in the public sector, 9 November 2022

Article featuring NZ PBE FRS 48- Service Performance Reporting.

[Service performance reporting in the public sector | ICAEW](https://www.icaew.com/insights/articles-press-releases/service-performance-reporting-in-the-public-sector)

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)

No relevant updates.

American Institute of Certified Public Accountants (AICPA)

No relevant updates.

Center for Audit Quality (CAQ)

S&P 500 ESG reporting, 18 October 2022

“The CAQ posted an analysis of 2020 ESG reports and Carbon Disclosure Project (CDP) Climate Change Questionnaires for S&P 500 companies. The CAQ sought to understand what they disclosed about reporting standards and frameworks used, greenhouse gas (GHG) emissions, assurance or verification of ESG information, and net zero and carbon neutral commitments. Among the key takeaways:

- Of the S&P 500 companies, 464 issued a standalone ESG report and 313 responded to the CDP Climate Change Questionnaire for the 2020 period (i.e., periods ending in 2020).
- Of the 464 companies that issued a standalone ESG report, 43 obtained assurance from a public company auditor over some of their ESG information.
- CAQ found an uptick in companies receiving assurance over ESG metrics compared to the prior analysis.”

[S&P 500 ESG Reporting | The Center for Audit Quality \(thecaq.org\)](https://www.theqaq.org/s-and-p-500-esg-reporting)

How do auditors maintain independence?, 20 October 2022

“The CAQ posted a report on how auditors maintain independence. The report discusses the three key elements of safeguards that incentivize audit firms and individual auditors to keep an independent mindset and perform high-quality audits:

- A robust regulatory regime
- Oversight of the external auditor, and
- Market-driven incentives

The report notes that amendments of certain rules by the SEC in 2021 to reflect changes in the business environment have strengthened the rules. There are many safeguards that protect auditor independence, with the robust U.S. regulatory regime being just one piece, the report concludes. Oversight of the external auditor coupled with market-driven incentives provide confidence to investors in the system that works to maintain auditor independence.”

[How Do Auditors Maintain Independence? | The Center for Audit Quality \(thecaq.org\)](#)

Canadian Public Accountability Board (CPAB)**CPAB Audit Quality Insights Report 2022 Interim Inspection Results, 19 October 2022**

“This report provides a snapshot of themes and insights from our 2022 audit quality assessment work to date. Through our preliminary 2022 regulatory assessments, three of the four largest audit firms had fewer than 10 per cent of files with significant findings¹ and continued to make improvements to their system of quality management. However, we continue to observe a high level of significant findings at non-annually inspected firms.”

[2022-interim-inspections-result-en.pdf \(cpab-ccrc.ca\)](#)

Canadian Auditing and Assurance Standards Board (AASB)**Lessons Learned from KAM Reporting on Audits of TSX-Listed Entities: Observations from the 2020 Canadian Experience, 20 October 2022**

The study found a lower average number of KAMs per audit report compared to other jurisdictions, KAMs are customized for particular circumstances of the entity but there is little customization for recurring KAMs, most interviewees across all key stakeholder groups (i.e., auditors, financial statement preparers, audit committee members, and sophisticated financial statement users) did not find KAMs useful.

[Lessons Learned from KAM Reporting](#)

Chartered Professional Accountants Canada (CPA Canada)

No relevant updates.

Insights from practitioners**How can corporate reporting bridge the ESG trust gap?, EY, 11 November 2022**

“The EY Global Corporate Reporting and Institutional Investor Survey finds a significant reporting disconnect with investors on ESG disclosures.”

[How can corporate reporting bridge the ESG trust gap? | EY - Global](#)

Key global trends in sustainability reporting, KPMG, October 2022

The 2022 survey findings indicate five major trends in sustainability reporting:

1. Sustainability reporting grows incrementally (the GRI remains the most dominant standard used around the world, though some regions have a clear preference for SASB or local stock exchange guidelines);
2. Increased reporting on climaterelated risks and carbon reduction targets, in line with TCFD
3. Growing awareness of biodiversity risk
4. UN SDG reporting prioritizes quantity over quality
5. Climate risk reporting leads, followed by social and governance risks

Link to the article: [Key global trends in sustainability reporting - KPMG Global \(home.kpmg\)](#)

Link to the report: [Big shifts, small steps \(assets.kpmg\)](#)

Other articles

Does fiduciary duty need fixing?, GreenFin weekly, a GreenBiz newsletter, 26 October 2022

The article includes sustainability/climate communications and the pushback on climate from US regulators/sovereign investors; links to other articles; interesting new terms like: “greenhushing”, “greenmuting”, “green crowding”, “scope 4”.

[GreenBiz Newsletter](#)

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 2.2
Meeting date: 1 December 2022
Subject: Domestic Update
Date: 14 November 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 5 October 2022.

Hot topics

2. The following articles are of most relevance for NZAuASB:
 - FMA issued [Audit Quality Monitoring Report](#) for the period 1 July 2021 – 30 June 2022. Audit firms have made improvements since previous reviews, but audit quality remains inconsistent between firms and in some instances inconsistent between audits within the same firm. Auditors have better documented their judgements about accounting estimates and how they applied professional scepticism, continuing the trend from previous years. Despite the increase in the extent of audit work and investment in new tools, there are still several areas where improvements are required, notably in relation to auditors not documenting their work and the evidence to support their conclusions.

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 risks and the impact on financial statement audits, October 2022

The document sets out what climate-related risks the FMA expects auditors to consider, focus on and document in the audit file.

[Climate-risks-and-the-impact-on-financial-statement-audits.pdf \(fma.govt.nz\)](#)

FMA finds continuing improvements to audit quality, November 2022

The review is part of a three-year monitoring cycle of all licensed auditors, which scrutinises selected audit files for listed companies and other entities that report under the Financial Markets Conduct (FMC) Act. The FMA targets a sample of higher risk files, while others are randomly selected.

[2022-Audit-Quality-Monitoring-Report.pdf \(fma.govt.nz\)](#)

The Chartered Accountants Australia and New Zealand (CA ANZ)

Charity Fraud: Tools for Prevention, 20 October 2020

The guide draws on original research from two surveys conducted between March to June 2022.

The surveys showed that 34% of Australian respondents and 14% of New Zealand respondents experienced suspected or proven fraud in their domestic operations in the past two years. In charities with international operations, 61% of Australian respondents and 40% of New Zealand respondents experienced either suspected or proven fraud in the past two years.

Under an umbrella of an overarching fraud prevention framework, the guide suggests strengthening policies and procedures around managing finances, conflict of interest, delegation of authority, donor acceptance, code of conduct, due diligence and screening.

The toolkit section of the guide includes:

- prevention measures to stop fraud or deter people from contemplating it
- detection activities to determine when and if fraud has occurred
- reporting to safely escalate suspected fraud and notify relevant interested parties
- investigation and response actions to determine if a fraud has actually happened, the extent of the fraud and apply consequences
- feedback and adjustment measures to inform and improve overall fraud prevention processes based on changes in circumstances, employees, technology or regulations and actual fraud experienced.

The guide suggests that charities conduct these activities in the context of an ethical culture where all employees, volunteers and board members behave with honesty, integrity and transparency.

[Guide arms charities to combat fraud | CA ANZ \(charteredaccountantsanz.com\)](#)

The Institute of Directors (IoD)

No relevant updates

Other publications

2022 CFO Sustainability Snapshot Survey, Deloitte

“Deloitte asked CFOs to assess their organisation’s progress on a selection of sustainability activities. They also asked about the drivers of and barriers to action. One overall finding is that progress over the past 12 months has remained relatively stagnant. The key barriers are the same as last year, with the top two being lack of resources/capability and difficulty in measuring return on investment. The survey indicated that CFOs feel that there is a lot to do in order to progress sustainability initiatives, but also that there is confusion around the method of progression. CFOs are still asking: ‘what is best practice?’”

[2022-cfo-sustainability-snapshot-survey-report.pdf \(deloitte.com\)](#)

Mobilising Capital for Impact, Report on New Zealand's sustainable finance market, KPMG

“Building on the Sustainable Finance Forum's 2030 Roadmap for Action and powered by Toitū Tahua: Centre for Sustainable Finance, KPMG has explored the barriers and opportunities related to mobilising capital for environmental and social outcomes.

Key finding:

- 65% of respondents have seen greenwashing in New Zealand's sustainable finance market
- 53% face barriers to allocating or receiving capital targeted at sustainable outcomes
- 28% do not perform regular checks of ESG claims used as the basis for sustainable finance

[Mobilising Capital for Impact \(assets.kpmg\)](#)

Note: This is Environmental Update for XRB Board Members. It is attached to NZAuASB environmental updates for information purposes

Memorandum

Date: 20 October 2022
To: XRB Board Members
From: Judith Pinny
Subject: Environmental Update

Recommendation¹

1. I recommend that the Board NOTES the International and Domestic update for the period 8 September 2022 to 20 October 2022.

Purpose and impact

2. The purpose of the Environmental Update is to identify emerging issues and provide an update on developments in the financial reporting landscape of strategic interest to the XRB Board.
3. Items with strategic impact on the XRB:

International

- (a) The [TCFD](#) have released their 2022 Status Report which shows
 - (i) climate-related risks and opportunities to be the most common disclosure
 - (ii) resilience under different climate-related scenarios to be the least common disclosure.
- (b) An article by Sylvain Maechle looks at [who is the user](#) of sustainability information and questions the financialisation of the environmental economic transition”

Trans-Tasman

- (c) The CA ANZ [investor confidence survey](#) – the big takeaway is that Investors believe financial reports are too complex and digital reporting would help their understanding.

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). It also refers to the work of the International Sustainability Standards Board (ISSB).

Domestic

- (d) The [Radio NZ article](#) goes to the heart of climate reporting – Will disclosures by Climate reporting entities solve the problem?
- (e) Māori business is getting more profile in the media – 3 articles start [here](#).

International


IFAC: Global regulatory report


- 4. The August 2022 report: [IFAC Global Regulatory Report August 2022](#)
- 5. The September Report: [IFAC Global Regulatory Report September 2022](#)


TCFD: 2022 Status Report


- 6. The TCFD has published an annual status report each year in October since the TCFD Recommendations were first released in 2017.
- 7. The Key Takeaways on Climate-related Disclosures are included below:


Key Takeaways

-  The percent of companies disclosing TCFD-aligned information continues to grow, but more urgent progress is needed. For fiscal year 2021 reporting, 80% of companies disclosed in line with at least one of the 11 recommended disclosures; however, only 4% disclosed in line with all 11 recommended disclosures and only around 40% disclosed in line with at least five.

-  Public companies remain more likely to disclose information on their climate-related risks and opportunities (*Strategy a*) than on any other recommended disclosure, with just over 60% of companies reviewed including such information in their 2021 fiscal year reports.

-  Disclosure of the resilience of companies' strategies under different climate-related scenarios (*Strategy c*) continues to have the lowest level of disclosure across the 11 recommended disclosures.

-  Several industries covered by the AI review have average levels of disclosure of over 40%. For fiscal year 2021 reporting, industries with average disclosure levels across the 11 recommended disclosures of more than 40% include energy companies (43%), materials and buildings companies (42%), banks (41%), and insurance companies (41%).

-  All regions have significantly increased their levels of disclosure over the past three years. In particular, the average level of disclosure across the 11 recommended disclosures for European companies was 60% for fiscal year 2021, growing 23 percentage points since fiscal year 2019; 36% for Asia Pacific companies — an increase of 11 percentage points; and 29% for North America companies — an increase of 12 percentage points.

- 8. A further list of Key Takeaways and Findings from the Executive Summary collated from 3 surveys (including the TCFD survey) can be found in [Appendix 1](#).
- 9. The XRB featured in the commentary on standard setting on page 103, alongside the ISSB and EFRAG:

2. INTERNATIONAL AND REGIONAL STANDARD SETTING

...

10. In July 2022, New Zealand’s External Reporting Board (XRB) issued a final consultation document on climate-related disclosure standards that drew from and is largely consistent with the Task Force’s four recommendations and 11 recommended disclosures. The final consultation document incorporates feedback received on the XRB’s two previous consultations on proposed standards — one related to governance and risk management (published in October 2021) and the other related to strategy and metrics and targets (published in March 2022).

[TCFD 2022 Status Report](#)

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IASB and FASB Joint meeting

11. The IASB held an education meeting with the Financial Accounting Standards Board (FASB) on 30 September 2022. The two Boards discussed:

- (a) digital assets;
- (b) goodwill and impairment; and
- (c) disaggregation-related topics, including primary financial statements, income statement expenses, income tax disclosures and segments.

[IFRS - Joint IASB–FASB education meeting](#)

G20: Finance Ministers and Central Bank Governors’ meeting

12. The G20 Finance Ministers and Central Bank Governors met in Washington, DC in October 2022 and have published a summary of discussions. Of particular interest to the XRB is the proposals for developing a framework for regulating crypto-assets:

We welcome ongoing work by the FSB and international standard setters to ensure that the crypto-assets ecosystem, including so-called stablecoins², is closely monitored and subject to robust regulation, supervision, and oversight to mitigate potential risks to financial stability. We welcome the FSB’s proposed approach for establishing a comprehensive international framework for the regulation of crypto-asset activities based on the principle of ‘same activity, same risk, same regulation’. We welcome the FSB consultative report on the review of its high-level recommendations for the regulation, supervision and oversight of “global stablecoin” arrangements. We also welcome the FSB consultation report on promoting international consistency of regulatory and supervisory approaches to crypto-assets activities and markets. It is critical to build public awareness of risks, to strengthen regulatory outcomes and to support a level playing field, while harnessing the benefits of innovation. We welcome the final guidance by the BIS CPMI and IOSCO which confirms that the Principles for Financial Market Infrastructures apply to systematically important stablecoin arrangements.

[IFRS - G20 looks forward to ISSB’s finalised standards](#)

² Stablecoins are cryptocurrencies that attempt to peg their market value to some external reference. Stablecoins are more useful than more volatile cryptocurrencies as a medium of exchange. Stablecoins may be pegged to a currency like the U.S. dollar or to the price of a commodity such as gold.

Article by Sylvain Maechle: "Accounting for whom? The financialisation of the environmental economic transition"

13. This academic article argues that the primary user as investor focus used by the IFRS Foundation is a lot narrower than the original broader focus of sustainability accounting. It questions whether the environmental economic transition should be lead by accounting standard setters.

14. *Abstract:*

Accounting standard-setters including the International Financial Reporting Foundation have recently begun to revisit the relationship between accounting and sustainability to address issues of environmental economic transition. How has sustainability become an issue of interest to accounting standard-setters? And how do accounting standards intend to contribute to the environmental economic transition? Scholars of international political economy and cognate fields have devoted little attention to the study of international accounting standards, particularly in relations to sustainability.

Drawing on a set of qualitative data and an interdisciplinary literature on finance and financialisation, this article first argues that accounting standard-setters' interest in sustainability is the result of the incremental transformation of environmental issues into meaningful information for investors' decision-making. Secondly, it shows that these standards and their development are based on the premise that the environmental economic transition depends on the provision of information that primarily meets the needs of investors, contrasting starkly with the original underpinnings of sustainability accounting.

Overall, both the fact that financial accounting standard-setters are becoming involved in sustainability, and the way that they are addressing this issue, are further evidence of a financialisation of the environmental economic transition.

[Full article: Accounting for whom? The financialisation of the environmental economic transition \(tandfonline.com\)](https://www.tandfonline.com)

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The Guardian: Australia passes climate change legislation

15. The new Labor Government in Australia has passed the first climate legislation in 10 years. The Climate Change Act includes the national targets of cutting emissions by at least 43% by 2030 (compared to 2005) and reaching net zero by 2050.

16. In Parliament Chris Bowen, the Climate Change Minister, said elements of the Climate change bill – including a requirement that the minister give an annual climate statement to parliament and strengthened public advisory powers for the Climate Change Authority – would improve transparency and accountability.

[Australian parliament passes first climate change legislation - The Guardian](#)

Trans-Tasman

CA ANZ: Investor Confidence Survey

17. Summary of highlights across Australia and New Zealand investors:

- (a) Investor confidence levels are lower than during the height of the pandemic.
- (b) Auditors remain the most trusted group in advancing investor protection
- (c) Investors believe financial reports are too complex and digital reporting would help their understanding.

18. The Executive summary from the New Zealand investor report (512 survey participants), and the slide summarising views on the complexity of reporting, are available in [Appendix 2](#).

[NZ Investor Confidence Survey results](#)

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CA ANZ: Climate-related risks

19. CA ANZ has issued a joint report with two Australian universities which is a high-level review of annual reports issued in 2021 of listed entities in Australia, New Zealand and globally.

20. The results were in summary:

- (a) Climate-related risks are impacting statutory financial statements mainly in the areas of impairment of non-current assets and financial risks;
- (b) The energy, materials and financial sectors have seen the biggest impact to financial statements from climate-related risks; and
- (c) Very few auditors' reports were impacted by climate-related risks.

[Climate related risks are having an impact](#)

Accountants Daily: Digital Reporting

Simon Grant³ has written this article from an Australian perspective, but the comments are equally applicable to the NZ market:

Companies are going with the old-school approach and on the regulatory side, the fact ASIC accepts digital reports but has no mandate to require them means there is little motivation to change or modernise. First movers will find limited value if digital is not adopted collectively across the market with a common data store, enabling consistency, and attracting service providers with the tools for investors to make the most of the data.

[Let's get digital when it comes to annual reports | Accountants Daily](#)

³ Simon Grant is Group executive of advocacy, professional standing and international development at CA ANZ.

Domestic

Radio NZ: Article – Will disclosures by Climate reporting entities solve the problem?

21. This article targets the questions at the core of standard-setting in a climate context:

Who is the primary user? Stakeholders versus shareholders, and the place of the public interest.

<https://www.rnz.co.nz/news/national/476075/nz-s-biggest-firms-may-soon-have-to-disclose-climate-risk-but-will-it-help-address-the-problem>

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PwC: Disclosures of climate-related risks in June 2022 reports

22. PwC reviewed 21 annual reports from companies in the NZX50 with 30 June balance dates. Key findings are included in [Appendix 3](#).

30 June report: [Is Climate change being reflected in the financial statements? 30 June 2022](#)

31 March report: [Is climate change reflected in the financial statements? 31 March 2022](#)

Chapman Tripp: Defining Māori Business

23. Statistics NZ has created a standard definition of Māori business to drive a common approach to the identification of Māori businesses with the aim of delivering a more accurate and useful data base.

24. The need for greater accuracy has become more pressing as Te Ohanga Māori (the Māori Economy) continues to grow. As at 2018, Te Ohanga Māori had an estimated financial asset base value of \$68.7b.⁴

25. The standard, which was created in collaboration with a cross-sector working group is as follows:

A Māori business is a business that is owned by a person or people who have Māori whakapapa, and a representative of that business self-identifies the business as Māori.

26. It has been used in Stats NZ surveys since July 2022 and will be incorporated into the New Zealand Business Number (NZBN) register by the end of this year. In 2023, it will also be considered for mandating across government agencies.

⁴ Te Ohanga Māori 2018, BERL (2021).

[Chapman Tripp | He Kōmuri – Hepetema 2022](#)

Case study: a Māori Finance Company with ethical investment values:

27. An innovative Māori values-based investing company is taking indigenous knowledge into the finance space, to create a world for "mokopuna to thrive".
28. As awareness in climate change and sustainability intensifies, Tahito Ltd has seen the world looking toward indigenous cultures, values and sustainability practices for solutions.
29. The Tahito investment philosophy focuses on providing high-quality ethical investment services to investors and companies that meet their stringent Māori ethical screening tests.

[Māori kaupapa company Tahito Ltd: Indigenous knowledge investment adding financial value - NZ Herald](#)

Maniapoto FM: Mahi whakatau to welcome Sheree Ryan, Ngāti Paretapoto, onto the XRB Board

30. Link to video:
https://www.facebook.com/ManiapotoFM/videos/326747009661186/?extid=CL-UNK-UNK-UNK-IO5_GK0T-GK1C&ref=sharing

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Plain Language Act (2022)

An update on the Plain Language Bill which has now been passed in Parliament and is awaiting Royal Assent.

[New Zealand passes plain language bill to jettison jargon | New Zealand | The Guardian](#)

Simpson Grierson: Climate change judicial review challenge not allowed

31. Key takeaways from the High Court's recent judgment in *Students for Climate Solutions Inc v Minister of Energy and Resources*⁵
 - (a) The courts are willing to send a clear message that it is the job of Parliament (and not the judiciary) to respond to the climate crisis.
 - (b) The High Court's view was that the same degree of scrutiny is required in judicial review proceedings involving climate change decisions as in any other context - it refused to take a heightened approach to review in this proceeding.

⁵ [2022] NZHC 2116.

Agenda Item 2.3

- (c) Climate change litigation continues to make its way through the New Zealand court system as those unhappy with political decisions use the process to challenge them.

[High Court declines to intervene in climate change judicial review challenge - Simpson Grierson](#)

Integrated Report 2022 - Transpower

- 32. Transpower has recently issued its Integrated Report for 2022. Of particular interest are the following:
 - (a) Climate-related disclosures on pp 92-103; and
 - (b) Note re adjustment for Software as a Service (SaaS) pp110-111.

[Transpower Integrated Report FY22.pdf \(amazonaws.com\)](#)

ASB Climate report

- 33. The ASB Climate report for year ended 30/6/22 is clearly presented as a separate report (66pp).

<https://www.asb.co.nz/about-us/sustainability.html>

Appendix 1: TCFD 2022 Status Report

Table ES1

Key Takeaways and Findings

AI Review¹



The percent of companies disclosing TCFD-aligned information continues to grow, but more urgent progress is needed. For fiscal year 2021 reporting, 80% of companies disclosed in line with at least one of the 11 recommended disclosures; however, only 4% disclosed in line with all 11 recommended disclosures and only around 40% disclosed in line with at least five.



All regions have significantly increased their levels of disclosure over the past three years. In particular, the average level of disclosure across the 11 recommended disclosures for European companies was 60% for fiscal year 2021, growing 23 percentage points since fiscal year 2019; 36% for Asia Pacific companies — an increase of 11 percentage points; and 29% for North America companies — an increase of 12 percentage points.

Reporting Practices Survey²



A majority of asset managers and asset owners report to their clients and beneficiaries. Over 60% of asset managers and over 75% of asset owners surveyed indicated they currently report climate-related information to their clients and beneficiaries, respectively. The majority of asset managers report through sustainability reports or directly to clients, while the majority of asset owners report through annual, sustainability, or climate-specific reports.



Nearly 50% of asset managers and 75% of asset owners reported information aligned with at least five of the 11 recommended disclosures. Based on survey responses, 60% of asset managers and nearly 80% of asset owners indicated they report information aligned with at least one recommended disclosure, whereas only 9% of asset managers and 36% of asset owners report on 10 recommended disclosures. None indicated they report on all 11.

TCFD Survey³



The percent of companies disclosing the TCFD recommendations in financial filings or annual reports has increased each year. Based on the TCFD survey, over 70% of companies implementing the TCFD recommendations disclosed climate-related information in financial filings or annual reports (including integrated reports) for fiscal year 2021 compared to 45% for fiscal year 2017.



The availability and quality of climate-related financial disclosures has increased since June 2017. Ninety-five percent (95%) of survey respondents saw an increase in the availability of climate-related financial disclosures since the release of the TCFD recommendations, with 88% of respondents citing improvements in the quality of disclosures.



Investors and others use disclosures in decision-making and pricing. Based on the TCFD survey, 90% of investors and other users incorporate climate-related financial disclosures in financial decision-making, and 66% of these indicated such disclosures factor into the way they price financial assets.¹⁶ In addition, based on a literature review, there is a growing body of evidence that climate-related risks are beginning to affect prices for certain types of assets.

¹ Based on the AI review of disclosure practices.

² Based on the survey of asset managers and asset owners' TCFD-aligned reporting practices.

³ Based on the TCFD implementation and use survey. Given the composition and number of survey respondents, the Task Force cautions readers on extrapolating these results to broader populations of companies disclosing climate-related financial information and users of such disclosures.

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Appendix 2: CA ANZ Investor Confidence Survey

Executive summary



Auditors remain the most trusted when it comes to investor protection, closely followed by government regulators, financial analysts and stock exchanges.



Confidence in the global economy has also taken a downturn (71%, 2021 77%).



23% overall were confident investing in crypto-assets, however younger investors and those with a higher level of education were far more confident.



Confidence in New Zealand capital markets has fallen (77%, 2021 86%).



Confidence in listed company financial statements remains high (88%, 2021 92%).



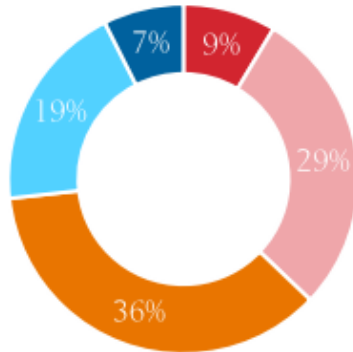
62% of investors support mandatory digital reporting to improve the understandability of financial reports.



Complexity of financial reporting

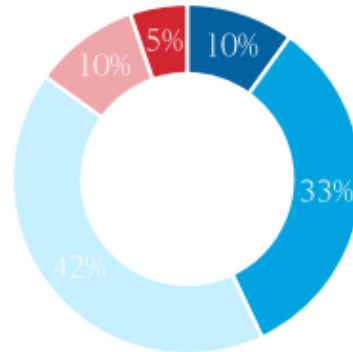
Even though investors would like companies to provide more information (see page 7), they find the information that is provided to be difficult to understand and believe that digital reporting would alleviate this problem. 62% support mandatory digital reporting.

The financial reports presented by New Zealand listed companies contain a lot of detailed information. In your opinion, are the financial reports...?



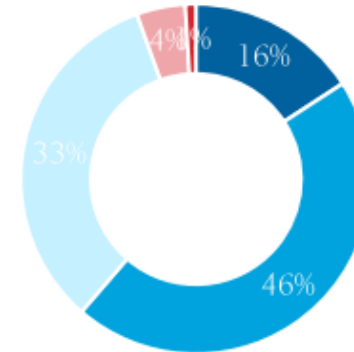
- Very difficult to understand
- Quite difficult to understand
- Somewhat difficult to understand
- A little difficult to understand
- Not difficult to understand

To what extent do you expect the availability of more customised, digital financial reporting would improve your ability to access financial information?



- Greatly improve
- Improve quite a bit
- Some improvement
- Very little improvement
- No improvement

To what extent would you support making digital financial reporting mandatory in order to increase the availability of this information:



- Strongly support
- Support
- Indifferent
- Do not support
- Strongly do not support

8 Base: Total NZ Sample: 2022 n=512 (Questions added 2022)

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Appendix 3: PwC Report on Climate Disclosures for 30 June 2022 reporters

Key findings



21 businesses on the NZX50 with June year ends have completed their financial reporting.



3 reporters discussed the impact of climate-related risks in their financial statements.



0 businesses included a quantification of the impacts of climate risk (physical or transition risks).



19 reporters included non-financial climate-related information outside of the financial statements.



3 reporters mentioned upcoming climate-related financial disclosures in their financial statements while 11 mentioned this in the front-half of their annual report or in a separate sustainability report (outside the financial statements).



6 businesses noted the use of green finance.



3 audit reports included mention of climate change in KAMs.

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	1 December 2022
Subject:	Greenhouse Gas Assurance Standard
Date:	16 November 2022
Prepared By:	Nicola Hankinson, Anna Herlender, Misha Pieters



Action Required



For Information Purposes Only

Agenda Item Objective

1. The objective of this agenda item is to seek the Board's APPROVAL of the Consultation Document, Exposure Draft and FAQs in relation to proposed NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*.

Background

2. In October, the Board provided feedback on the developing Exposure Draft, with a focus on the ethical, quality management and assurance reporting requirements together with possible topics for staff guidance (FAQs).
3. We have also subsequently received additional feedback from the Parliamentary Counsel Office, the Steering Committee, the GHG Advisory Panel and the Office of the Auditor-General.

Matters to Consider – Exposure Draft

4. We have updated the Exposure Draft to address the feedback received. A summary of the main changes is included below. A marked version of the Exposure Draft (with track changes) is included in the Supplementary Papers as agenda item 3.6.

Applicable standards (Paragraph 6)

5. In October we highlighted that we continued to explore whether we can incorporate standards by cross reference in secondary legislation. We have confirmed that we can do so, and therefore propose that the standard require compliance with either the relevant ISO or ISAE standard.

Self-review threat (Paragraph 12, Application Material A11-A13)

6. Paragraph 12 was re-drafted to make it more explicit that assurance practitioners are not permitted to prepare GHG information and then assure the GHG disclosures.
7. To clarify paragraph 12, the word "possibly" has been added to 12 (c) i.e., all other services that "might possibly" create a self-review threat are prohibited. This clarifies that, if there is any chance of self-review threat, the service should not be provided. We have also drafted a FAQ to explain this.

Independence period (Paragraph 17)

8. Concerns were raised that the independence period specified in the developing draft was unclear in relation to data that is forward-looking (for example over emissions that may materialise many years after the date the assurance report is issued). Our intent is not to require independence for the period into the future, rather to require independence for the period of the engagement and

for the reporting period of the climate statement (i.e., from 1 Jan xx to 31 Dec xx). To address this concern, we have included the term “reporting period”, in line with the terminology used in the climate-related disclosure standards, to clarify that it is the reporting period, not the period of any forward-looking information.

Other information (Paragraph 26)

9. We have heard that there may be some confusion in relation to what the assurance practitioner’s responsibilities are in relation to other information. ISO 14064-3 does not explicitly require assurance practitioners to read other information included in documents where GHG disclosures are presented, but there are obligations in other ISOs regarding other claims made. We consider there is a risk for confusion if not addressed directly so we have included a requirement for assurance practitioners to read other information and, if any material inconsistencies or material misstatements are identified, take further action. We have drafted a FAQ to clarify what other information might be and to refer practitioners to ISAE (NZ) 3410 and ISA (NZ) 720 for further examples and explanations of what further action should be taken.

Key matters (Paragraphs 31 – 33, Application Material A2-A4, Definition in paragraph 3)

10. We have clarified the requirement in relation to key matters to only require reporting of key matters identified by an assurance practitioner when it is considered relevant to user’s understanding of the assurance engagement and will enhance the communicative value of the assurance report.

Competence (Application Material A21 and A23)

11. Competency is a key consideration to ensure high quality assurance. To make this more explicit, we have included examples of necessary skills and competence in the application material. These are based on the competency requirements from the ISO suite of standards and the application material in ISAE 3410.

Form of assurance conclusion (Application Material A26 and A27)

12. We have removed explicit requirements regarding the form of limited and reasonable assurance conclusions or opinions and the wording of modified opinions. Relevant wording is already prescribed in ISAE 3410 and ISO 14064-3 and we were conscious not to include requirements in NZ SAE 1 that would result in practitioner’s possibly breaching the requirements of the underlying standards. As such, the reporting section of the Exposure Draft has been streamlined. Examples of wording that may be used in the assurance report to cover both limited and reasonable assurance have been included in the application material. In addition, the limited assurance conclusion example includes wording that ISO practitioners might use in relation to forward-looking information. Variation in the form of the conclusion is explained in the consultation document.

Other changes

13. Other changes to address feedback in relation to readability and understandability include:
 - Replacing reference to the Amendment Act with the Financial Market Conduct Act 2013. Once the Amendment comes into the force, it will be “invisible”, therefore we were advised that it is more appropriate to refer to the act it will amend instead.
 - Adding definitions of emphasis of matter and other matter paragraphs.
 - Refining wording relating to the system of quality management to avoid confusion that may arise from the previous definition (i.e., removed the term “reasonable assurance”).

- Moving the documentation requirement in the ethics section to make it clear that assurance practitioners need to document conclusions regarding compliance with all fundamental principles, rather than just independence.
- Rewording the engagement team fraud discussion paragraph to make it clear that this requirement relates not only to the discussion, but also consideration and documentation of issues identified.
- Streamlining the comparative information paragraph and aligning it with the related requirements in the climate disclosure standards.
- Adding a requirement for the independent reviewer to evaluate whether the engagement leader’s independence conclusions are appropriate.
- Moving application material relating to materiality to the FAQs.
- Wording changes in the illustrative assurance report.

Matters to Consider – Consultation Document

14. The Consultation Document is the primary tool to communicate to stakeholders the approach taken in developing the Exposure Draft and the key decisions reached. It is important that the decisions and the context for developing the Exposure Draft are clearly communicated.
15. The Consultation Document provides a high-level overview of what we are consulting on, what is required to be assured and why and outlines the global context in which the Exposure Draft has been developed. It provides an overview of the proposed standard, including the objectives, design principles and key decisions and key features of the Exposure Draft.
16. We have developed the Consultation Document with the Comms team, including messages relating to “design principles”, the rationale for developing a temporary standard and an overview of the domestic and international context.
17. We have ensured that the Consultation Document provides sufficient information to assure readers that a detailed review of the requirements of existing assurance standards has been undertaken (i.e., ISO 14064-3 and ISAE 3410). A table comparing the requirements of these standards and how any differences have been addressed in the Exposure Draft has been included as Appendix B. This table has been reviewed by the GHG Advisory Panel.

Matters to Consider - Staff guidance material (FAQs)

18. We have developed FAQs to provide further detail on areas included in the Exposure Draft, to help practitioners to navigate to where further information may be found and to provide more examples. The draft FAQs are included in agenda item 3.4.

Recommendation

19. We recommend that the Board APPROVES the Consultation Document, Exposure Draft and FAQs for public consultation.

Material Presented

Agenda item 3.2	Consultation Document
Agenda item 3.3	Exposure Draft
Agenda item 3.4	FAQs

Supplementary paper

Agenda item 3.5	ISO committee clarification of intent
Agenda item 3.6	Exposure Draft (Marked from Oct papers)

Assurance Engagements over GHG Emissions Disclosures

Consultation document

December 2022

Consultation closes 24 March 2023



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PART ONE: **INTRODUCTION**



1.

What are we consulting on?

The Financial Markets Conduct Act, as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021) (the Act) requires assurance engagements to be undertaken in relation to the parts of a Climate Reporting Entity's (CRE) climate statements that relate to greenhouse gas emissions (GHG). The assurance engagement is required to be undertaken in accordance with the XRB's auditing and assurance standard/s and so this consultation document outlines our proposed standard that assurance practitioners will need to comply with.

Assurance practitioners have a critical role to play in enhancing user confidence in GHG information included in the climate statements. CREs required to obtain assurance over their GHG disclosures include large-listed companies, registered banks, licenced insurers, credit unions, building societies and managers of investment schemes and some Crown financial institutions¹. These are some of New Zealand's most economically significant entities and so ensuring high-quality, independent assurance of the GHG disclosures is vital. We are committed to developing an assurance standard that results in high-quality assurance undertaken by competent and independent assurance practitioners.

The climate reporting standards we issued in December 2022 are yet to be applied and international assurance requirements for sustainability assurance engagements (including climate reporting) are still currently under development. The scope of mandatory assurance in New Zealand may extend beyond the GHG disclosures to the full climate statement. In addition, an assurance practitioner licensing and oversight regime may be developed. MBIE and MfE are consulting on both of these matters [link].

We are closely monitoring developments – in particular, the anticipated change in the scope of assurance, and a yet to be confirmed oversight and licensing regime.

Our solution to this 'environment of unknowns' has focussed on creating a temporary, narrow-scope standard, which applies only to the current mandatory assurance engagement requirements of the Act. The proposed standard is intended to fill a gap, until we know more about the scope of assurance, any licensing regime and whether the developing international standards will be locally relevant for our regime.

We acknowledge the importance of competence in both GHG subject matter expertise and assurance skills. Given this is a new and emerging area, we have heard concerns about the shortage of professionals able to undertake this work. We found that a broad mix of professionals are currently undertaking these types of assurance engagements in New Zealand, but that not all of these professionals have historically had to comply with XRB's assurance standards.

Assurance is already being provided over GHG disclosures in New Zealand. In developing the temporary standard, we have consulted extensively with those undertaking these engagements to ensure the standard builds on, rather than replicates, existing requirements. We intend to issue the standard in June 2023 to allow time for assurance practitioners to prepare for mandatory assurance engagements.

We welcome your feedback.

¹Some Crown Financial Institutions are also expected to be directed to report by a letter of expectation from the Minister of Finance.



2.

How can you contribute?

Submissions on this consultation can be provided via any of the avenues below:

- On our 'Open for Comment' page at <https://xrb.govt.nz/assurance-standards/standards-in-development/open-for-comment/>
- Asking questions and providing comments at any of our consultation events
- Commenting on our [LinkedIn](#) posts
- Email: assurance@xrb.govt.nz
- Write to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142

Timeline



The closing date for submissions is **24 March 2023**. We appreciate detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view. We will consider all comments received.

The consultation paper contains several questions (in Part Three). Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

We are consulting on the assurance standard that practitioners will need to comply with when engaged to assure GHG disclosures included within climate statements of CREs as required by the Act.

Currently, MBIE and MfE are also jointly consulting on:

- Whether occupational licensing for assurance practitioners should be introduced and, if so, what form that licensing should take.
- If the assurance requirement should be expanded to cover the whole climate statement.



3.

What is required to be assured and by when?

Under the Act, a climate reporting entity's GHG disclosures, prepared in accordance with Aotearoa New Zealand Climate Standards ('NZ CS'), are required to be subject to an assurance engagement. NZ CS 1 requires this to be "limited assurance" at a minimum but we recognise that some entities may seek a higher level of assurance, referred to as "reasonable assurance". Some may seek limited assurance over some GHG disclosures and reasonable assurance over the rest.

Paragraph 26 of NZ CS 1 requires the following information to be subject to an assurance engagement:

- (a) GHG emissions: gross emissions in metric tonnes of CO₂e classified as scope 1, scope 2, or scope 3;
- (b) Additional requirements for the disclosure of GHG emissions; and
- (c) GHG emissions methods, assumptions and estimation uncertainty.

These disclosures are collectively referred to as the "GHG disclosures".

The Act requires assurance engagements to be completed over GHG disclosures for accounting periods that end on, or after, **27 October 2024**. It is proposed that the temporary standard be issued by June 2023 to allow assurance practitioners time to read and understand the requirements and ensure that they are able to comply with them in accordance with this timeframe.

While the Act establishes a narrow scope for the mandatory assurance engagement, we understand that some entities may voluntarily seek assurance over other parts of the climate statement.

ISAE (NZ) 3000 (Revised) is the existing XRB assurance standard that applies to voluntary assurance engagements over other parts of or the climate statement. In 2021, we published the IAASB's comprehensive [guidance to support application ISAE 3000 \(Revised\) to Sustainability and Other Extended External Reporting \(EER\) Assurance Engagements](#) along with a navigation tool to help point users to relevant chapters and illustrative examples.



4.

Global context

Many jurisdictions are introducing mandatory climate reporting. Climate reporting is increasingly expected to drive capital allocation decisions so it is important that investors are able to place trust and confidence in the climate information that is provided. To enhance trust and confidence, many jurisdictions are exploring mandatory assurance requirements over this information, with a focus on assurance over GHG emission disclosures in the first instance.

Globally, questions are emerging as to:

- Who can provide these assurance engagements? Should this be audit firms and/or others assurance providers, given the wider range of subject matter competence needed?
- What standards should be used to undertake these engagements? Standards issued by the International Auditing and Assurance Standards Board (IAASB) or other international standards, such as those based on the International Organization for Standardisation (ISO) or others?
- What quality management and independence requirements should apply?
- What competencies are required to undertake these engagements?

[Read more about climate change reporting developments in the US on the SEC website](#) and [climate change reporting and assurance developments in Europe on the EU website](#).

International standard-setting boards are actively working to develop reporting and assurance standards, including the International Sustainability Standards Board, the International Auditing and Assurance Standards Board (IAASB), the ISO and the International Ethics Standards Board for Accountants (IESBA). There are calls for profession agnostic standards that avoid fragmentation of the market and bring the best of the traditional financial statement audit profession and the broader assurance profession together. The ultimate goal is to create standards that allow investors to place trust and confidence on the climate and wider sustainability information being reported.

A [recent report from the International Federation of Accountants \(IFAC\)](#) shows that there is a range of assurance practitioners currently undertaking this work. Results from their survey indicate that stakeholders may be ambivalent as to who carries out this work. However, the expectations that this work is carried out in accordance with rigorous professional and ethical standards remain.

The IESBA is currently exploring whether the independence standards in the international code of ethics are “fit-for-purpose” for assurance engagements over sustainability reporting. The IESBA also recognises calls for “profession agnostic” standards. [Read about the IESBA’s project on their website](#).

The IAASB is developing a standalone sustainability assurance standard to drive consistent, high-quality assurance engagements. The IAASB recognises the importance of ensuring the standard is suitable for all assurance practitioners, not just those that are professional accountants. [Read about the IAASB project “Assurance on Sustainability/ESG reporting” on the IAASB website](#).

We are acutely aware of the rapidly changing environment and are closely monitoring international developments. The proposed standard is intended to fill a gap, until new and revised international assurance standards for sustainability information are developed. Once these international standards are developed, we will assess whether they are appropriate for use in meeting the legislative requirements for assurance over the climate-reporting disclosures in New Zealand.



PART TWO: OVERVIEW OF THE PROPOSED STANDARD



5.

Objectives

The primary objective is to develop a standard that enables users to place trust and confidence in the mandatory GHG disclosures. To do this, we sought to ensure the proposed standard:

- Drives consistent, high-quality assurance engagements over the mandatory GHG disclosures;
- Is appropriate for the current regulatory regime; and
- Enables all competent and independent assurance practitioners to undertake such engagements.

6.

Design principles and key decisions

We considered the following “design principles” in developing the exposure draft and made the following key decisions:

Design principle	Implication/Decision
<p>Trust and confidence</p> <p>To develop a standard that enables users to place trust and confidence in the GHG disclosures of CRES, some of the most significant entities in the New Zealand economy.</p>	<p>Assurance practitioners in New Zealand currently provide assurance over GHG disclosures in accordance with one of two international assurance standards. We consider these international assurance standards are substantively similar and propose requiring practitioners to use of one of these international standards in order to build trust and confidence in the assurance process.</p>
<p>Accountability and clarity</p> <p>It is vital that the scope of the assurance engagement is well-defined and that users are able to clearly identify which disclosures are subject to assurance, what level of assurance is provided, and assess any limitations (such as significant uncertainty, forecasts or assumptions, or data quality issues) to provide context for the assurance engagement.</p>	<p>The exposure draft includes requirements to clearly define the roles and responsibilities of those involved in the assurance engagement. Given different skills and experience are likely to be required to undertake these engagements and multi-disciplinary teams may be required, the exposure draft emphasises the responsibility of the lead assurance practitioner in ensuring that all those involved in the engagement meet the required levels of independence and competence and collectively enable compliance with the requirements of the standard.</p> <p>The scope of the engagement, level of assurance provided and any limitations are also required to be included in the assurance report to clearly communicate the context of the engagement to users.</p>



Design principle	Implication/Decision
<p>Temporary nature of the standard</p> <p>Enable assurance practitioners to meet the requirements of the Act while allowing time for climate reporting to mature, assurance requirements to develop, the scope of assurance to expand and the assurance practitioner licensing and oversight regime to develop.</p>	<p>The effective date of the standard aligns with mandatory assurance under the Act. The proposed standard also has a proposed end date, which we expect to align with the changes in scope of assurance. In developing a temporary standard we leverage from existing practices and address key principle-based requirements specific to this regime.</p>
<p>Importance of ethics and quality</p> <p>Include ethical, independence, competence and quality management requirements that are specific to the mandatory GHG disclosure and assurance regime in a single standard.</p>	<p>Compliance with professional and accreditation bodies, such as CA ANZ and JAS ANZ complements the requirements of the proposed standard, given they also require compliance with their ethical and quality management standards and are based on the same, or substantively similar, underlying principles.</p>
<p>Transparency</p> <p>Encourage transparency about the assurance engagement, by providing practitioners with reporting tools that will enable them to enhance the communicative value of the assurance report, the main output of these engagements.</p>	<p>Include tools such as “Key Matter” paragraphs to explain the most significant matters in the assurance engagement, an “Emphasis of Matter” paragraph to highlight disclosures made by the entity that are deemed particularly important for users understanding and an “Other Matter” paragraph, to highlight if comparative information has not been assured. We consider such reporting will assist users’ understanding of the scope and conclusions reached as part of the assurance engagement.</p>
<p>Leverage existing international standards (where possible)</p> <p>The XRB adopts international standards to ensure that there is international alignment and acceptability, while ensuring the standards are relevant locally.</p>	<p>We have identified that the following two international standards are currently being applied in New Zealand to provide assurance over GHG emissions:</p> <ul style="list-style-type: none"> • International Standard on Assurance Engagements (ISAE 3410²) <i>Assurance Engagements on Greenhouse Gas Statements</i>; and • International Organization for Standardisation (ISO) <i>Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements (issued 2019) 14064-3</i>³. <p>These standards have been used as the basis for developing the temporary standard, allowing assurance practitioners to comply with the requirements of the Act without duplicating existing requirements.</p>

²Assurance Engagements on Greenhouse Gas Statements (2012)

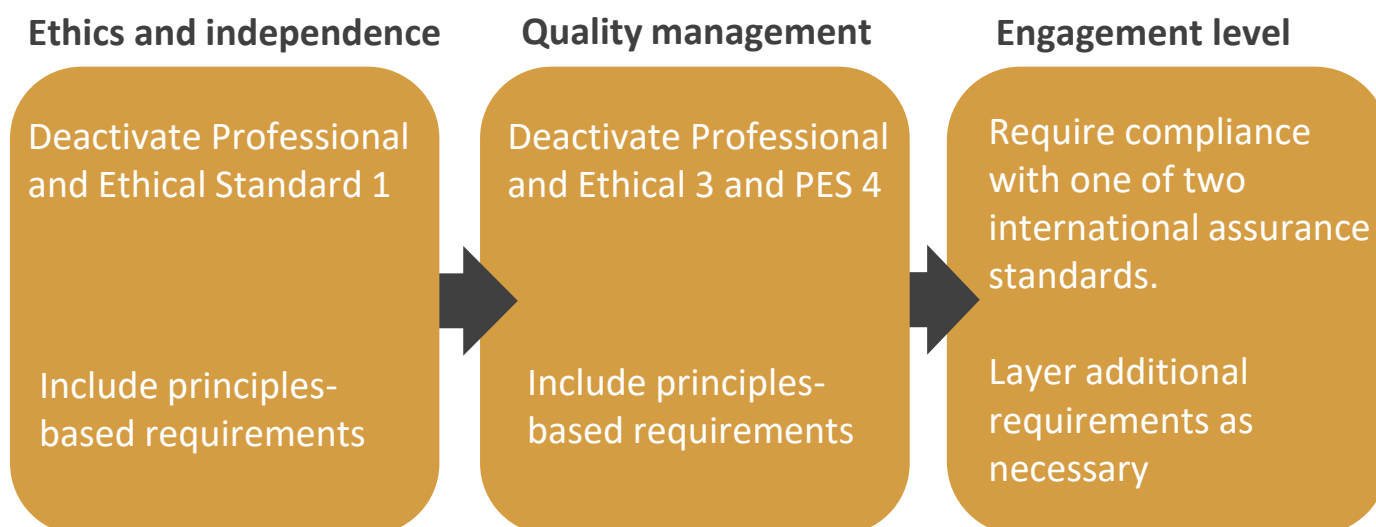
³Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements (issued 2019)



7.

Key features of the Exposure Draft

The key features of the exposure draft are summarised as follows:



The Act requires assurance practitioners to comply with applicable assurance standards issued by the XRB. While the XRB has issued a number of standards that might apply, we have also explored what other international standards could usefully inform our approach for this regime.

The exposure draft proposes to deactivate Professional and Ethical Standard (PES) 1⁴, PES 3⁵ and PES 4⁶. We propose to deactivate these standards which would otherwise be applicable assurance standards, which all practitioner’s would be required to comply with under the Act. Consistent with our design principles discussed above, we have included the relevant ethical, independence, competence and quality management requirements specific to this regime all within one standard, to enhance accessibility for all assurance practitioners and to promote consistent high quality assurance engagements.

In addition, the exposure draft requires compliance with one of two international assurance standards (either ISAE 3410 or ISO 14064-3) given these standards are already being used by assurance practitioners to undertake GHG emission assurance engagements in New Zealand. Specific requirements have been layered on top of the requirements of these standards, where appropriate. This includes specific requirements in relation to the independence and competence of the assurance practitioner and team, reliance on the work of others and the contents of the assurance practitioner’s report.

We recognise that assurance practitioners may also be required to comply with their own professional or accreditation bodies’ requirements and therefore propose that the assurance practitioner identify which standards they have applied in the assurance report.

⁴ International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))

⁵ Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

⁶ Engagement Quality Reviews



8.

Key issues for feedback

The key issues of the exposure draft we would like your feedback on include:

8.1 Compliance with existing GHG assurance standards (such as ISAE or ISO)

Some New Zealand entities already seek assurance over their GHG disclosures for various reasons. Two international assurance standards are currently being used to perform these engagements, ISAE 3410 (which the XRB has also adopted in New Zealand) or ISO 14064-3 (which is part of the ISO suite of standards). These standards have largely informed each other over time and as a result the requirements are very similar. These standards were developed for assurance engagements that are performed over GHG statements (sometimes known as an “emissions inventory”) (i.e. a slightly different purpose), however they are still considered relevant as a basis for meeting the mandatory assurance requirements of this regime.

In developing the exposure draft, we compared the requirements of these two standards to understand any differences and to explore opportunities to leverage existing requirements. We found that these standards are substantively similar although there are some differences, particularly in the terminology used. Appendix B of this consultation document includes a summary of the comparison undertaken. Rather than create an extensive new standard to govern assurance over GHG disclosures and duplicate existing requirements, the exposure draft proposes requiring practitioners to apply either ISAE 3410 or ISO 14064-3. We consulted with assurance practitioner’s undertaking GHG emission assurance engagements and concluded that the requirements of these standards formed an appropriate base for New Zealand’s temporary assurance standard.

As noted above, the exposure draft “layers” ethical, independence, competence, quality management and assurance reporting requirements on top of the requirements of these standards to ensure that there is a consistent approach in undertaking these engagements.

The exposure draft is narrow in scope as it is limited to GHG disclosures that are required by section 461ZH(1) of the Act to be subject to an assurance engagement.

We welcome feedback on any areas where you consider that further clarification is required to ensure a consistent approach is taken in undertaking these engagements.

Question for respondents

1. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emission assurance engagements?



8.2 Ethical requirements, including independence

Independence is critical for ensuring investors and other stakeholders are able to place trust and confidence in the assurance engagement over GHG disclosures. As outlined above, we propose to deactivate the existing XRB standard that includes ethical requirements for assurance practitioners for this limited scope engagement.

We compared the ethical and independence requirements for audits of financial statements to the requirements for other assurance engagements within the existing XRB's independence requirements and with requirements from ISOs⁷. We continue to monitor developing international requirements.

We found that the fundamental ethical principles and the requirement to identify, evaluate and address threats to these fundamental principles, are similar across the standards we compared. We propose a similar approach. The exposure draft proposes that both the assurance organisation and the assurance practitioner comply with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have included Independence as a fundamental principle. The exposure draft requires documentation of conclusions regarding compliance with the fundamental principles.

We propose specific ethical requirements to address specific risk areas identified. These include:

- A prohibition to prevent an assurance organisation or an assurance practitioner from assuring their own work and prevent other services to the assurance client that might possibly create a self-review threat. The “might possibly” requirement is expected to set a high bar and prevent many other services from being sold to the assurance client.
- A prohibition on assuming management responsibilities.
- A prohibition on holding a financial interest in the assurance client.
- A requirement to address familiarity threats that arise due to long association with the assurance client.

Question for respondents

2. Are there any other specific ethical requirements that you consider should be included in the standard? If so, please specify.

⁷ISO 14066: *Competence requirements for greenhouse gas validation teams and verification teams*



8.3 Quality management

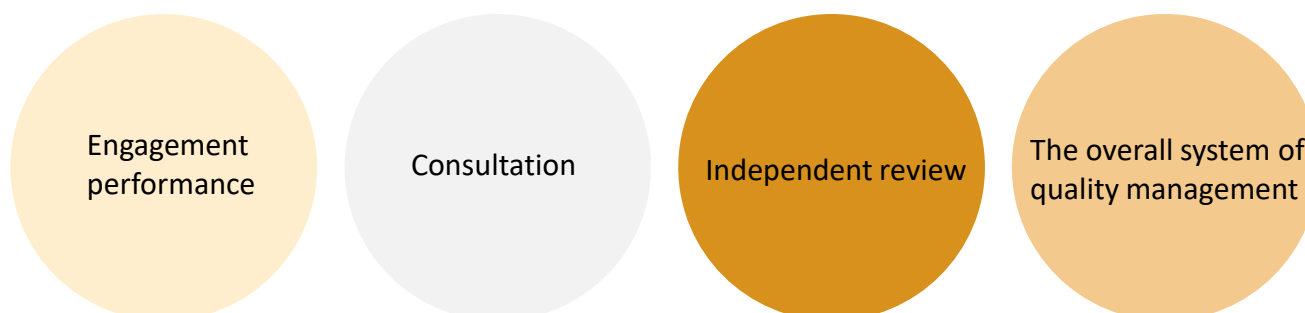
One of the key objectives in developing the exposure draft was to ensure that the standard drives consistent high-quality assurance engagements.

We compared the quality management requirements within the existing XRB’s requirements and with requirements from the ISOs.

The majority of the quality management requirements in ISO standards sit in separate standards such as ISO 14065⁸ although the independent reviewer requirements are included in section 8 of ISO 14064-3. High-level quality management requirements are included in ISAE 3410 with additional quality management requirements sitting in separate standards (such as PES 3 and PES 4).

As outlined above, we propose to deactivate the separate existing XRB standards that include quality managements requirements for assurance practitioners for the purpose of these limited scope engagements and include the requirements for this regime all within one standard, to enhance accessibility for all assurance practitioners.

In order to make the proposed standard “standalone”, and to ensure robust quality management processes are in place for each of these engagements, the exposure draft includes specific requirements relating to:



Question for respondents

3. Are any other specific quality management requirements that should be included in the standard? If so, please specify.

⁸General principles and requirements for bodies validating and verifying environmental information



8.4 Assurance report

The assurance report is the key output arising from the assurance engagement. As such, the proposed requirements included in the exposure draft focus on providing clear information to users regarding the assurance engagement.

The exposure draft includes a range of reporting tools that the practitioner can use to communicate matters to users, such as:

Key Matter paragraphs: alerting users to a matter that was of most significance in undertaking the GHG assurance engagement;

Emphasis of Matter paragraphs: alerting users to a section of the GHG disclosures which the assurance practitioner considers should be highlighted;

Inherent uncertainty paragraphs: alerting users to significant areas of inherent uncertainty impacting on their ability to rely on the GHG disclosures; and

Other Matter paragraphs: alerting users to any other matters, such as the fact that the prior period GHG disclosures were not subject to an assurance engagement.

The purpose of these tools is to enable assurance practitioners to communicate information regarding the engagement to users where appropriate. The exposure draft also includes requirements to:

- State which assurance level/s was applied over which disclosures;
- Disclose which standards have been applied in undertaking the assurance engagement (i.e., this standard, NZ SAE 1, the international GHG emissions assurance standard, such as ISAE (NZ) 3410 or ISO 14064-3 and any professional or accreditation ethical and quality standards);
- Disclose any other relationships held with the climate-reporting entity; and
- Include the name of the assurance practitioner in the assurance report.

The exposure draft also encourages the assurance practitioner to disclose information about materiality considerations and details of the qualifications and experience of the engagement leader and others involved with the engagement if they consider this would be useful to include in the report.



Although assurance engagements undertaken in accordance with the two international assurance standards include the same, or substantively similar, procedures, there will be some differences in the way the assurance opinion or conclusions is expressed in the assurance practitioner’s report. This is due to the different reporting requirements of these standards, in particular the use of the terms “validation” and “verification” in ISO 14064-3. These differences already exist in respect of GHG assurance engagements currently being undertaken in New Zealand. The table below provides illustrative wording outlining how the assurance practitioner’s conclusion may be expressed.

All assurance reports will state whether reasonable or limited assurance was obtained, however assurance engagements undertaken in accordance with ISO 14064-3 may also state whether a validation or verification engagement was undertaken. Verification provides either limited or reasonable assurance based on historical information. Validation provides only limited assurance over the key assumptions, methods and limitations used to prepare projected or forecast information.

Table 1: Illustrative wording for limited assurance conclusions

Subject matter is	ISO 14064-3 illustrative wording	ISAE 3410 illustrative wording
Historical in nature	Similar wording: Based on the procedures we have performed ... nothing has come to our attention that causes us to believe that the GHG disclosures ...are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards NZCSs) and [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>] May also state “verified at the limited level of assurance”.	
Projected or forecast (e.g. certain categories of scope 3 emissions)	“Based on our examination of the evidence, nothing comes to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>]. Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.” May also state “validated”.	Based on the procedures we have performed ... nothing has come to our attention that causes us to believe that the GHG disclosures are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards NZCSs) and [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>]



Question for respondents

4. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.

5. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns??

6. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?

7. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.

8.5 Competence and reliance on the work of others

In developing the exposure draft, we were conscious that different skills, and a broader mix of skills, may be required to undertake these assurance engagements. As such, we have proposed including specific requirements in relation to the assurance practitioner's competence and the reliance placed on the work of others.

Question for respondents

8. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what else do you consider should be included in relation to this?


9. Do you consider the requirements in relation to reliance on the work of others are appropriate? If not, what do you consider should be included in relation to this?

8.6 Other comments

We have outlined the key areas where we seek your feedback but welcome feedback on any other aspects addressed in the exposure draft or if you consider there are aspects that we have missed.

Question for respondents

10. Do you have any other comments on the proposed standard? If so, please specify.



PART THREE:
CONSULTATION
QUESTIONS



Consultation Questions

Respondents are asked to consider the following specific questions and to respond to the XRB by 24 March 2023:

Compliance with existing GHG emission assurance standards (such as ISAE or ISO)

Question 1. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emission assurance engagements?

Ethical requirements, including independence

Question 2. Do you consider there are any other specific ethical requirements that should be included in the standard? If so, please specify.

Quality management

Question 3. Do you consider there are any other specific quality management requirements that should be included in the standard? If so, please specify.

Assurance Practitioner's Report

Question 4. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.

Question 5. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns??

Question 6. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?

Question 7. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.

Competence and reliance on work of others

Question 8. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what do you consider should be included in relation to this?

Question 9. Do you consider the requirements in relation to reliance on the work of others is appropriate? If not, what do you consider should be included in relation to this?

Other comments

Question 10. Do you have any other comments on the proposed standard? If so, please specify.

APPENDIX:



Appendix A: Extracts from the Financial Markets Conduct Act, as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021)⁹

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

(1) Every climate reporting entity must ensure that the climate statements or group climate statements that are required to be prepared under any of sections 461Z to 461ZC are, to the extent that those statements are required to disclose greenhouse gas emissions, the subject of an assurance engagement.

(2) None of the following persons may carry out the assurance engagement:

(a) a director, an officer, or an employee of the climate reporting entity:

(b) a person who is in partnership with, or in the employment of, a person specified in paragraph (a):

(c) a liquidator or a person who is a receiver in respect of the property of the climate reporting entity:

(d) a person who, by virtue of paragraphs (a) to (c), may not carry out an assurance engagement under this Part for a related body corporate of the climate reporting entity.

(3) In the case of a climate reporting entity that is a public entity under the Public Audit Act 2001, the only person who may carry out the assurance engagement is the Auditor-General or any other person who may act as the CRD assurance practitioner under that Act in respect of the assurance engagement.

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

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

461ZHB Assurance practitioner's report

(1) The assurance practitioner's report on the climate statements or group climate statements prepared by an entity under any of sections 461Z to 461ZC must comply with the requirements of all applicable auditing and assurance standards.

⁹Amendments to the Financial Markets Conduct Act 2013 to come into force by third anniversary of Royal assent: [Financial Sector \(Climate-related Disclosures and Other Matters\) Amendment Act 2021 No 39, Public Act – New Zealand Legislation](#)



(2) If the assurance practitioner's report indicates that the requirements of this Part have not been complied with, the assurance practitioner must, within 20 working days after signing the report, send a copy of the report, and a copy of the climate statements or group climate statements to which it relates, to—

(a) the FMA; and

(b) the External Reporting Board; and

(c) in the case of a climate reporting entity that is an issuer of debt securities or a manager of a registered scheme, the supervisor.

(3) An assurance practitioner who contravenes subsection (2) commits an offence and is liable on conviction to a fine not exceeding \$50,000.

461ZHC Assurance engagement may cover other parts of climate statements

(1) Section 461ZH does not prevent the assurance engagement from covering the whole, or other parts, of the climate statements or group climate statements.

(2) If an assurance engagement does cover the whole, or other parts, of the statements,—

(a) the assurance practitioner's report must separately identify the matters that are required to be the subject of the assurance engagement under section 461ZH; and

(b) this subpart applies, with any necessary modifications, in relation to the whole of the assurance engagement.

(3) In this section, other parts, in relation to climate statements or group climate statements, means any part or parts of those statements that are not required by section 461ZH to be the subject of the assurance engagement.



Appendix B: Summary comparison of international assurance standards

Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066 ¹⁰)	How the exposure draft deals with this
Scope of Engagement	Assurance over entity-level GHG statements.	Assurance over entity-level GHG statements. Scope also includes project and product GHG statements.	The scope of the proposed standard is very narrow, recognising that the assurance engagement required by the Act covers the GHG disclosures included in climate statements only.
Level of assurance	Limited and reasonable.	Limited and reasonable. Includes requirements for verification and validation as well as agreed upon procedure engagements.	Climate-reporting entities (CREs) are required to obtain limited assurance over their GHG disclosures, at a minimum, but can opt to obtain reasonable assurance. The exposure draft requires the level of assurance to be specified in the assurance report.
Objectives of the engagement	Objectives outlined in para 13. These include obtaining assurance that the GHG statement is free from material misstatement and communicating the conclusion in a written report.	Objectives outlined in section 5.1.4. These include reaching a conclusion about the accuracy of the GHG statement and conformity with the criteria.	The objectives of the mandatory assurance engagement over GHG disclosures are included in the exposure draft to enable practitioners to meet the requirements of the Act.
Definitions	Core concepts defined. ISAE 3410 refers to the term “professional scepticism” but does not define it. However, the term is outlined in PES 1.	Core concepts, including “professional scepticism” are defined. In addition, the concepts of “verification” and “validation” have been defined. As outlined in section 4.5 above, users are likely to see these terms included in the assurance practitioner’s reports where the engagements have been undertaken in accordance with ISO 14064-3.	Specific terms have been defined in the exposure draft where these are considered relevant to mandatory assurance over GHG disclosures. Professional scepticism has not been defined as it was considered that there was sufficient understanding of this concept.

¹⁰ISO -14066 - Competence requirements for teams (including technical experts), and independent reviewers involved in the validation and verification of environmental information



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066 ¹⁰)	How the exposure draft deals with this
Pre-engagement requirements	Requirements include competency of the practitioner, agreeing the objectives, scope and criteria with the engaging party (including the organisational boundary) and considering the suitability of criteria.	Requirements include competency of the practitioner, agreeing the objectives, scope and criteria with the engaging party (including the organisational boundary) and considering the suitability of criteria..	No additional requirements proposed.
Planning	Similar requirements in relation to planning. Also includes requirements in relation to the entity's climate change objective and strategy and understanding of internal audit function, if they have one.	Similar requirements in relation to planning. Requirements in relation to understanding the entity's climate change strategy and internal audit function are included in ISO 14065: 2020 and ISO 14066.	No additional requirements proposed.
Materiality	Same definitions used for materiality and performance materiality. Includes a requirement to set a 'clearly trivial' level, above which all misstatements are reported to the entity.	Same definitions used for materiality and performance materiality. Includes requirement to ask intended users for their materiality thresholds and use this if they have determined one. No apparent requirement to set a 'clearly trivial' level.	No additional requirements proposed as these differences are not expected to result in significant differences in approach.
Risk Assessment	Risk assessment based on inherent, control and detection risk and assertions at risk included. Requires enquiry, planning analytical review and inspection and observation. Includes requirement to consider whether it is necessary to perform procedures on location at significant facilities.	Requires enquiry, planning analytical review and inspection and observation. Also includes requirement to perform site visits or justify why a site visit is not needed.	No additional requirements proposed as we consider that site visits will be undertaken where appropriate under existing standards.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066 ¹⁰)	How the exposure draft deals with this
Responses to identified risks/evidence-gathering activities	Similar approach taken.		No additional requirements proposed.
Obtaining an understanding of the entity's internal controls	Similar approach taken.		No additional requirements proposed.
Tests of controls	Includes requirement to design and perform tests of controls where the assurance practitioner intends to rely on the operating effectiveness of controls or procedures other than tests of controls cannot provide sufficient appropriate evidence (para 38R). This requirement applies to reasonable assurance engagements only.	Includes requirement to design and implement evidence-gathering activities to test the operating effectiveness of controls for verification engagements (para 6.1.3.6.2). Where deviations are identified, practitioners are required to assess the impact of the deviations on the ability to rely on controls and assess whether additional tests of controls are necessary and whether other types of evidence-gathering activities need to be applied.	No additional requirements proposed. In substance, we understand a similar approach is taken by assurance practitioners in relation to testing the design and operational effectiveness of controls over preparation of the GHG disclosures (i.e., controls are tested where they are operating effectively and able to be relied upon).
Communication responsibilities	Includes requirements to communicate deficiencies, identified misstatements, fraud and non-compliance with laws and regulations (NOCLAR). No requirement to communicate immaterial misstatements.	Includes requirements to communicate identified misstatements, fraud and NOCLAR. No requirement to communicate non-material misstatements. Refers to non-conformities rather than deficiencies however substance is the same.	No additional requirements proposed as no substantive differences identified.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066 ¹⁰)	How the exposure draft deals with this
Forming a conclusion	Similar approach taken.		No additional requirements proposed.
Assurance practitioner’s report	Both standards include specific requirements in relation to the assurance practitioner’s report. As outlined in section 8.4 above, there is likely to be some difference in the terminology used in the assurance practitioner’s reports, with ISO reports referring to “validation” and “verification” as well as “reasonable” and “limited” assurance.		The exposure draft layers additional reporting requirements on top of ISAE and ISO requirements where these are considered necessary to enhance the communicative value of the report. Illustrative wording has also been included.
Comparative Information	Includes specific requirements in relation to comparative information (para 62 and 63 and A118 – A123).	Includes requirements in relation to comparative information (changes in GHG emissions from prior period).	The exposure draft includes specific requirements in relation to comparative information and a requirement to include an “Other Matter” paragraph where the comparative information was not subject to assurance, which is particularly relevant on transition into this regime.
Other Information	Includes specific requirements in relation to other information (para 64 and A124 – A126).	No specific requirements in relation to other information. ISOs do have additional requirements relating to environmental claims made by the client.	The exposure draft includes specific requirements for the assurance practitioner to read other information included in documents containing the GHG disclosures to identify any material inconsistencies with the GHG disclosures. The assurance practitioner is not required to assure the other information.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066 ¹⁰)	How the exposure draft deals with this
Use of the work of others	Includes specific requirements in relation to reliance on the work of another assurance practitioner (for example to attend site visits), use of practitioner’s external experts (for example engineers and scientists) and use of management experts.	Requirements in relation to use of the work of another practitioner/experts are included in ISO 14066.	The exposure draft includes specific requirements in relation to using the work of others to ensure consistency in approach given the likelihood others may be asked to assist in undertaking these engagements.
Consideration of fraud	Includes specific requirements for fraud brainstorming sessions as part of the planning process and fraud enquiries with management and other informed parties (paras 28 and 29).	Section 5.4.3 includes a requirement to communicate any matters relating to intentional misstatements with the appropriate parties. ISO 14066 includes requirements to consider the appropriateness and sufficiency of audit evidence. However, no specific requirement to hold a fraud brainstorming session.	The exposure draft includes a requirement for the engagement team to consider the risk of management bias in relation to the GHG disclosures. This consideration is required to be documented and to cover the 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.
Written representations /responsibility of the reporting entity	Includes a requirement to request a written representation (para 58) and to disclaim the opinion or withdraw from the engagement if there is sufficient doubt about the integrity or reliability of the representation or such a representation is not provided.	Includes a requirement to include a statement that the responsible party is responsible for the preparation and fair presentation of the GHG statement in accordance with the criteria. No specific requirement for a written representation.	No specific requirement to request a written representation is included in the exposure draft. We consider that requesting a written representation should form part of the risk management processes of the assurance organisation and would expect that such representations are requested where there are concerns about the integrity or reliability of the GHG disclosures.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066 ¹⁰)	How the exposure draft deals with this
Ethical requirements	Requires compliance with a separate standard, PES 1, or ethical requirements at least as demanding as PES 1. Ethical requirements based on the fundamental principles sit in a separate standard (PES 1) although application material is included in relation to independence.	High-level ethical principles included in section 4 (impartiality, evidence-based approach, fair presentation, documentation and conservativeness). More detailed ethical requirements are included in ISO 14066.	<p>Specific ethical requirements included in the exposure draft. These include:</p> <ul style="list-style-type: none"> - Fundamental principles - Threats to compliance with the fundamental principles - Specific requirements and prohibitions relating to independence such as self-review, financial interests and holding a management responsibility. <p>FAQs have been developed to assist practitioners navigate to additional material in specific areas, such as long association provisions and specific conditions or relationships that may impact on the ability to be independent.</p>
Quality Management	High-level quality management requirements included in relation to quality control and engagement quality control review (EQCR). Additional quality management requirements sit in separate standards (PES 3 and PES 4).	Majority of quality management requirements sit in separate standards such as ISO 14065 ¹¹ . In addition, independent reviewer requirements are included in section 8 of ISO 14064-3. General principles and requirements for bodies validating and verifying environmental information	<p>Specific quality management requirements included in the exposure draft. These include requirements relating to:</p> <ul style="list-style-type: none"> - Engagement performance - Consultation - Independent review <p>The overall system of quality management as a whole</p>

¹¹General principles and requirements for bodies validating and verifying environmental information

Assurance Engagements over GHG Emissions Disclosures

Exposure Draft

Submissions close 24 March 2023

December 2022

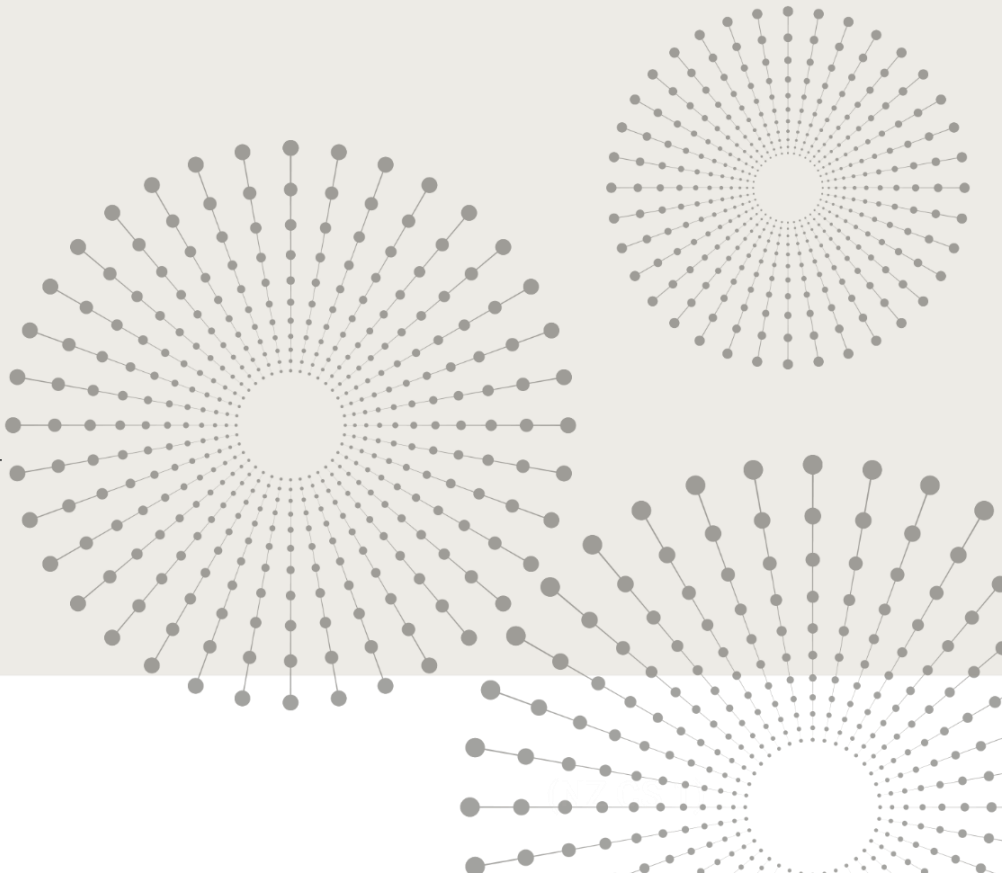


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NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

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 Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.
2. This standard does not set requirements, or provide guidance, for assurance engagements over the whole, or other parts, of the climate statements. (Ref: Para. A1)

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 Markets Conduct Act 2013.
 - (b) Assurance organisation: An organisation performing a GHG assurance engagement. An assurance organisation can be a sole assurance practitioner, partnership, company or other entity of assurance practitioners, or public sector equivalent.
 - (c) Assurance practitioner: The competent and independent individual performing the assurance engagement.
 - (d) Engagement leader: The assurance practitioner who takes overall responsibility for the assurance engagement, including the assurance report.
 - (e) Emphasis of matter: A paragraph in the assurance report that refers to disclosures in the climate statements, that in the assurance practitioner's judgement, are fundamental to users understanding of the information.
 - (f) 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.
 - (g) Key Matter: A matter which, in the assurance practitioner's professional judgement, was of most significance in the assurance engagement in the current period, is relevant to user's understanding of the assurance engagement and enhances the communicative value of the assurance report. (Ref: Para. A2-A4)
 - (h) Other Matter: A paragraph in the assurance report that refers to matters not disclosed in the climate statements relevant to users understanding of the assurance practitioner's responsibilities or the assurance report.
 - (i) System of quality management: A system to support the assurance organisation and demonstrate 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 >.

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. When conducting the assurance engagement required by the Financial Markets Conduct Act 2013, the assurance practitioner:
 - (a) Shall comply with either ISO 14064-3:2019 *Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* or ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements*. (Ref: Para. A5)
 - (b) Is not required to comply with PES 1¹ but shall comply with the ethical and independence requirements set out in paragraphs 7 to 17.
 - (c) Is not required to comply with PES 3² but shall comply with the quality management requirements set out in paragraphs 42 to 51.
 - (d) Is not required to comply with PES 4³ but shall comply with the independent reviewer requirements set out in paragraph 52 to 56.

Ethical Requirements

Fundamental Principles

7. 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. A6)
 - (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:

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

- (i) Attain and maintain knowledge and skills necessary to perform the GHG assurance engagement; and
- (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
 - (iii) Avoid any conduct that the assurance practitioner knows, or should know, might discredit GHG assurance practitioners.
- 8. Assurance organisations and assurance practitioners shall identify, evaluate and address threats to compliance with the fundamental principles. (Ref: Para. A7)
- 9. All threats to the fundamental principles shall be eliminated or reduced to an acceptable level. (Ref: Para. A8-A9)

Documentation

- 10. 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.

Independence Requirements

Conditions and Relationships

- 11. The assurance organisation and the assurance practitioner shall remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence. (Ref: Para. A10)

Self-review Threat Prohibition

- 12. The assurance organisation and the assurance practitioner shall not:
 - (a) Prepare the GHG information and then assure the GHG disclosures;
 - (b) Assure their own work; or
 - (c) Provide any other services to the assurance client that might possibly create a self-review threat in relation to the GHG disclosures on which the assurance practitioner will express an assurance conclusion. (Ref: Para. A11-A13)

Prohibition on Assuming Management Responsibilities

- 13. The assurance organisation and the assurance practitioner shall not assume a management responsibility for an assurance client. (Ref: Para. A14-A15)

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;
 - (b) An assurance practitioner; or
 - (c) An assurance practitioner's immediate family member. (Ref: Para. A16- A19)
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;
 - (b) An assurance practitioner; or
 - (c) An assurance practitioner's immediate family member where the assurance client is material to the entity. (Ref: Para. A16- A19)

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 reporting period covered by the GHG disclosures.

Competence

18. 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. A20 – A23)
19. An engagement leader shall be satisfied that the assurance team collectively has 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. A20-A23)

Reliance on the Work of Others

20. 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.
21. 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. A25)

Engagement Team Considerations

22. The engagement team shall consider the risk of management bias in relation to the GHG disclosures. This consideration shall be documented and updated throughout the engagement if new information comes to light. The consideration shall cover the 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.

Comparative Information

23. The assurance practitioner shall evaluate whether:
 - (a) The comparative information agrees with the disclosures presented in the prior period or, when appropriate, has been properly restated, if required by NZ CSs, and that restatement has been adequately disclosed; and
 - (b) The GHG methods and assumptions 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.
24. The assurance practitioner shall include an Other Matter paragraph in the assurance report identifying which GHG disclosure comparatives have not been subject to assurance, when appropriate.
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 this information.

Other Information

26. The assurance practitioner shall read other information included in documents containing the GHG disclosures to identify material inconsistencies, if any, with the GHG disclosures or the assurance report. If the assurance practitioner:
 - (a) Identifies a material inconsistency between the other information and the GHG disclosures or the assurance report; or
 - (a) Becomes aware of a material misstatement of fact in the other information that is unrelated to matters appearing in the GHG statement or the assurance report

the assurance practitioner shall discuss the matter with the assurance client and take further action as appropriate.

Independent Assurance Report

Identifying Information Subject to Assurance

27. 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.

28. 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 conclusion is expressed on it.

Form and Level of the Conclusion

29. The first section of the independent assurance report shall include the assurance practitioner's conclusion unless the applicable standards require otherwise. (Ref: Para. A26 – A27)
30. When some GHG disclosures are subject to reasonable assurance and others are subject to limited assurance, the assurance report shall clearly identify the GHG disclosures that are subject to each level of assurance and the related conclusion.

Key Matters

31. If the assurance practitioner identified key matters during the assurance engagement, a Key Matters section shall be included in the assurance report if in the assurance practitioner's professional judgement such reporting will enhance the communicate value of the assurance report. (Ref: Para. A2 - A4)
32. The Key Matter section shall:
 - (a) Be included under a separate heading "Key Matters"
 - (b) State that key matters are those matters that in the assurance practitioner's professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures;
 - (c) Include an explanation of why the matter is a key matter; and
 - (d) 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. The description of the findings shall not imply that a separate conclusion on the individual key matter was reached.

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 conclusion is not modified in respect of the matter emphasised.

Inherent Uncertainty in Preparing GHG Disclosures

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

Other Communication Responsibilities

Identification of Applicable Standards

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

Existence of Relationships with the Assurance Client or the GHG disclosures

38. 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.
39. 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.

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
 - (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.

Quality Management Requirements

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

Risk Assessment and Monitoring

43. 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 disclosures assurance engagements they perform.
44. 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).
45. 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.
46. 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; and
 - (b) Take appropriate action to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Documentation

47. 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 disclosures 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.

Engagement Performance

48. The assurance organisation shall establish 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.

Engagement Leader

49. 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.
50. 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; and
 - (ii) The acceptance and continuance of the client relationship and assurance engagement;
 - (b) Obtaining sufficient appropriate assurance evidence to be able to draw conclusions; and

- (c) The nature and scope of, and conclusions resulting from, consultations undertaken during the assurance engagement and how such conclusions were implemented.

Consultation

- 51. The assurance organisation shall establish policies and procedures to enable appropriate consultations on difficult or contentious matters, that include:
 - (a) Sufficient resources are available to enable appropriate consultation to take place;
 - (b) 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
 - (c) Conclusions resulting from consultations are implemented; or the reasons alternative courses of action from consultations were undertaken are documented.

Independent Review

- 52. 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, including compliance with the relevant standards;
 - (d) The basis for the engagement leader's determination that relevant ethical and independent requirements have been met;
 - (e) Significant matters and judgements made during the assurance engagement;
 - (f) Whether sufficient and appropriate evidence was obtained to support the assurance report;
 - (g) Whether the evidence obtained supports the conclusion proposed by the assurance team; and
 - (h) The GHG disclosures and assurance report.
- 53. The independent reviewer shall be competent and independent from the assurance client and the GHG disclosures.
- 54. The independent review shall be completed before the assurance report is issued.
- 55. The assurance team shall address concerns raised by the independent reviewer.
- 56. The results of the independent review shall be documented.

Application Material

Scope

- A1. The Act does not prevent the assurance engagement from covering the whole, or other parts of the climate statements.

Definitions

- A2. 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, any areas where there was significant estimation or inherent uncertainty involved, data quality issues, issues in obtaining the assurance evidence required or issues in determining the GHG reporting boundary.
- A3. When determining key matters, an assurance practitioner may consider areas that required significant attention during the engagement, for example due to:
- Complexity
 - Significant management judgment
 - Nature and severity of difficulties in applying assurance procedures
 - Consultations on difficult matters
 - Assessed risk of material misstatement.
- A4. A matter that results in a modified opinion is not communicated as a key matter. A key matter is not used if the assurance practitioner disclaims an opinion or conclusion.

Requirements

Applicable Assurance Standards

- A5. Assurance practitioners may also be required to comply with accreditation requirements or professional body requirements. Where this is the case, these requirements continue to apply.

Ethical Requirements

Independence

- A6. 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

- A7. 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

- A8. 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.
- A9. 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.

Independence Requirements

Conditions and Relationships

- A10. 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.
 - Serving as a director/trustee/officer of an assurance client.

Self-review Threat Prohibition

- A11. A service might possibly 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 assurance conclusion (e.g., measurement methods 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.

A12. A self-review threat might possibly be created when IT services are provided to an assurance client. Providing IT services might possibly 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.

A13. A self-review threat might possibly be created by services provided at the same time as an assurance engagement is performed or by services provided before the start of the assurance engagement period.

Prohibition on assuming management responsibilities

A14. 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.

A15. 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 methods and calculations relating to measurement of GHG emissions.

Financial Interest Prohibition

A16. A 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.

A17. 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.

A18. Examples of an indirect interest are:

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

A19. When determining whether an indirect 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

A20. 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.

A21. Skill and competence in assurance necessary to undertake an assurance engagement include:

- Risk assessment methodologies.
- Sampling techniques.
- GHG information systems and internal controls (how data is initiated, recorded, collated and reported in a GHG disclosures).

A22. Skills and competence in GHG emissions are gained through significant experience in measuring, analysing, reporting and/or attesting GHG emissions.

A23. Skills and competence in GHG emissions necessary to undertake an assurance engagement include:

- General understanding of climate science.
- GHG quantification methods, including associated scientific and estimation uncertainties relevant to the assurance client's sector.
- GHG reporting principles and methods.
- GHG monitoring techniques and calibration procedures and their consequences for data quality (relevant for the assurance client's sector).
- Understanding of laws and regulations that affect how the assurance client reports its emissions.

A24. 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

A25. 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.

Independent Assurance Report

Form and Level of the Conclusion

A26. An example of how an unmodified 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 (on pages [x] to [y] of the climate statements) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZ CSs) and [*measurement criteria such as Greenhouse Gas Protocol Corporate Standard*]”.

Or

“Based on our examination of the evidence, nothing comes to our attention which causes us to believe that the assumptions (disclosed on pages [x] to [y] of the climate statements), do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with [*measurement criteria such as Greenhouse Gas Protocol Corporate Standard*].

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.”

Or

“Based on the evidence we have obtained, we have not found any evidence to indicate that the assumptions, methods and limitations (disclosed on pages [x] to [y] of the climate statements), used to develop forecasts and projections, do not provide a reasonable basis for the forecast”.

A27. An example of how an unmodified conclusion may be expressed for reasonable assurance is as follows:

“In our opinion, the GHG disclosures (on pages [x] to [y] of the climate statements) for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards NZ CSs) and [*measurement criteria such as Greenhouse Gas Protocol Corporate Standard*]”.

DRAFT

Appendix: Illustrative Limited 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. We have not performed any procedures with respect to the excluded information and, therefore, no conclusion is expressed on it.

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 [measurement criteria such as *Greenhouse Gas Protocol Corporate Standard*].

{Some reports might express a limited assurance conclusion on parts of the GHG disclosures as follows:

“Based on our examination of the evidence, nothing comes to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with XYZ’s climate change regulations.

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.”}

{If some GHG disclosures are subject to reasonable assurance and others are subject to limited assurance, the assurance report shall clearly identify the GHG disclosures that are subject to each level of assurance and the related conclusion}.

Key Matters

In this section we present those matters 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.

{Include an explanation of why the matter is a key matter and outline what the assurance practitioner has done to address the matter. }

Emphasis of Matter (where applicable)

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

Comparative Information (where applicable, especially on transition to mandatory assurance)

[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 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 retains overall responsibility 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. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation of GHG disclosures that are free from material misstatement.

{As discussed on page x of the climate statement}⁴ GHG quantification is subject to inherent uncertainty [because of incomplete scientific knowledge used to determine emissions factors, the values needed to combine emissions of different gases and the level of estimation uncertainty.]

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, {ISAE (NZ) 3410 or ISO 14064-3} and {state which assurance standard and/or professional and ethical standards or accreditation body requirements were applied, e.g., NZICA Code of Ethics, ISO 14065, ISO 14066, ISO 17029}.

⁴ Where there is no discussion of the inherent uncertainty in the climate statements, this should be deleted.

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]

FAQs

The standard

Why does the proposed standard only have a limited life?

The climate reporting standards we issued in December 2022 are yet to be applied and international assurance requirements for sustainability assurance engagements (including climate reporting) are still under development. It is also possible that the scope of mandatory assurance in New Zealand may extend beyond the GHG disclosures to the full climate statement. In addition, an assurance licensing and oversight regime is currently being developed.

We are acutely aware of the rapidly changing environment and are closely monitoring developments – in particular, the anticipated change in the scope of assurance, and the yet to be confirmed oversight and licensing regime.

Our solution to this ‘environment of unknowns’ is to create a temporary, narrow-scope standard, which applies only to the current mandatory assurance engagement requirements of the Act. The proposed standard is intended to fill a gap, until we know more about the scope of assurance, the oversight regime and whether the developing international standards will be locally relevant for our regime.

What is the status of the application material in proposed NZ SAE 1?

Application material is placed directly after the requirements section in the standard. Application material provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist assurance practitioners.

While the application material does not impose a requirement, consideration of the material is necessary for the proper application of the requirements of the standard.

Where application material includes lists of examples, these lists are not intended to be exhaustive.

Who can undertake these engagements

Who can undertake a GHG assurance engagement?

The Financial Markets Conduct Act (the Act), as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Amendment Act) does not outline who can undertake a GHG assurance engagement. However, section 461ZH (2) of the Amendment Act outlines who **cannot** undertake such an engagement.

Currently, MBIE and MfE are jointly consulting on:

- Whether occupational licensing for assurance practitioners should be introduced and, if so, what form that licensing should take; and
- Whether the assurance requirement should be expanded to cover the whole climate statement.

[\[Include a link to this document when it is available\].](#)

Scope of the engagement

What is required to be assured currently?

Under the Act, a climate reporting entity's GHG disclosures, prepared in accordance with Aotearoa New Zealand Climate Standards ('NZ CS'), are required to be subject to an assurance engagement.

What happens if assurance is provided over parts of the climate statements that are not required by the Act?

While the Act establishes a narrow scope for the mandatory assurance engagement, we understand that some entities may voluntarily seek assurance over other parts of the climate statement.

Section 461ZH C of the Act requires that the assurance report separately identify the information that has been required under the Act to be assured. It states:

If an assurance engagement does cover the whole, or other parts, of the statements,—

(a) the assurance practitioner's report must separately identify the matters that are required to be the subject of the assurance engagement under section 461ZH; and

(b) this subpart applies, with any necessary modifications, in relation to the whole of the assurance engagement.

The XRB has existing assurance standards that apply to such engagements, such as ISAE (NZ) 3000 (Revised). In 2021, we published the IAASB's comprehensive guidance to support application of ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements along with a navigation tool to help users navigate the relevant chapters and illustrative examples.

When engaged to assure the GHG emissions disclosures, what are assurance practitioners' responsibilities in relation to the other parts of the climate statement?

Under the Act, an assurance engagement is required to be undertaken in relation to the parts of a Climate Reporting Entity's climate statements that relate to greenhouse gas emissions. GHG emissions disclosures form part of the climate statements. Climate statements might, in turn, be included within other documents, for example the annual report.

Assurance practitioners are required by paragraph 26 of the proposed standard to read other information in documents containing the GHG emissions to identify if there are any material inconsistencies, that might undermine the credibility of the assurance report or undermine the credibility of the information. Inconsistencies might also indicate that there is a material misstatement in the GHG emissions disclosures.

Inconsistencies identified in the other information need to be discussed with management. Depending on the result of the discussion, assurance practitioners consider what actions are necessary in the circumstances.

Paragraphs 64 and A124-A126 of ISAE (NZ) 3410 and ISA (NZ) 720 deal with other information and might be useful for assurance practitioners when considering what further actions to take if inconsistencies are identified in the other information.

Ethics and independence

Do professional body requirements and accreditation requirements still apply?

Yes.

The Act requires assurance practitioners to comply with applicable assurance standards issued by the XRB. While the XRB has a number of standards that might apply, we have also explored what other international standards could usefully inform our approach for this regime.

The exposure draft proposes to deactivate Professional and Ethical Standard (PES) 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*, PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and PES 4 *Engagement Quality Reviews*. These standards are required to be deactivated so that all practitioners are not required, under the Act, to comply with them. Relevant ethical and quality management requirements have been included in NZ SAE 1.

However, we recognise that assurance practitioners may be required to comply with their own professional or accreditation bodies' requirements and therefore propose that the assurance practitioner identify which standards they have applied in the assurance report. For example:

- CA ANZ requires their members to comply with the NZICA Code of Ethics and PS-1 *Quality Control*
- JAS-ANZ accreditation might require compliance with additional ISO standards such as:
 - ISO 14065:2020 *General principles and requirements for bodies validating and verifying environmental information*
 - ISO 14066:2011 *Greenhouse gases — Competence requirements for greenhouse gas validation teams and verification teams*
 - ISO/IEC 17029:2019 *Conformity assessment — General principles and requirements for validation and verification bodies*.

What are the requirements in relation to professional competence and due care?

Paragraphs 18 and 19 of proposed NZ SAE 1 requires the engagement leader to have sufficient competence in both assurance skills and techniques and in the measurement and reporting of GHG emissions.

Further guidance on competency requirements that practitioners may find helpful can be found in paragraphs A18 and A19 of [ISAE \(NZ\) 3410](#) and ISO 14066 *Competence requirements for GHG validation teams and verification teams*.

Assurance practitioners may also be required to follow competency requirements set by their professional or accreditation bodies.

What conditions or relationships might impact on the independence of the assurance practitioner?

Paragraph 11 of proposed NZ SAE 1 requires assurance practitioners and assurance organisations to remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence.

Conditions and relationships might impair the independence of an assurance practitioner or an assurance organisation, especially in the New Zealand market, which is relatively small.

Such conditions or relationships might include:

- Personal relationships, such as a close family member holding a senior role within the climate reporting entity.

- Professional relationships, such as prior employment with the climate reporting entity
- Financial relationships, such as direct investment in a climate reporting entity.
- Business relationships, such as distribution or marketing arrangements with a climate reporting entity.
- Temporary personnel assignments, such as loan of assurance organisation personnel to a climate reporting entity.

Sections 400- 800 of [PES 1](#) describe circumstances and conditions that might create threats to independence in the context of audits of financial statements, and provide examples of safeguards that might be applied to reduce these threats. Assurance practitioners may find these examples helpful to identify, evaluate and address threats to independence in the context of the GHG assurance engagement.

ISO standards (17029:2019 and 14065:2020) include considerations regarding providing consultancy services and specify period when assurance services cannot be provided if the assurance practitioner provided consulting services.

How should the familiarity threat (due to the assurance practitioner having a long association with the assurance client) be addressed?

The assurance organisation, the engagement leader, the independent reviewer and senior personnel on the assurance team are required to address familiarity threats that arise due to an individual’s long association with an assurance client. The assurance organisation might develop their own policies to address familiarity threats. Such policies might address the period of service before rotation is required (i.e., ‘time-on’) as well as how long any stand down period (i.e., ‘cooling off’ period).

[PES 1](#), Section 540 includes requirements for rotation periods that may be useful to consider for the engagement leader and for independent reviewer. Additionally, PES 1, Section 325 addresses the objectivity of an independent reviewer.

Some organisations may have their own rotation policies based on these or other requirements which they also apply to GHG assurance engagements.

How should I apply the “might possibly create a self-review threat” requirement in paragraph 12© to determine what other services I can provide?

The phrase “might possibly create a self-review threat” sets a very high bar. It means that an assurance practitioner needs to consider whether there is any possibility that a self-review threat may be created. If there is even a slight chance (i.e. 1%), that the service might create a self-review threat, the service should not be provided.

Self-review threats to independence may arise in either fact or appearance. Assurance practitioners should maintain a state of mind that is free from bias and they should also be seen to be independent to an impartial observer. Before providing a service to a climate reporting entity, an assurance practitioner needs to consider whether a reasonable and informed third party (i.e., someone who has appropriate knowledge and experience to understand the relevant facts) would conclude that the service could not possibly create a self-review threat to independence.

Paragraph A10 in the Application Material of proposed NZ SAE 1 includes two considerations that need to be assessed in relation to any services before they are provided to CRE. These are:

(a) The assurance practitioner needs to use professional judgement to assess if there is any risk that the service will impact or make a difference to the GHG records, the internal controls over GHG emissions or GHG disclosures. If the risk exists, then the service is prohibited under proposed NZ SAE 1; and

(b) The assurance practitioner needs to assess if there is any risk that the service will result in any judgements or activities that will be later evaluated during the GHG assurance engagement. The judgements and activities might arise from use of tools or IT solutions designed by the assurance organisation. If the risk exists, the service is prohibited under NZ SAE 1.

Assurance organisations might wish to put in place policies and procedures to help consistent application of the self-review threat prohibition.

Comparatives

What happens in the first year of assurance?

Climate reporting entities will prepare their first climate statements in accordance with New Zealand Climate Standards for accounting periods that start on or after 1 January 2023.

Assurance over GHG emissions disclosures is required for financial years ending 27 October 2024 onwards (i.e., three years after the Act received Royal Assent).

Unless a climate reporting entity has voluntarily obtained assurance over its GHG emission disclosures, the comparative information included in the first climate statements over which GHG emissions assurance is provided is unlikely to have been assured.

In this instance, we would expect that the climate statements state that the comparative GHG emissions disclosures are ‘not assured’ by including a heading over the comparative information column.

The assurance practitioner, as required in para 25 of proposed NZ SAE 1, would include an “Other Matter” paragraph in the assurance report advising users that the comparative information has not been assured.

The assurance report

Will the assurance report look the same regardless of which assurance standard is used?

It should look similar. Proposed NZ SAE 1 requires compliance with one of two international assurance standards:

- International Standard on Assurance Engagements (ISAE 3410) *Assurance Engagements on Greenhouse Gas Statements*; or
- International Organization for Standardisation (ISO) *Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements (issued 2019) 14064-3*.

Although assurance engagements undertaken in accordance with these standards include the same, or substantively similar, procedures, there will be some differences in the way the assurance opinion or conclusions is expressed in the assurance report. This is due to the different reporting requirements of these standards, in particular the use of the terms “validation” and “verification” in ISO 14064-3. It is

worth noting that these differences already exist in respect of GHG assurance engagements currently being undertaken in New Zealand.

All assurance reports will state whether reasonable or limited assurance was obtained. However, assurance engagements undertaken in accordance with ISO 14064-3 may also state whether a validation or verification engagement was undertaken. Verification provides either limited or reasonable assurance based on historical information. Validation provides only limited assurance over the key assumptions, methods and limitations used to prepare projected or forecast information.

In cases when the assurance practitioner obtains limited assurance over GHG disclosures and reasonable assurance over the remaining GHG disclosures, the assurance report should separately identified each part to inform the readers which level of assurance relates to which disclosure.

Assurance reports issued under ISO 14064-3 may include separately identified limited or reasonable assurance over historical information (referred to as “verification”) and limited assurance over future-oriented information (referred to as “validation”).

What is the difference between Key Matter, Emphasis of Matter and Other Matter paragraphs in the assurance report?

A Key Matter is a matter which, in the assurance practitioner’s professional judgement, was of most significance in the assurance engagement in the current period and is relevant to user’s understanding of the assurance engagement. A Key Matter enhances the communicative value of the assurance report.

An Emphasis of Matter paragraph refers to a matter appropriately disclosed in the climate statements that, in the assurance practitioner’s judgement, is of such importance that it is fundamental to users’ understanding of the GHG emissions disclosures.

An Other Matter paragraph refers to a matter other than those disclosed in the climate statements that, in the assurance practitioner’s judgement, is relevant to users’ understanding of the assurance engagement, the assurance practitioner’s responsibilities or the assurance practitioner’s report.

If a matter meets the definition of Key Matter and the definition of Emphasis of Matter or Other Matter, it should be communicated in the assurance report as a Key Matter only.

Materiality

How should I determine materiality for the purposes of the GHG disclosures?

There are a number of different considerations that should be factored in when determining materiality for GHG disclosures. Aotearoa New Zealand Climate Standard 3 includes guidance on what some of these considerations may be.

A percentage is often applied to a chosen benchmark as a starting point in determining materiality. It is important to note that different materiality levels may be appropriate for Scope 1, 2 and 3 emissions disclosures, given the significant difference in emissions volumes. In addition, different materiality factors should be considered for quantitative and qualitative disclosures included within the GHG disclosures.

Quality management

Where can I find more guidance on independent review requirements?

[PES 4 Engagement Quality Reviews](#) and section 8 of ISO 14064-3 provide further guidance on expectations related to independent review requirements (i.e., a second partner review of the key matters and judgements made in the assurance engagement).

How can I undertake consultations and independent review if we don't have anyone internally to perform these roles?

In some circumstances, for example in the case of a smaller assurance organisation or a sole practitioner, there may not be an individual in the assurance organisation who is eligible to perform the independent review or to consult with. In these circumstances, the assurance organisation may need to obtain the services of individuals external to the assurance organisation to perform an independent review or to provide the necessary consultation. The assurance organisation needs to establish relevant policies and procedures for these services. An assurance organisation may take advantage of advisory services provided by other assurance organisations, professional or regulatory bodies; or commercial organisations that provide relevant quality control services. Before contracting such services, it is important to consider the competence and capabilities of the external provider to determine whether they are suitably qualified to provide the service.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	1 December 2022
Subject:	IAASB ED: ISA 500 (Revised) <i>Audit Evidence</i>
Date:	15 November 2022
Prepared By:	Bruce Mcniven

 Action Required **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is to:
 - inform the Board about key areas of the IAASB’s Exposure Draft (ED) on ISA 500 (Revised) *Audit Evidence* (ED-500) and related conforming amendments;
 - request initial reactions on ED-500 especially on the three questions raised below; and
 - provide an update on our outreach plan.

Background

2. On 24 October 2022, the IAASB issued an ED on ISA 500 (Revised) *Audit Evidence*. The IAASB comment period closes 24 April 2023.
3. The ED has been published on the [XR](#)B website. We requested comments be submitted to us by 15 March 2023. We will provide an update to the Board in our February 2023 board meeting. A formal response to IAASB will be drafted for approval at the April 2023 Board meeting.
4. In revising this standard, the IAASB aims to address the following major issues:
 - Clarify the purpose of ISA 500 and how it relates to the other ISAs.
 - Sources of Information –the relevance and reliability of information used as audit evidence, and evaluating audit evidence obtained.
 - Recognise the use of technology, both in the context of:
 - An entity’s use of technology in preparing the financial statements and in generating other underlying information; and
 - The auditor’s use of technology in performing audit procedures.
 - Emphasise the auditor’s responsibility to exercise professional scepticism.
5. The ED-500 also proposes conforming amendments to various ISAs.

Planned engagement activities

6. Our planned engagement activities include:
 - A short introductory video accompanying our request for comment. This video will cover topics similar to the attached slides. (December 2022); and
 - Virtual feedback forum with interested parties. (March 2023)
7. We plan to target our engagement activities to include practitioners from large, mid-tier and small firms, public sector stakeholders (such as DIA Charities Services, OAG, MBIE), and audit regulators (CAANZ, CPA Australia, FMA).
8. We are liaising with AUASB staff and will monitor their consultation process to inform our response as well.

Action requested

9. The Board is asked to provide views on our outreach plan and any initial reactions on ED-500, in particular on the following three questions explored in the attached slides:
 - Do you have any thoughts on the revised definition of audit evidence?
 - Do you have any thoughts on requiring the auditor to evaluate rather than consider the relevance and reliability of information?
 - Do we need another stand-back requirement? Could the ED-500 requirement just be moved into ISA 330?

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Overview of Exposure Draft (slides)

Supplementary papers

Agenda item 4.3	IAASB Exposure Draft document
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Agenda item 4.2

ISA 500 (Revised) *Audit Evidence*




Overview of Exposure Draft



1

Key issues addressed by the ED

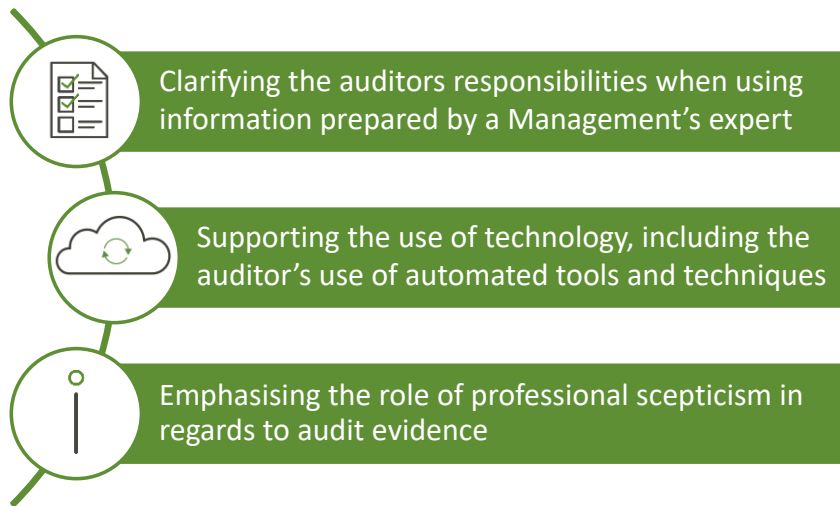


-  Clarifying the scope of the standard and explaining its relationship with other standards
-  Revising the definition of audit evidence
-  Introducing a “stand-back” paragraph to evaluate audit evidence

2

2

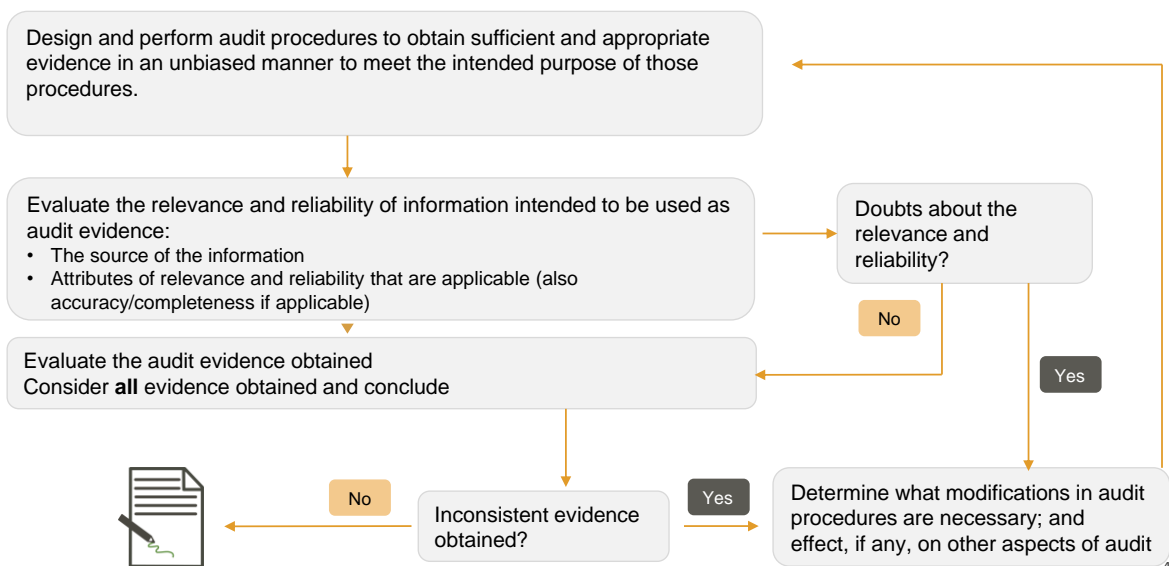
Key issues addressed by the ED



3

3

Overview of the proposed standard



4

4

Revised definition of Audit evidence



Per Current ISA (NZ) 500:
 Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.



Per ED-500:
 Audit evidence – Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor’s opinion and report.



Do you have any thoughts on the revised definition of audit evidence?


A34. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in audit evidence to support the conclusions that form the basis for the auditor’s opinion and report. However, such **information can become audit evidence only after audit procedures are applied to it**, including evaluating its relevance and reliability. For purposes of this ISA, this information is referred to as “information intended to be used as audit evidence.”

5

5

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence



Audit Evidence 
 Input → Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for
 Output → the auditor’s opinion and report.

Sufficiency = the measure of the **quantity** of audit evidence in providing support for conclusions

Appropriateness = measure of **quality** of audit evidence in providing support for conclusions



Relevance
 Logical connection with the purpose of audit procedure and information

Reliability
 Accuracy
 Completeness
 Authenticity
 Bias
 Credibility

Effectiveness of design of audit procedures and application



Persuasiveness

6

6

Relevance and reliability of information

7. When designing and performing audit procedures, the auditor shall **consider** the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source.



9. The auditor shall **evaluate** the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider:

- (a) The source of the information; and
- (b) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures.



Do you have any thoughts on requiring the auditor to *evaluate* rather than *consider* the relevance and reliability of information?

7

7

Stand-back

- Paragraph 13 of ED-500 introduces a “stand back” requirement

Evaluating the Audit Evidence Obtained

13. As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330, ⁶ the auditor shall: (Ref. Para. A84–A88)
 - (a) Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures; and
 - (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.
14. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall: (Ref. Para. A89–A93)
 - (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
 - (b) Consider the effect, if any, on other aspects of the audit.



The IAASB noted that this evaluation is intended to be performed at the same level as the auditor’s conclusion on whether sufficient appropriate audit evidence has been obtained in accordance with paragraph 26 of ISA 330



8

8

Stand-back



- A stand-back requirement is already in
- ISA (NZ) 700 (Revised)
 11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
 - (a) The auditor's conclusion, in accordance with ISA (NZ) 330, whether sufficient appropriate audit evidence has been obtained;¹¹
- And ISA (NZ) 330

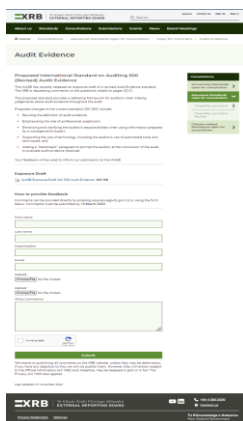
Evaluating the Sufficiency and Appropriateness of Audit Evidence

25. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate. (Ref: Para. A62-63)
26. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A64)
27. If the auditor has not obtained sufficient appropriate audit evidence related a relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.



Do we need another stand-back requirement?
Could the ED-500 requirement just be moved into ISA 330?

Project timeline




Our planned engagement activities include:

- A short introductory video accompanying our request for comment (December 2022); and
- Virtual feedback forums (Mar 2023)




END

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	1 December 2022
Subject:	Service Performance Information Exposure Draft
Date:	15 November 2022
Prepared By:	Lisa Thomas, Bruce Mcniven, Misha Pieters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the Board to:
 - I. APPROVE the draft consultation document to accompany the exposure draft.
 - II. APPROVE the exposure draft of NZ AS 1 (Revised) *The Audit of Service Performance Information*.
 - III. NOTE the plan to engage with stakeholders on the proposals.

Background

2. The advisory group¹ formed to address concerns by the Auditor-General regarding the suitability of NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1) for the public sector has been meeting monthly since December 2021. Over this period the advisory group has meticulously considered a number of key areas, given these areas significant thought and robust debate, and then spent time to perform a detailed review of the full proposed revised standard.
3. Staff would like to take this opportunity to thank the advisory group for all their work and commitment to the project during the year.
4. Some of the more significant areas considered over the past year, and of which we have previously updated the NZAuASB, include:
 - The scope of the audit and its connection to general purpose financial reports;
 - A holistic approach, expanding on the application of the ISAs (NZ) to SPI;
 - The two-step audit approach
 - Emphasis on professional judgement
 - The layers of service performance information
 - The qualitative characteristics
 - How to exercise professional judgement to assess what is appropriate and meaningful

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).

- Materiality
 - Disclosure and availability of the measurement bases and evaluation methods
5. The proposed revised standard has focused on being sector neutral, containing less technical terms, and alignment with the financial reporting framework.

Matters to Consider

6. Key features of proposed NZ AS 1 (Revised) are outlined in the draft consultation document at Agenda 5.2 and include:
- Alignment with the financial reporting standards
 - Sector specific material
 - Simplified language and examples to assist
 - No added compliance costs
7. The proposed effective date for NZ AS 1 (Revised) is for periods beginning on or after 1 January 2024 to allow sufficient time for consultation, issue and preparation to implement the revised standard. Extant NZ AS 1 is effective for periods beginning on or after 1 January 2023. Therefore, as part of the consultation, we seek views on a proposal to defer the mandatory adoption of NZ AS 1 for 12 months to align with the effective date of proposed NZ AS 1 (Revised).

Planned engagement

8. Subject to NZAuASB approval, we propose a 90-day consultation period closing on 17 March 2023. A pre-recorded walk through of the key features of the proposals is planned be released early in the new year, followed by a virtual feedback session on 23 February 2023 to seek feedback. We may plan for a specific feedback session especially focussed on the public sector.

Recommendations

9. We recommend that the Board:
- I. APPROVE the draft consultation document
 - II. APPROVE the exposure draft

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Draft Consultation document
Agenda item 5.3	Exposure draft of proposed NZ AS 1 (Revised)

Audit of Service Performance Information

Proposed Improvements to NZ AS 1

Consultation document

December 2022

Consultation closes: 17 March 2023





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PART ONE: **Introduction**



What are we consulting on?

For accounting periods commencing on or after 1 January 2022, most public benefit entities in tiers 1 and 2 will be required to report service performance information about why they exist and what they intend to achieve over the medium to long term.

Service performance information is now a requirement in New Zealand for public benefit entities in all reporting tiers, across tiers 1 to 4. For some entities, service performance information and financial statements together will require an audit. The audit of service performance information is an essential part of ensuring that the information presents an appropriate and meaningful assessment of the entity's service performance.

Auditing of service performance information is not new in New Zealand and has been a requirement in the public sector for many years using the Auditor-General's standard, AG 4 *The Audit of Performance Reports*, for public sector audits.

In February 2019, we issued NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1) but deferred the effective date of NZ AS 1 to 1 January 2023 to explore how the standard could be applied by the public sector. Over the past year, we have worked with representatives from the Office of the Auditor-General to develop a standard that could easily be adopted and applied in the Public Sector. Our exposure draft proposing to revise NZ AS 1 is the result of that review.

Our proposed changes offer a simplified NZ AS 1, with a greater use of plain English and reduced use of overly technical terms. We believe this will make it easier to use and enhance application in the public sector. We also propose to include sector specific application material to ensure the standard will work for both the public and the not-for-profit sectors.

We also see value in ensuring that accounting and auditing standards work together. With recent changes proposed in some financial reporting standards, our revised auditing standard aligns language between the auditing standard and the applicable financial reporting standards across the reporting tiers.

We believe these changes will result in a standard that is easier to understand and apply, without increasing compliance costs.

We hope you agree and welcome your feedback.



2.

How can you contribute?

Submissions on this consultation can be provided via any of the avenues below:

- On our 'Open for Comment' page at <https://xrb.govt.nz/assurance-standards/standards-in-development/open-for-comment/>
- Asking questions and providing comments at our virtual event on 23 February 2023
- Emailing us: assurance@xrb.govt.nz
- Sending a letter to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142

The consultation closes on **17 March 2023**

Timeline

○ **December 2022**

Standard exposed

○ **March 2023**

Submissions close

○ **1 January 2024**

Standard effective

Responding to consultation questions

We are seeking comments on the questions raised in this consultation document. We will consider all comments received before finalising the standard.

Please feel free to comment on any or all of the questions on the proposed standard.

We appreciate both formal and informal comments, whether supportive or critical, as both supportive and critical comments are essential for us to reach a balanced view.

We will put all written submissions on our website unless advised otherwise, and we reserve the right not to publish defamatory submissions.



PART TWO: **Overview of the Proposed Standard**



3.

Key Issues for Feedback

3.1 Alignment with the financial reporting standards

The accounting and auditing standards need to work together to ensure the system works efficiently and effectively. With recent changes proposed to the Tier 3 Not for Profit and Public Sector requirements, we propose to align the language in the auditing standard more closely with the reporting requirements.

For example, the proposed standard uses the term “appropriate and meaningful”. This term was chosen because it is used and described in the financial reporting requirements.

This requirement and related application material are at paragraphs 26, A36-A45.

Do you agree that the proposed standard strengthens the alignment between the auditing and financial reporting standards? If not, why not and what further changes do you recommend?

3.2 Sector specific material

A key objective in revising NZ AS 1, is to ensure that it is fit for purpose for both the public sector and the not-for-profit sector. We are however mindful that there are differences, especially statutory differences between the public sector and the not-for-profit sectors.

Where possible requirements and application guidance have been drafted to apply to service performance information in both the public and not for profit sectors i.e., the exposure draft is principled based and framework neutral, so as to be fit for purpose for audits for entities in all tiers where there is a statutory audit requirement.

To ensure that the standard is fit for purpose for both sectors, we propose to include sector specific paragraphs, using appropriate headings. For example:

Public sector:

- Examples of statutory requirements for public entities. Refer to paragraphs A20-A21.
- Many public sector entities are required to publish forecast service performance information. The service performance information that is reported is largely determined by the forecast service performance information. Refer to paragraph A29.

Not-for-profit sector:

- Some charities do not have statutory audit requirements. Application material is proposed to clarify the scope of the audit. Refer to paragraphs A15-A16.

The Auditor-General issues the auditing standards for the public sector and may add further additional material.

Do you agree that the sector specific material is useful to ensure that the standard is fit for purpose in both the public and not-for-profit sectors?



3.3 Simplified language and examples to assist

We propose to simplify NZ AS 1, to move away from overly technical terms and adopt a plain English approach, where possible, without departing from the auditing principles as this standard is part of the suite of auditing standards.

For example, extant NZ AS 1 uses the term *service performance criteria*. This term was creating confusion, so we are proposing to replace it with less technical language and have included an example to illustrate what we mean. Instead of requiring the auditor to “evaluate whether the service performance criteria are suitable”, we propose that the auditor assess whether the service performance information is appropriate and meaningful, thinking about the following three layers:

- Aspects/elements of service performance e.g., provide safe drinking water to stakeholders.
- Performance measures or descriptions e.g., 100% of water supplied is safe.
- Measurement basis or evaluation method e.g., Drinking Water Standards for New Zealand.

We also propose a number of questions in application material that the auditor may find helpful in exercising their professional judgement as to whether the service performance information is appropriate and meaningful at paragraphs A36-A45.

Materiality is an area where an auditor exercises significant professional judgement. An example of where the proposed standard uses simplified language with examples, is to support the auditor when exercising professional judgements relating to materiality. The proposed standard requires the auditor at paragraphs 28-30 to:

- Understand the entity to determine the significant elements/aspects of service performance.
- Determine and document materiality considerations to determine both the nature, timing and extent of further audit procedures and the auditor’s tolerance for misstatement.
- Apply materiality to assess with the service performance information is appropriate and meaningful and whether the information includes individual or collective misstatements that based on the information will likely influence users’ decisions.

Do you agree that the proposed revised standard is easier to understand? If not, please be as specific as you can and make suggestions as to what might assist to clarify the standard further.



3.4 No added compliance costs

The legal definition of financial statements includes both the financial and service performance information. Some entities are required by law to have their financial report, inclusive of both the financial and service performance information audited.

Proposed NZ AS 1 (Revised) remains part of the auditing standards suite in New Zealand. Just like extant NZ AS 1, the proposed revised standard requires that the auditor apply the ISAs (NZ) and the proposed standard when auditing service performance information. The proposed standard retains the same approach as extant NZ AS 1, building on the requirements of the ISAs (NZ) specific to service performance information. The audit of the financial and service performance information should be performed concurrently.

NZ AS 1 (Revised) adopts the same two step process as extant NZ AS 1. This two step approach, described in proposed paragraph 8, informed the development of the exposure draft. The two steps are:

1.

Assess whether the service performance information is appropriate and meaningful in accordance with the applicable financial reporting framework.

2.

Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.

The proposed revised standard retains the same key areas: agreeing the terms of the engagement, obtaining an understanding, planning, materiality, identifying, assessing and responding to risk, audit evidence, communication with those charged with governance, and reporting.

We have included a flowchart in appendix 1 of the proposed revised standard to provide an overview of the audit of service performance information. A similar flowchart exists in NZ AS 1. We consider that the proposed revisions will not substantively change the flow of the audit, the work effort required to meet its requirements and therefore do not consider that the proposals will increase compliance costs.

Do you agree that the proposed revised standard will not increase compliance costs, when compared to existing NZ AS 1?



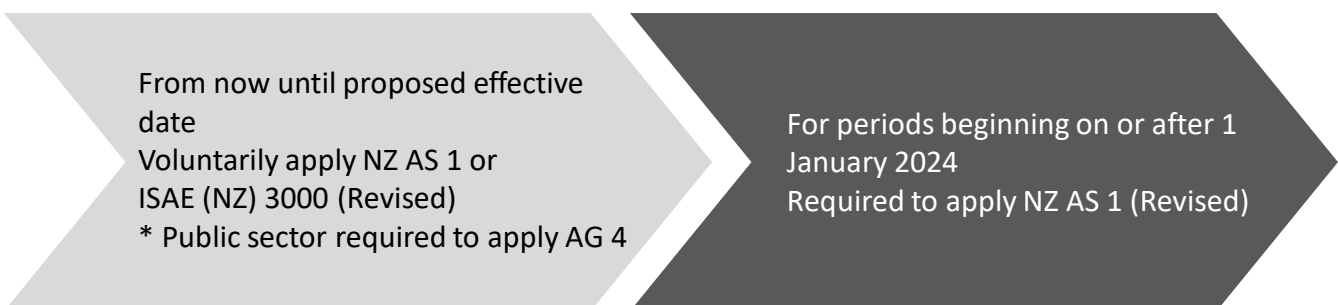
3.5 Effective date

We propose that NZ AS 1 (Revised) is effective for audits of service performance information for periods beginning on or after 1 January 2024. We consider that this will allow sufficient time for consultation, issue and preparation to implement the revised standard.

Extant NZ AS 1 is effective for periods beginning on or after 1 January 2023. As part of this consultation, we propose to defer the mandatory adoption of extant NZ AS 1 for 12 months, to align with the effective date of NZ AS 1 (Revised). This will align first time mandatory adoption with the proposed effective date of NZ AS 1 (Revised).

We understand that some auditors have already started to apply NZ AS 1. Auditors are permitted to apply NZ AS 1 early on a voluntary basis but are not required to do so.

Alternatively, until such time as proposed NZ AS 1 (Revised) comes into effect, the audit should be conducted in accordance with ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* or if your client is a public sector entity, the audit is required to be undertaken by the Auditor-General's standards, i.e., AG 4 *The Audit of Performance Reports*.



Do you agree with the proposed effective date of NZ AS 1 (Revised)?

Do you agree with the proposal to defer the effective date of extant NZ AS 1, for 12 months to align with the effective date of NZ AS 1 (Revised) i.e., for periods beginning on or after 1 January 2024?

3.6 Other comments

We have outlined the key areas where we seek your feedback but welcome feedback on any other aspects addressed in the exposure draft or if you consider there are aspects that we have missed.

Do you have any other comments on the proposed standard? If so, please specify.



PART THREE: **Consultation Questions**



Consultation Questions

Respondents are asked to consider the following specific questions and to respond to the XRB by 17 March 2023:

Alignment with the financial reporting standards

Question 1. Do you agree that the proposed standard strengthens the alignment between the auditing and financial reporting standards? If not, why not and what further changes do you recommend?

Sector specific material

Question 2. Do you agree that the sector specific material is useful to ensure that the standard is fit for purpose in both the public and not-for-profit sectors?

Simplified language and examples to assist

Question 3. Do you agree that the proposed revised standard is easier to understand? If not, please be as specific as you can and make suggestions as to what might assist to clarify the standard further.

No added compliance costs

Question 3. Do you agree that the proposed revised standard will not increase compliance costs, when compared to existing NZ AS 1?

Effective Date

Question 4. Do you agree with the proposed effective date of NZ AS 1 (Revised)?

Question 5: Do you agree with the proposal to defer the effective date of extant NZ AS 1, for 12 months to align with the effective date of NZ AS 1 (Revised) i.e., for periods beginning on or after 1 January 2024?

Other comments

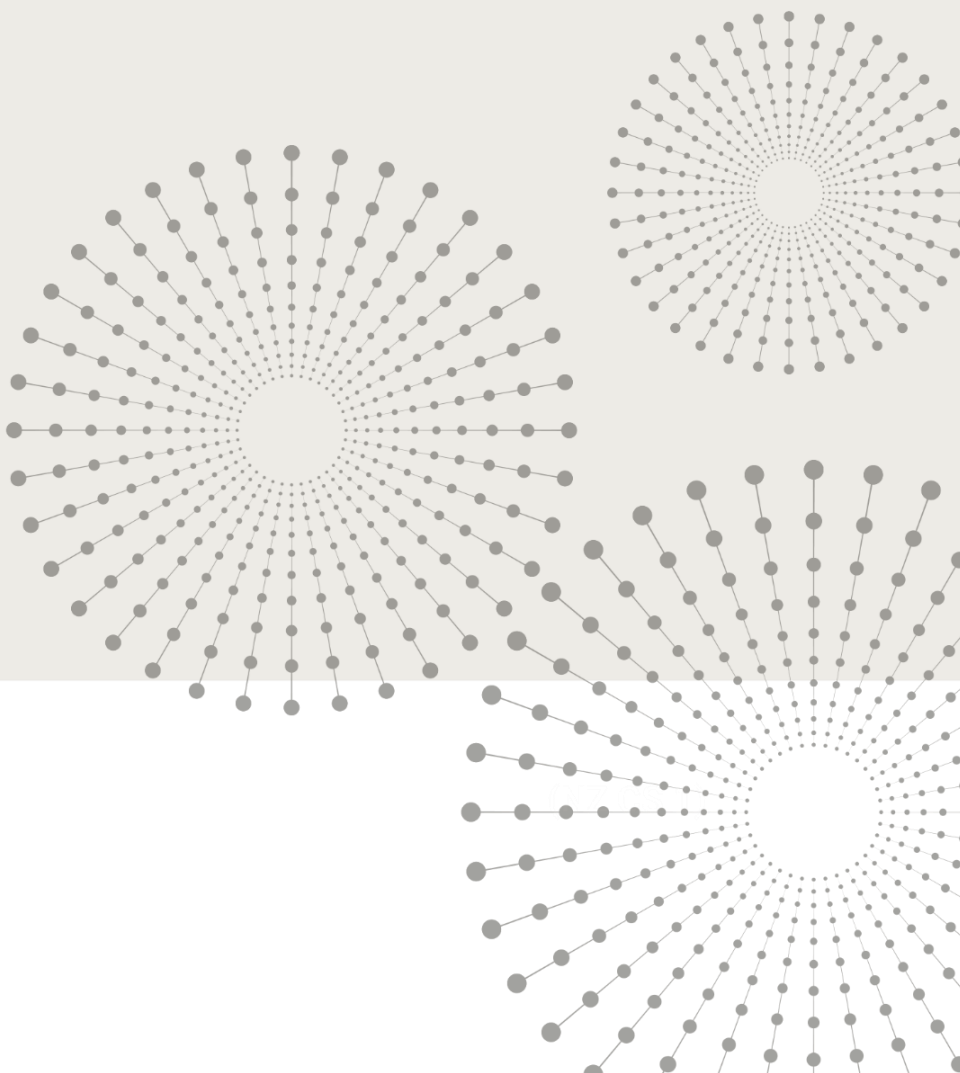
Question 5. Do you have any other comments on the proposed standard? If so, please specify.

The Audit of Service Performance Information

Exposure Draft

Submissions close 17 March 2023

December
2022



NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	1 December 2022
Subject:	Assurance over Financial Information Prepared in Connection with a Capital Raising
Date:	22 November 2022
Prepared by:	Sharon Walker

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

1. The objective of this agenda item is for the Board to approve:
 - SAE 3450 *Assurance over Financial Information in Connection with a Capital Raising* as a final standard; and
 - The draft signing memorandum.

Background

2. 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. The ED 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.
3. The NZAuASB consulted its constituency, performing targeted outreach in developing the exposure draft and a formal consultation process prior to finalising the standard. We communicated our exposure draft via our usual channels, i.e., the XRB website, notification via Alerts, and held a virtual feedback forum.
4. Feedback received on the exposure draft was included in the [October Board pack](#) (refer to agenda item 4, supplementary papers).
5. There was a high level of support for the exposure draft from the majority of respondents. However, we received a detailed submission from EY which raised concern with some of the fundamental concepts for the standard, including:
 - The relevant accounting framework for the engagement, i.e., the scope of what is to be assured, and the stated basis of preparation;
 - The need for due diligence participation and reporting ethical standards, similar to those issued by the Accounting Professional Ethics Standards Board (APESB) in Australia;

- The interaction of the proposed standard with the auditing/assurance standards; and
- The consistency of the proposed standard with the ASAE.

Each of these is discussed further in the issues paper at agenda item 6.2.

6. An analysis of the responses to the specific questions raised on consultation is included at agenda item 6.5 (refer supplementary pack). A detailed response to each of the points raised in the EY submission is included at agenda item 6.6 (refer supplementary pack).
7. A clean version of the draft standard is provided at agenda item 6.3. Changes to the exposure draft are shown using track changes in agenda item 6.7.
8. Staff has been assisted throughout 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.

Key matters to consider

9. Key matters the Board is asked to consider, including suggested changes to the exposure draft, are included in the issues paper at agenda item 6.2.

Recommendation

10. We recommend that the Board APPROVE:
 - SAE 3450 *Assurance over Financial Information in Connection with a Capital Raising* as a final standard; and
 - The draft signing memorandum

Material Presented

Agenda item 6.1	Board meeting summary paper
Agenda item 6.2	Issues paper
Agenda item 6.3	Draft standard (clean)
Agenda item 6.4	Draft signing memorandum

Supplementary papers

Agenda item 6.5	Analysis of feedback
Agenda item 6.6	Response to EY feedback
Agenda item 6.7	Draft standard (marked from ED)

Assurance over financial information prepared in connection with a capital raising - Issues Paper

A. Relevant Accounting Framework

(i) Scope of the engagement

1. Our consultation process identified some differences in practices between the firms, with some firms limiting the scope of the engagement to assurance over specific line items in the product disclosure statement (e.g., with respect to historical financial information, assurance over revenue, EBITDA and net profit after tax) and other firms agreeing the scope to be over the full underlying financial statements included in the online register, (e.g., the primary financial statements such as an income statement, cash flow statement or balance sheet prepared in accordance with appropriate recognition and measurement principles).
2. In New Zealand, the assurance engagement over financial information prepared in connection with a capital raising is a voluntary engagement where the scope is negotiated with the engaging party.
3. Market practice in New Zealand permits disclosure in the offer document of selected historical, pro forma historical, prospective and pro forma prospective financial information in tabular form representing individual financial statement line items as well as non-GAAP key metrics. These individual line items are ordinarily extracted or derived from the published financial statements (prospective or historical) but do not represent full primary statements.
4. It is EY's view that each individual financial statement line item or non-GAAP measure on its own does not meet the recognition and measurement requirements of an acceptable accounting framework. Accordingly, they consider that the engagement scope should reflect full financial statements and that the standard should, accordingly, specify this, through the definition of stated basis of preparation and the illustrative examples.
5. The auditing standards¹ allow for reasonable assurance on specific elements, accounts or items of a financial statement. It seems reasonable therefore that a limited assurance engagement might also be performed for specific elements, accounts or items of a financial statement.
6. Given this is a voluntary engagement, we recommend that the standard allow for the engaging parties to determine the scope of the standard, and we recommend that both practices are permissible under the draft standard.
7. In addressing the EY concern, we considered the following alternatives:
 - Option 1: redraft the scope of the illustrative reports to reflect the EY preference of a review of full financial statements;

¹ ISA (NZ) 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

- Option 2: redraft the illustrative reports to be generic, i.e., in the scope section simply refer to, for example, [insert description of the historical financial information];
 - Option 3: provide multiple illustrative reports, i.e., report 1 where the scope of engagement is based on a review of the full set of financial information and report 2 where the scope of the engagement is based on a review of selected financial information.
8. We recommend option 3, to include an additional illustrative report in the draft standard. In our view, this addresses the variation in practice, which is appropriate for a voluntary assurance engagement.
9. To avoid the standard from becoming too lengthy, we have removed the illustrative engagement letter and the illustrative representation letter in appendices 1 and 2 respectively, which largely would repeat illustrating a similar point.
10. **Does the Board support:**
- **the inclusion of a second illustrative report?**
 - **the removal of the illustrative engagement letter and illustrative representation letter in appendices 1 and 2?**

(ii) **Stated basis of preparation**

11. In respect of the financial accounting framework, the EY submission observed that the proposed standard does not define the stated basis of preparation with reference to an acceptable accounting framework as set by the accounting bodies/regulators which would be appropriate for the responsible party to apply in its preparation of the financial information to be published in connection with a capital raising.
12. While the words used to describe the stated basis of preparation are the same as the ASAE, the proposed standard omitted the examples of stated bases of preparation that accompany the ASAE definition.
13. To add clarity to the definition of stated basis of preparation, we have added application material, similar to the ASAE, that provides examples of stated bases of preparation. (refer agenda item 6.3, paragraph A8)
14. **Does the Board agree with the inclusion of additional guidance related to the definition of stated basis of preparation?**

B. Consistency with Equivalent Australian Standard

15. The EY submission identified several areas where, in their view, it would be beneficial for the proposed standard to maintain consistency with the ASAE. These areas included:
- Definitions in paragraph 10 for assumptions, pro forma adjustments, prospective financial information, stated basis of preparation and responsible party. The view of EY is that there

should not be any differences in the meaning attributed to these given there are no market or regulatory differences in how they would be interpreted in Australia versus New Zealand. Further, EY expressed concern that the contextual reference to the responsible party in these definitions had been removed, potentially making it open to interpretation.

The definitions in the proposed standard are consistent with FRS 42, New Zealand assurance/review engagement standards or with the ASAE with minor editorial adjustment previously requested by the Board for clarity. Based on the EY feedback, the definitions have been revised to include reference to the responsible party where necessary.

- Requirements and application and other explanatory material in respect of areas such as quality control, professional scepticism, professional judgement, documentation, other information included in the document and inability to comply with the requirements of the proposed standard are not included in the proposed standard.

In developing the exposure draft, the NZAuASB previously agreed not to duplicate the requirements of the base standards (i.e., ISAE (NZ) 3000 (Revised) or the applicable review standard e.g., NZ SRE 2410) which deal with these areas. The proposed standard is not a stand-alone standard. The assurance practitioner must comply with both the base standard and the proposed standard. In line with the Board decision, we have not included this material in the draft standard.

The draft standard does include material dealing with the practitioner's responsibility for other information. (refer agenda item 6.3, paragraphs 56-57)

- Cross references to existing auditing standards, e.g., going concern, subsequent events and use of experts, are included in the ASAE but not the proposed standard.

The Board has previously agreed not to reference to the auditing standards in the proposed standard. The proposed standard is an other assurance standard that permits limited assurance over the subject matter information only. The auditing standards sit outside the other assurance standards and are designed to achieve reasonable assurance. proposed standard includes requirements. The assurance practitioner is not precluded from referring to the auditing standards. However, such reference would be made in the same way as for any other type of guidance.

16. Does the Board re-affirm its previous decisions:

- **Definitions should be appropriate in the New Zealand context, consistent with other New Zealand standards?**
- **Not to duplicate material included in the base standards?**
- **Not to cross-reference to the auditing standards?**

C. Interaction with Existing Auditing Standards

17. EY acknowledged and supported the development of a stand-alone assurance standard covering both historical and prospective financial information. However, in its submission, EY reflected on the direct referencing of requirements of ISAE (NZ) 3000 (Revised) and the applicable review engagement standards. In their view the proposed standard should first and foremost set out specific requirements in itself and then where applicable, demonstrate the interrelationship in application and other explanatory material.
18. Further, EY reflected that the reference to applicable review engagement standards apply only to historical financial statements, rather than review of historical financial information which may be in a form other than a financial report. This makes cross referencing difficult as the historic financial information assessed against the applicable review engagement standards (e.g., NZ SRE 2410) is not directly comparable given the historical financial information is not in the same form as a set of financial statements, and may comprise selected financial information (some of which may be non-GAAP).
19. In response to the interaction between ISAE (NZ) 3000 (Revised) and the applicable review standards, staff note, firstly, the proposed standard is not a stand-alone standard, as explained in paragraphs 5-7 of the draft (refer agenda item 6.3). ISAE (NZ) 3000 (Revised) and the applicable review engagement standard are “base standards”. The proposed SAE deals with specific considerations in the application of the base standards to engagements dealing with assurance over financial information prepared in connection with a capital raising.
20. In response to the EY comment, we have revised the lead in to requirement paragraphs that refer to the base standards. The new construct clearly places the requirement on the practitioner to perform the requirement, while maintaining the link with the base standards. Refer agenda item 6.3, paragraphs 13, 15, 17. In paragraph 16 reference to the base standards was removed.
21. **Does the Board agree that draft standard appropriately reflects the link between the base standards and the draft standard?**

D. Due diligence standards

22. In its submission, EY encouraged the XRB to consider the APESB standards, APES 345² and APES 350³ as part of its project to develop an assurance standard.
23. APES 345 sets out the standards for members in public practice in the provision of quality and ethical professional services in respect of reporting service engagements. The requirements established in APES 345 duplicate requirements in PES 1 and the draft standard.
24. APES 350 deals with participation by a member in public practice in a due diligence committee (DDC) either as a DDC member or observer or a reporting person. The ethical requirements of

² APES 345, *Reporting on Prospective Financial Information Prepared in Connection with a Public Document*

³ APES 350, *Participation by Members in Public Practice In Due Diligence Committees in connection with a Public Document*

this standard are based on APES 110 (the Australian equivalent to PES 1). APES 350 also addresses areas of risk to the firm providing the service. Participation in the due diligence committee is not an assurance engagement and is outside the mandate of the XRB. Should such a standard be required in NZ, we believe this would more likely fit within the remit of the NZICA Regulatory Board.

25. **Does the Board agree that standards equivalent to APES 345 and APES 350 are duplicative of the requirements of PES 1 or outside the mandate of the XRB and that no standard setting activities should be taken by the XRB?**

E. Scope of the standard

26. While many respondents agreed with the narrow scope of the proposed standard, they also indicated that it contains a valuable framework for broader application for assurance over financial information that has been prepared for a purpose other than capital raising.
27. Paragraph 2 has been revised to state that the standard may be applied, adapted as necessary, to financial information prepared for another purpose. (Refer agenda item 6.3, paragraph 2)
28. **Does the Board agree with the expanded application of the standard, adapted as necessary to other circumstances?**

F. Obtaining an understanding and performing procedures

Other information

29. We have added requirements to the draft standard that require the assurance practitioner to read the other information and to discuss material inconsistencies with the responsible party. The illustrative report has also been revised to include a section on "other information". (Refer agenda item 6.5, Section E)

Assurance engagement risk

30. In paragraph 17 of the draft standard, we have added a requirement to assess assurance engagement risk and consider the nature, timing and extent of planned risk assessment procedures.

No prior knowledge of the entity

31. A new paragraph has been added to require, when the assurance practitioner does not have prior knowledge of the entity, to obtain an understanding of the nature of the entity and any acquiree or divestee whose financial information is included in the published financial information. New application material supports this requirement. Refer agenda item 6.3, paragraph 20.

Written representations

32. In relation to prospective financial information, a new required representation has been added:

- That the responsible party understand and acknowledge their responsibility for determining the best estimate assumptions on which the prospective financial information is based, and that the assumptions are reasonable and supportable. Refer agenda item 6.3, paragraph 42.

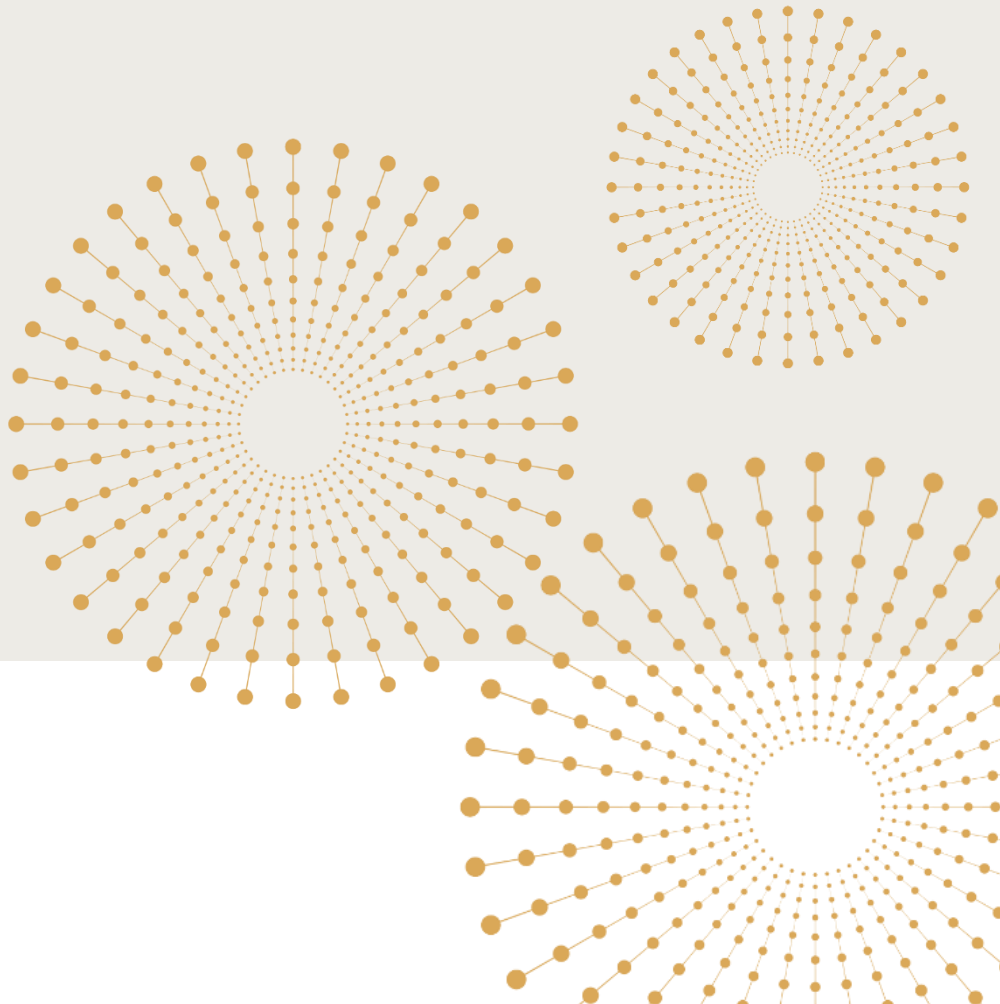
Going concern

33. New requirement and application material has been added to explain that the going concern assessment is made as if the event or transaction giving rise to the capital raising had taken place. Refer agenda item 6.3, paragraph 47 and A65.
34. **Does the Board agree with revisions to the requirements dealing with obtaining an understanding and performing procedures?**

Standard on Assurance Engagements 3450

Assurance Over Financial Information Prepared in Connection with a Capital Raising

**Applies to assurance engagements
commencing on or after 15 December 2023**



Issued [date]



STANDARD ON ASSURANCE ENGAGEMENTS 3450

Assurance Over Financial Information Prepared in Connection with a Capital Raising (SAE 3450)

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

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date +28].

An assurance practitioner that is required to apply this Standard is required to apply it for assurance engagements commencing on or after 15 December 2023. Early adoption is permitted on a voluntary basis.

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.

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DRAFT

History of Amendments**Table of pronouncements – SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising**

This table lists the pronouncements establishing and amending SAE 3450.

Pronouncements	Date approved	Application date
<i>SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising</i>	[Date]	This Standard on Assurance Engagements applies to assurance engagements commencing on or after 15 December 2023.

STANDARD ON ASSURANCE ENGAGEMENTS 3450

**ASSURANCE OVER FINANCIAL INFORMATION PREPARED IN CONNECTION WITH A CAPITAL
RAISING***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

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Standard on Assurance Engagements (SAE) 3450 (Revised), Assurance Over Financial Information Prepared in Connection with a Capital Raising should be read in conjunction with International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information and the applicable Review Engagement Standard.

Introduction

Scope

1. This Standard on Assurance Engagements (SAE) deals with the responsibilities of the assurance practitioner when performing an assurance engagement and reporting on the responsible party's preparation of published financial information prepared in connection with a capital raising.
2. This SAE applies to assurance engagements to provide a limited assurance report on the financial information. It may be applied, adapted as necessary, for assurance engagements over financial information prepared for another purpose, for example, in connection with a direct listing, or for assurance over prospective financial information prepared for any other purpose. (Ref: Para. A1)
3. The types of financial information covered by this SAE are:
 - Historical,
 - Pro forma historical,
 - Prospective and
 - Pro forma prospective

financial information prepared in respect of a capital raising. The financial information may be in respect of one entity or multiple entities (for example, in the case of a merger or acquisition).
4. Assurance engagements covered by this SAE often involve the assurance practitioner performing an assurance engagement, and reporting, on more than one type of financial information. In such circumstances, the assurance practitioner conducts the engagement in accordance with the applicable requirements and related application and other explanatory material and reports the assurance conclusion for each type of financial information in the assurance report. Non-assurance services are outside the scope of this engagement. (Ref: Para. A2)

Relationship with Other Standards issued by the NZAuASB

5. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ISAE (NZ) 3000 (Revised)¹. Assurance engagements that are reviews of historical financial information are conducted in accordance with the applicable Review Engagement Standard. This SAE deals with specific considerations in the application of ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standard² to engagements dealing with assurance over financial information prepared in connection with a capital raising.
6. The assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standard, and this SAE when performing an

¹ International Standard on Assurance Engagements (New Zealand) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

² As described in paragraph 11, in this SAE, the applicable "Review Engagement Standard" refers to International Standard on Review Engagements (New Zealand) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*, or New Zealand Standard on Review Engagements 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*, as applicable for the circumstances of the engagement.

assurance engagement to report on published financial information prepared in connection with a capital raising. This SAE supplements but does not replace ISAE (NZ) 3000 (Revised) or the applicable Review Engagement Standard.

7. Compliance with ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standard requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*³ issued by the New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation that are at least as demanding.⁴ It also requires the lead assurance practitioner to be a member of a firm that applies Professional and Ethical Standard 3⁵, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3.⁶

Application Date

8. This SAE shall apply for engagements commencing on or after 15 December 2023. Early adoption is permitted on a voluntary basis.

Objectives

9. The objectives of the assurance practitioner are:
 - (a) To obtain limited assurance about whether the financial information is free from material misstatement, thereby enabling the assurance practitioner to express a limited assurance conclusion;
 - (b) To report, in accordance with the assurance practitioner’s findings; and
 - (c) To communicate further as required by this SAE, in accordance with the assurance practitioner’s findings.

Definitions⁷

10. For purposes of this SAE, the following terms have the meanings attributed below:
 - (a) Assumption – A view taken by the responsible party about the future for the purpose of preparing prospective financial information, for example views about economic and business conditions and proposed courses of action. (Ref: Para. A3)
 - (b) Assurance report – A written report prepared by an independent assurance practitioner. (Ref: Para. A4)

³ In Professional and Ethical Standard 1, the term “engagement partner” is to be read as referring to “lead assurance practitioner”.

⁴ ISAE (NZ) 3000 (Revised), paragraph 3(a), 20 and 34

⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁶ ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31(a)

⁷ Terms defined in ISAE (NZ) 3000 (Revised) are not repeated in this SAE. Refer ISAE (NZ) 3000 (Revised) for terms defined therein.

- (c) Base financial information – Financial information that is used as the starting point for the application of the pro forma adjustments. Base financial information is ordinarily historical in nature, however, it can also be prospective. (Ref: Para. A5)
- (d) Base historical financial information – Base financial information that is historical in nature.
- (e) Capital raising – Any transaction involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014. (Ref: Para. A6)
- (f) Financial information – Information of a financial nature prepared by the responsible party in the form of:
 - (i) Historical financial information;
 - (ii) Pro forma historical financial information;
 - (iii) Prospective financial information; or
 - (iv) Pro forma prospective financial information.
- (g) Pro forma adjustments – Adjustments to the base financial information to:
 - (i) Illustrate the impact of a transaction or event as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred or as if it had not occurred at all;
 - (ii) Eliminate the effects of unusual or non-recurring events or transactions that are not part of the normal operations of the entity; or
 - (iii) Exclude certain events or transactions or present transactions or balances on a different recognition or measurement basis from that required or permitted by generally accepted accounting practice in New Zealand.
- (h) Pro forma financial information – Base financial information shown together with pro forma adjustments prepared in accordance with the stated basis of preparation resulting in financial information that is not prepared in accordance with generally accepted accounting practice in New Zealand. It is subject to the assumptions inherent in the responsible party’s stated basis of preparation.
- (i) Prospective financial information⁸ – Future oriented financial information prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs. Prospective financial information is based on assumptions made by the responsible party about events that may occur in the future and possible actions by the entity. (Ref: Para. A7)
- (j) Published financial information - Financial information prepared for the purpose of the capital raising and that is made available publicly, for example, the product

⁸ For capital raisings where the historical financial statements are prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards, any prospective financial statements (or other prospective financial information) is prepared in accordance with Financial Reporting Standard No. 42 *Prospective Financial Statements*.

disclosure statement and online register entry.

- (k) Responsible party – The party(ies) responsible for the source and basis of preparation of the financial information and other engagement circumstances.
- (l) Stated basis of preparation – The basis on which the responsible party has chosen to prepare the financial information that is acceptable in view of the nature and objective of the published financial information, or as required by applicable law or regulation. (Ref: Para. A8)

11. In this SAE, the applicable Review Engagement Standard refers to International Standard on Review Engagements (New Zealand) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*, or New Zealand Standard on Review Engagements 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*, as applicable for the circumstances of the engagement.

Requirements

Compliance with this SAE

12. The assurance practitioner shall not represent compliance with this SAE unless the assurance practitioner has complied with the requirements of both this SAE and ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standard.

Preconditions for the Assurance Engagement

13. When establishing whether the preconditions for an assurance engagement are present, as required by ISAE (NZ) 3000 (Revised)⁹ and the applicable Review Engagement Standard, the assurance practitioner shall obtain the agreement of the responsible party that they acknowledge and understand their responsibility for: (Ref: Para. A9-A16)
- (a) The selection of the financial information.
 - (b) The preparation of the financial information in accordance with the stated basis of preparation.
 - (c) Determining the applicable time period to be covered by the financial information.
 - (d) Maintaining adequate accounting records and such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement.

Prospective Financial Information

14. In an engagement to provide assurance over prospective financial information, the acknowledgement obtained in accordance with paragraph 13 shall include acknowledgement from the responsible party that the prospective financial information:
- (a) Is based on assumptions that are reasonable and supportable; and
 - (b) Faithfully represent the assumptions on which the prospective financial information is based.

⁹ ISAE (NZ) 3000 (Revised), paragraph 24

Agreeing on the Terms of the Engagement

15. ISAE (NZ) 3000 (Revised)¹⁰ and the applicable Review Engagement Standard require the parties to the engagement to agree the terms of the engagement. The agreed terms shall be in writing and shall include:
- (a) The objective and scope of the engagement, including that the engagement is a limited assurance engagement; (Ref: Para.A17)
 - (b) The responsibilities of the assurance practitioner;
 - (c) The responsibilities of the responsible party, including those described in paragraphs 13 and, if applicable, 14;
 - (d) Identification of the stated basis of preparation for the financial information;
 - (e) Reference to the expected form and content of any reports to be issued by the assurance practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content;
 - (f) An expectation that the responsible party will provide written representations at the conclusion of the engagement;
 - (g) An expectation that the responsible party will provide access to all information of which it is aware that is relevant to the preparation of the financial information, including an expectation that the responsible party will provide access to information relevant to disclosures; and
 - (h) Such other terms that the assurance practitioner determines are appropriate in the engagement circumstances. (Ref: Para. A18)
16. Where there is a change in the terms of the engagement such change in the terms shall be agreed, in writing, with the engaging party. (Ref: Para. A19)

Planning and Performing the Engagement

Planning

17. When planning the engagement as required by ISAE (NZ) 3000 (Revised)¹¹ and the applicable Review Engagement Standard, the assurance practitioner shall: (Ref: Para A20-A22)
- (a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;
 - (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;
 - (c) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts;
 - (d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the lead assurance practitioner for the entity is relevant;

¹⁰ ISAE (NZ) 3000 (Revised), paragraph 27

¹¹ ISAE (NZ) 3000 (Revised), paragraph 40

- (e) Assess assurance engagement risk and consider the nature, timing and extent of planned risk assessment procedures;
- (f) Ascertain the nature, timing and extent of resources needed to perform the engagement, including the involvement of experts and other assurance practitioners; and
- (g) If applicable, determine whether the entity's external auditor or assurance practitioner will need to be contacted in respect of the audit opinion or review conclusion expressed on the most recent historical financial statements.

Materiality

- 18. The assurance practitioner shall determine materiality for the financial information as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (Ref: Para. A23-A26)
- 19. The assurance practitioner shall revise materiality in the event of becoming aware of information during the engagement that would have caused the assurance practitioner to have determined a different amount initially. (Ref: Para. A27)

Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances

- 20. If the assurance practitioner does not have prior knowledge of the entity, the assurance practitioner shall obtain an understanding of the nature of the entity, and any acquiree or divestee whose financial information is included in the published financial information that is the subject of the assurance report. (Ref: Para. A28)
- 21. The assurance practitioner shall obtain an understanding of the source and basis of preparation of the financial information and other engagement circumstances sufficient to: (Ref: Para. A29)
 - (a) Enable the assurance practitioner to identify areas where a material misstatement of the financial information is likely to arise; and
 - (b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 21(a) and to obtain limited assurance to support the practitioner's conclusion.
- 22. In obtaining an understanding of the source and basis of preparation of the financial information and other engagement circumstances under paragraph 21, the assurance practitioner shall obtain an understanding of internal control over the process used to prepare the financial information. (Ref: Para. A30)
- 23. If the assurance practitioner has performed other engagements for the entity, the assurance practitioner shall consider whether information obtained from those other engagements is relevant to understanding the source and basis of preparation of the financial information and other engagement circumstances.
- 24. In obtaining the understanding required by paragraph 21, the assurance practitioner shall obtain an understanding of:
 - (a) The form in which the financial information will be published;
 - (b) The financial information; (Ref: Para. A31)

- (c) The stated basis of preparation chosen by the responsible party for the financial information including whether it is different from prior audited or reviewed historical financial information also included in the published financial information, and if so, why; (Ref: Para. A32)
- (d) Events and transactions that may have a significant impact on the preparation of the financial information;
- (e) The nature and type of other information to be included with the financial information, if available, sufficient to enable the assessment of whether it is consistent with the financial information;
- (f) Relevant industry, legal and regulatory and other external factors related to the financial information or that may impact the financial information; (Ref: Para. A33-A35)
- (g) Any recent key changes in the entity's business activities, and how such changes may affect the financial information;
- (h) Whether experts are required, and the extent to which their work will be used; and
- (i) The competence of the preparers of the financial information.

Pro Forma Historical Financial Information

- 25. In an engagement to provide assurance over pro forma historical financial information, in addition to the understanding required by paragraph 24, the assurance practitioner shall obtain an understanding of:
 - (a) The source of the base historical financial information;
 - (b) Whether the base historical financial information has been previously audited or reviewed and, if so, the type of opinion or conclusion expressed and the implications, if any, on the engagement; and (Ref: Para. A36-A37)
 - (c) The pro forma adjustments. (Ref: Para. A38)

Prospective Financial Information

- 26. In an engagement to provide assurance over prospective financial information, in addition to the understanding required by paragraph 24, the assurance practitioner shall obtain an understanding of:
 - (a) The stated basis of preparation chosen by the responsible party; (Ref: Para. A39)
 - (b) The accuracy of any prospective financial information prepared in prior time periods, and the reasons for any material variances;
 - (c) Whether comparative financial information is to be included, and whether it will be restated;
 - (d) Relevant financial information available in the public domain;
 - (e) Key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures; and
 - (f) Significant assumptions used in the prospective financial information.

Pro Forma Prospective Financial Information

27. In an engagement to provide assurance over pro forma prospective financial information, in addition to the understanding required by paragraphs 24 and 26, the assurance practitioner shall obtain an understanding of:
 - (a) The source of the base financial information used in the preparation of the pro forma prospective financial information including whether it has been previously audited or reviewed; (Ref: Para. A36-A37)
 - (b) The stated basis of preparation of the pro forma prospective financial information;
 - (c) The pro forma adjustments; and
 - (d) Any recent key changes in the entity's business activities and how they affect the pro forma prospective financial information.
28. The lead assurance practitioner and other key engagement team members shall discuss the application of the stated basis of preparation and the susceptibility of the financial information to material misstatement.
29. When there are engagement team members not involved in the engagement team discussion, the lead assurance practitioner shall determine which matters are to be communicated to those members.

Obtaining Evidence

Designing and Performing Procedures

30. Based on the assurance practitioner's understanding obtained in accordance with paragraph 21, the assurance practitioner shall:
 - (a) Identify areas where a material misstatement of the financial information is likely to arise; and (Ref: Para. A40)
 - (b) Design and perform procedures to address the areas identified in paragraph 30(a) and to obtain limited assurance to support the assurance practitioner's conclusion. (Ref: Para. A41)
31. The assurance practitioner shall perform the following procedures on the financial information:
 - (a) In respect of comparative information:
 - (i) Read the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information;
 - (ii) Compare, for consistency, its stated basis of preparation against the entity's previously audited or reviewed historical financial information and if applicable, the most recent unaudited or unreviewed annual or interim financial report;
 - (iii) Evaluate the reasons for any differences; and
 - (iv) Determine that any restatements or adjustments made are appropriate;
 - (b) Evaluate the reasonableness and appropriateness of the time period covered;
 - (c) Enquire of the responsible party in respect of the financial information:

- (i) That it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;
- (ii) That it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;
- (iii) That it reflects the results of any identified misstatements from the prior year's financial statements;
- (iv) If any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records;
- (d) Evaluate the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation;
- (e) Perform analytical procedures on the financial information. (Ref: Para. A42-A43)
- (f) If applicable, enquire how the responsible party makes significant accounting estimates included in the financial information; (Ref: Para. A44-A46)
- (g) In respect of the stated basis of preparation:
 - (i) Understand the process for its selection and approval;
 - (ii) Understand what accounting policies have been adopted;
 - (iii) Evaluate its reasonableness and suitability;
 - (iv) Perform consistency checks in the application of the stated basis of preparation to the financial information;
 - (v) Evaluate, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document; and
 - (vi) Evaluate whether the financial information is prepared in all material respects in accordance with the stated basis of preparation;
- (h) Enquire of the responsible party and other relevant parties whether there were:
 - (i) Any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the relevant time period;
 - (ii) Any adjustments made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;
 - (iii) Any unadjusted differences from the most recently audited or reviewed financial report that may be material for purposes of the published financial information;
 - (iv) Any other provisions and other accounting estimates (such as asset revaluations) in the financial information;
 - (v) Any significant transactions with related parties (for example, assets purchased from an associated entity); and
- (i) Such other procedures that, in the assurance practitioner's judgement, are appropriate. (Ref: Para. A47)

Pro forma historical financial information

32. In addition to the procedures required by paragraph 31, the assurance practitioner's procedures on the pro-forma historical financial information shall include:
- (a) Such procedures as are necessary, in relation to the base historical financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: Para. A48-A49)
 - (b) Understanding the stated basis of preparation for the pro forma historical financial information;
 - (c) Understanding the basis for, and calculations underlying the pro forma adjustments; (Ref: Para. A50-A51)
 - (d) Determining whether the pro forma adjustments:
 - (i) Have been selected and applied to the base historical financial information in accordance with the stated basis of preparation;
 - (ii) Are supported by sufficient appropriate evidence;
 - (iii) Are arithmetically correct; and
 - (e) Determining whether the resultant pro forma historical financial information reflects the results of applying the pro forma adjustments to the base financial information.

Prospective financial information

33. In addition to the procedures required by paragraph 31, for assurance over prospective financial information, to obtain evidence about the source of the prospective financial information, the assurance practitioner shall:
- (a) Make enquiries of the responsible party, experts and relevant parties on the nature of the source of the prospective financial information;
 - (b) If the source of the prospective financial information includes material historical financial information which has been previously audited or reviewed:
 - (i) Read the historical financial information to which the audit or review report relates to establish if its stated basis of preparation and time frame covered are appropriate; and
 - (ii) Read the audit or review report to assess whether the report was modified and, if so, why, and the impact if any on the engagement, and whether there are any matters that may affect the prospective financial information; or
 - (c) If the source of the prospective financial information includes material historical financial information which has not been previously audited or reviewed: (Ref: Para. A52)
 - (i) Ascertain whether the assurance practitioner is able to access all required documentation describing and supporting the source;
 - (ii) Enquire of the responsible party about:
 - The process by which the source has been prepared and the reliability of its underlying accounting records;
 - Whether all transactions for the time period have been recorded;

- Whether the source has been prepared in accordance with the entity’s accounting policies and stated basis of preparation.
 - Whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;
 - The responsible party’s assessment of the risk that the source may be materially misstated as a result of error or fraud;
 - How recently the entity’s historical financial information was audited or reviewed;
 - Whether there have been any changes in the entity’s business activities and operations, and if so, their effect on the source; and
 - The extent to which statistical and mathematical modelling, computer assisted audit techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; or
- (iii) If the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, consider the findings and whether these might indicate any issues with the preparation of the source from which the historical financial information has been extracted;
- (d) Evaluate the adequacy and reliability of the source of the prospective financial information;
- (e) Evaluate the accuracy of any prospective financial information prepared in prior time periods compared to actual financial results, and the reasons provided for significant variances; and (Ref: Para. A53)
- (f) Determine whether the source of the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so:
- (i) Determine the nature of, and reasons for, the changes and their effect on the prospective financial information;
 - (ii) Evaluate whether there have been any reclassifications or adjustments made by the responsible party to reflect unusual or non-recurring items, or to correct known errors and uncertainties and the reasonableness of such adjustments; and
 - (iii) Evaluate any difference between the basis of preparation of the prospective financial information and that of other types of financial information included in the published financial information.
34. If the assurance practitioner is unable to assess whether the source of the prospective financial information is appropriate, the assurance practitioner shall consider the implications for the engagement and the assurance report.
35. The assurance practitioner shall perform the following procedures on the assumptions:
- (a) Read the most recent audited or reviewed financial report, and, if appropriate, the most recently prepared annual or interim financial information, to enable an

assessment of the assumptions used in the preparation of the prospective financial information;

- (b) Enquire of the responsible party of:
 - (i) The source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable;
 - (ii) The time period the assumptions cover;
 - (iii) The methodology used in development and quantification of the assumptions, including the extent to which they are affected by the responsible party's judgement;
 - (iv) The likelihood of the assumptions actually occurring; and/or
 - (v) Whether the assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the prospective financial information of such sensitivities; (Ref: Para. A54)
 - (c) Evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified;
 - (d) Determine whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;
 - (e) Determine whether the assumptions are arithmetically correct;
 - (f) Consider whether the significant assumptions are reasonable and supportable;
 - (g) Evaluate whether the assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the prospective financial information;
 - (h) Review the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the prospective financial information to material changes in key assumptions underlying that prospective financial information; and
 - (i) Consider the responsible party's reliance on the work of experts in relation to the assumptions.
36. If the responsible party's assumptions on which the prospective financial information has been prepared lack supporting evidence, and are determined by the assurance practitioner not to be reasonable and supportable, the assurance practitioner shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.
37. To ascertain whether the prospective financial information has been prepared in accordance with the stated basis of preparation and the assumptions, the assurance practitioner shall:
- (a) Evaluate the stated basis of preparation used by the responsible party in the preparation of the prospective financial information; (Ref: Para. A55)
 - (b) Evaluate whether the stated basis of preparation described in the published financial information is consistent with the assurance practitioner's understanding;
 - (c) Agree or reconcile the significant assumptions to the stated basis of preparation;

- (d) Agree that the prospective financial information reflects any changes made to the stated basis of preparation from the previously audited or reviewed financial report included in the published financial information;
 - (e) Review the internal consistency of assumptions including those with common variables (that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates);
 - (f) Perform clerical checks such as re-computations on the prospective financial information;
 - (g) Consider the interrelationships of elements within the prospective financial information; and
 - (h) Consider whether any other procedures are necessary in the circumstances.
38. The assurance practitioner shall perform the following procedures on the prospective financial information itself:
- (a) Evaluate the length of time covered by the prospective financial information by: (Ref: Para. A56)
 - (i) Enquiring of the responsible party the reasons for the choice of time period;
 - (ii) Considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and
 - (iii) Considering whether any elapsed portion of the current time period is included in the prospective financial information;
 - (b) Evaluate the type of business conducted by the entity, the assumptions included in the prospective financial information, and consequently the assessed volatility overall of the prospective financial information;
 - (c) Consider the accuracy of prospective financial information prepared in prior time periods as compared to actual financial results and obtain and evaluate the responsible party's reasons for any significant variances; and
 - (d) Evaluate whether the prospective financial information is reasonable and supportable, based on evidence obtained throughout the engagement.

Pro Forma Prospective Financial Information

39. In addition to the procedures required by paragraph 31 and 33-38, for assurance over pro forma prospective financial information, the assurance practitioner shall:
- (a) Perform such procedures as are necessary, in relation to the base financial information, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para. A57)
 - (b) Determine whether the pro forma adjustments: (Ref: Para. A58)
 - (i) Are directly attributable to the events or transactions requiring the preparation of the pro forma prospective financial information;
 - (ii) Have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;

- (iii) Are supported by sufficient appropriate evidence;
 - (iv) Are arithmetically correct; and
 - (v) Reflect the planned events or transactions in the time period in which they are expected to occur; and
- (c) Evaluate whether the resultant pro forma prospective financial information reflects the results of applying the pro forma adjustments to the base financial information. (Ref: Para. A59-A60)

Specialised Skills or Knowledge

40. The assurance practitioner shall determine whether specialised skills or knowledge are required regarding the financial information and whether to use the work of an assurance practitioner's expert. (Ref: Para. A61-A62)

Written Representations

41. The assurance practitioner shall request written representations from the appropriate party(ies):
- (a) That they understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type of assurance, i.e., limited assurance, to be expressed.
 - (b) That they acknowledge and understand their responsibility for:
 - (i) The preparation of the financial information in accordance with the stated basis of preparation;
 - (ii) The selection of the financial information, including whether it contains comparatives;
 - (iii) Determining the relevant time period to be covered by the financial information;
 - (iv) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document;
 - (v) The contents, preparation and issuance of the published financial information;
 - (vi) Complying with the requirements of the applicable laws and regulations in the preparation of the published financial information; and
 - (vii) Such internal control as is determined to be necessary to enable the preparation of financial information and the published financial information.
 - (c) That the going concern basis of preparation of the financial information is appropriate in the document.
 - (d) That the assurance practitioner has been provided with all relevant information and access as agreed in the terms of engagement prior to the finalisation of the assurance report.
 - (e) That all material events and transactions have been properly recorded in the accounting records underlying the financial information.

- (f) That there are no currently anticipated material changes to be made to the financial information between the date of the report and the date of the published financial information (or that any material changes that may have occurred have been advised to the assurance practitioner/firm).
- (g) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial information. A summary of such items shall be included in or attached to the written representations.
- (h) Whether there have been events, transactions, corrections, errors or other matters that have arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the financial information.
- (i) Whether all material risks that may impact on the business have been adequately disclosed in the document and considered in relation to their impact on the financial information.
- (j) That they have disclosed to the assurance practitioner their knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have a material effect on the financial information.
- (k) That all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial information have been disclosed to the assurance practitioner.
- (l) Whether there have been any communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the entity's adherence to relevant legislation
- (m) Such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.

Pro forma historical financial information

- 42. When the financial information includes pro forma historical financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraph 41, acknowledgement by the responsible party of its responsibility for:
 - (a) Selecting the basis of preparation of the pro forma historical financial information;
 - (b) Selecting the base historical financial information used as the source of the pro forma historical financial information; and
 - (c) Selecting and determining the pro forma adjustments.

Prospective Financial Information

- 43. In addition to the representations required by paragraph 41, when the financial information includes prospective financial information, the assurance practitioner shall request the following representations from the appropriate party(ies):

- (a) That they understand and acknowledge their responsibility for determining the best estimate assumptions on which the prospective financial information is based, and that the assumptions are reasonable and supportable.
- (b) Confirmation of the completeness of all significant assumptions used in the preparation of the prospective financial information.
- (c) That the significant assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.

Pro forma prospective financial information

- 44. When the financial information includes proforma pro forma prospective financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraphs 41 and 43, acknowledgement by the responsible party of its responsibility for:
 - (a) Selecting the basis of preparation of the pro forma prospective financial information;
 - (b) Selecting the base prospective financial information used as the source of the pro forma prospective financial information; and
 - (c) Selecting and determining the pro forma adjustments.

Subsequent Events

- 45. If the assurance practitioner becomes aware of events, transactions or errors after the issuance of the assurance report and before the allotment date that require adjustment of, or disclosure in, the financial information, the assurance practitioner shall request the responsible party to correct those misstatements. (Ref: Para. A63)
- 46. The assurance practitioner shall revoke any consent to include the assurance report in the published financial information if in the assurance practitioner's professional judgement, the matter referred to in paragraph 45 is not appropriately addressed by the responsible party.

Going Concern

- 47. A limited assurance engagement includes consideration of the entity's ability to continue as a going concern. The assurance practitioner shall consider the responsible party's assessment of the entity's ability to continue as a going concern in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use of the going concern assumption in the preparation of the financial information. If identified uncertainties and related mitigating factors require significant judgements or assumptions, the assurance practitioner shall consider whether those significant judgements and assumptions are appropriately disclosed (Ref: Para. A64-A65)
- 48. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to events or conditions that individually, or collectively, may cast significant doubt about the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: Para. A66)

Forming the Assurance Conclusion

49. The assurance practitioner shall form a conclusion about whether the financial information is free from material misstatement. In forming that conclusion, the assurance practitioner shall consider the assurance practitioner's conclusion regarding the sufficiency and appropriateness of evidence obtained in the context of the engagement and the evaluation of whether uncorrected misstatements are material, individually or in the aggregate as required by ISAE (NZ) 3000 (Revised)¹² and the applicable Review Engagement Standard.

Preparing the Assurance Report

50. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's conclusion on each type of financial information that is the subject of the engagement.
51. The assurance practitioner shall clearly distinguish each type of financial information within the assurance report.

Assurance Report Content

52. The assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A69-A70)
- (a) A title that clearly indicates the report is an independent limited assurance report.
 - (b) An addressee.
 - (c) Identification of the financial information, including the period(s) it covers, and, if any information in the financial information is not covered by the assurance practitioner's conclusion, clear identification of the financial information subject to assurance as well as the excluded information, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.
 - (d) A description of the responsible party's responsibilities.
 - (e) Identification of the stated basis of preparation including:
 - (i) How the stated basis of preparation can be accessed; and
 - (ii) If the stated basis of preparation needs to be supplemented by disclosures in the explanatory notes to the financial information for that stated basis of preparation to be suitable, identification of the relevant note(s).
 - (f) When the stated basis of preparation is available only to specific intended users, or is relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the financial information may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose.
 - (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the assurance practitioner's responsibilities.

¹² ISAE (NZ) 3000 (Revised), paragraphs 64-65

- (h) A statement that the engagement was performed in accordance with SAE 3450, *Assurance Engagements Over Financial Information Prepared in Connection with a Capital Raising*. (Ref: Para. A71)
- (i) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3.
- (j) A statement that the assurance practitioner complies with the independence and other ethical requirements of Professional and Ethical Standard 1, or other professional requirements that are at least as demanding as Professional and Ethical Standard 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Professional and Ethical Standard 1.
- (k) An informative summary of the work performed as the basis for the assurance practitioner's conclusion. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the assurance practitioner's conclusion. In a limited assurance engagement, the summary of work performed shall state that:
 - (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and (Ref: Para. A72 – A74)
 - (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.
- (l) The assurance practitioner's conclusion expressed in a form that conveys whether, based on the procedures performed and the evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.
- (m) When the assurance practitioner expresses a modified conclusion, the assurance report shall contain:
 - (i) A section that provides a description of the matter(s) giving rise to the modification; and
 - (ii) A section that contains the assurance practitioner's modified conclusion.
- (n) A statement as to the existence of any relationship (other than as investigating accountant) the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity.
- (o) A statement that the financial information has been prepared for the document, and that as a result, the financial information may not be suitable for another purpose.

- (p) If applicable, a consent statement.
- (q) The name of the lead assurance practitioner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
- (r) The assurance practitioner's signature.
- (s) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the assurance practitioner has obtained the evidence on which the assurance practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the financial information.
- (t) The location in the jurisdiction where the assurance practitioner practices.

Pro forma historical financial information

53. When reporting on pro forma historical financial information, in addition to the elements required by paragraph 52, the assurance report shall include:

- (a) Statements that:
 - (i) Identify the pro forma historical financial information being reported on, including the time period it covers;
 - (ii) Identify whether there has been an audit or review conducted on the source from which the base historical financial information was prepared; and
 - (iii) Cross reference to, or describe, the stated basis of preparation selected by the responsible party for the pro forma historical financial information.
- (b) If applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the base historical financial information used in the preparation of the pro forma historical financial information.
- (c) The assurance practitioner's conclusion on the pro forma historical financial information.

Prospective financial information

54. When reporting on prospective financial information, in addition to the elements required by paragraph 52, the assurance report shall include:

- (a) A background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the published financial information;
- (b) Statements that:
 - (i) Identify the entities whose prospective financial information is the subject of the assurance report and, if applicable, the responsible party;
 - (ii) Identify the source of the prospective financial information, its purpose, the time period covered and, if applicable, a statement that the prospective financial information has been prepared for inclusion in the published financial information and, that as a result, may not be suitable for another purpose; and
 - (iii) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information.

- (c) Statements that:
 - (i) Actual results are likely to be different from the prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation could be material; and
 - (ii) Disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information.

Pro Forma Prospective financial information

55. When reporting on prospective financial information, in addition to the elements required by paragraphs 52 and 54, the assurance report shall include statements that:
- (a) Identify the pro forma prospective financial information, its purpose, the time period covered and, if applicable, a statement that the pro forma prospective financial information has been prepared for inclusion in the published financial information and, that as a result, may not be suitable for another purpose.
 - (b) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the pro forma prospective financial information.

Other Information

56. The assurance practitioner shall read the other information that accompanies the published financial information to consider whether there are any material inconsistencies with the published financial information. (Ref: Para. A75-A77)
57. If a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that the other information appears to include a material misstatement, the assurance practitioner shall discuss the matter with the responsible party.

Consent

58. The assurance practitioner shall consider applicable law or regulation when the assurance practitioner has been requested to provide consent in writing to the responsible party for the inclusion of the assurance report in the published financial information. (Ref: Para. A78)
59. If the assurance practitioner does not consider it appropriate for the assurance report to be included in the published financial information, the assurance practitioner shall either not provide consent, or revoke consent prior to the allotment date.

Application and Other Explanatory Material

Scope

- A1. The assurance report may be on a single type of financial information (individual assurance report) or on multiple types of financial information. (Ref: Para. 2)
- A2. In some circumstances the assurance practitioner may also agree to provide non-assurance services related to the capital raising, for example, participation in the entity's due diligence committee or the preparation and issuance of a Materiality Advice Letter or similar document related to the capital raising to an entity's due diligence committee. Such services are outside the scope of this standard. (Ref: Para. 4)

Definitions (Ref: Para. 10)

- A3. The entity uses the best information that could reasonably be expected to be available at the time the prospective financial information is prepared in determining the assumptions used in the preparation of the prospective financial information.
- A4. The assurance report may also be referred to as an "Investigating Accountant's Report" or an "Independent Limited Assurance Report".
- A5. Base financial information may or may not have been previously audited or reviewed.
- A6. Capital raising may include, for example, initial public offerings, takeovers, schemes of arrangement or other corporate restructures.
- A7. Prospective financial information relates to events and conditions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit of historical financial information. The assurance practitioner is, therefore, not in a position to conclude as to whether the results shown in the prospective financial information will be achieved.
- A8. A stated basis of preparation may include:
 - The recognition and measurement principles contained in New Zealand Equivalents to International Financial Reporting Standards (but not all the presentation and disclosure requirements) and the entity's adopted accounting policies;
 - The recognition and measurement principles contained in New Zealand Equivalents to International Financial Reporting Standards adjusted for pro forma adjustments, selected by the responsible party and disclosed in the applicable disclosure document; or
 - Any other basis of preparation selected by the responsible party and disclosed in the applicable disclosure document that meets the requirements for suitable criteria in accordance with Explanatory Guide Au1A *Framework for Assurance Engagements*.

Preconditions for the Assurance Engagement (Ref: Para. 13-14)

- A9. The engaging party is ordinarily the responsible party. References in this SAE to *responsible party* are taken to include the *engaging party* unless otherwise stated.

- A10. The responsible party is ultimately responsible for the preparation and presentation of the published financial information. The responsible party may engage experts, for example, tax advisors, business advisors or legal counsel, who may prepare, assist with the preparation of, or provide independent advice on, the financial information included in the published financial information; however, the responsible party retains responsibility for such information. The only exception to this is in respect of reports prepared by other parties, including experts, which are included, by consent, in the published financial information.
- A11. If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on the ability to access records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.
- A12. When the assurance practitioner is not the auditor of the entity and assurance is sought over historical financial information, the assurance practitioner may be limited in their ability to obtain sufficient appropriate evidence in relation to that historical financial information. For example, among other factors, the assurance practitioner's considerations in determining whether the preconditions for the engagement are met may include whether they have or will be able to obtain sufficient knowledge of the entity and understanding of risks given the compressed timeline often involved in these types of assurance engagement. The assurance practitioner will need to perform a review engagement that meets the requirements of ISRE (NZ) 2400 on the historical financial information in order to obtain sufficient evidence on which to base the limited assurance conclusion.
- A13. The responsible party's responsibility for the preparation of the financial information may also include responsibility for the selection of the financial information, including whether it contains comparative information, and for determining the applicable time period to be covered by the financial information.

Pro Forma Financial Information

- A14. In an engagement to provide assurance over pro forma financial information (both historical and prospective), the responsible party's responsibility for the preparation of the financial information may include:
- Selecting the basis of preparation of the pro forma financial information;
 - Selecting the base financial information used as the source for the pro forma financial information;
 - Selecting and determining the pro forma adjustments;
 - Preparing pro forma financial information in accordance with the stated basis of preparation.
- A15. In circumstances where the assurance practitioner cannot access, or obtain access to, documentation supporting the source of the base historical financial information or the pro forma adjustments, or does not audit one of the entities whose financial information is included in the pro forma historical financial information, the assurance practitioner and responsible party may alternatively agree for an assurance engagement to be conducted to report on the compilation of the pro forma historical financial information. When the assurance practitioner is required to provide assurance on whether the pro forma financial information has been properly compiled, refer to ISAE (NZ) 3420

Assurance Engagements to report on the Compilation of Pro Forma Financial Information Included in a Prospectus.

A16. Circumstances such as those outlined in paragraph A15 may occur, for example, when:

- The capital raising involves a takeover transaction in which neither the assurance practitioner nor the responsible party of the entity are able to access the other entity's financial information.
- The capital raising involves a takeover transaction where the other entity has not been subject to an audit or review.
- There is insufficient time in which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.

Agreeing on the Terms of the Engagement (Ref: Para. 15-16)

A17. The objective and scope agreed in the terms of engagement may include, for example:

- The assurance practitioner's understanding of the purpose of the assurance engagement, the nature of, and time period covered by, the financial information, and the intended users of the assurance report.
- Confirmation that the assurance practitioner will conduct the engagement in accordance with this SAE.
- That the responsible party is responsible for the preparation of the financial information.
- That the assurance practitioner will assess whether the financial information has been prepared in accordance with the stated basis of preparation.
- That an audit is not being performed and that consequently, an audit opinion will not be expressed.
- The type(s) and proposed wording of the assurance conclusion.
- That the engagement cannot be relied upon to identify fraud, errors, non-compliance with laws or regulations or other irregularities that may exist within the entity.

A18. Other terms that the assurance practitioner may consider appropriate to agree include, for example:

- A description of the assurance procedures to be performed.
- Important timelines for the completion of the engagement, for example, the expected date of publication of the financial information and when the assurance practitioner's consent is required.
- Arrangements regarding the planning and performance of the engagement, including the composition of the engagement team.
- Arrangements for the assurance practitioner to:
 - Attend meetings such as the due diligence committee meetings, if applicable.
 - Receive draft and final versions of the financial information.
 - Use the services of the responsible party's experts.

- Communicate directly with the entity’s external auditor regarding matters relevant to the financial information.
- Provide consent to the inclusion of the assurance practitioner’s assurance report.

A19. Changes in the terms of the engagement are required to be agreed in writing to ensure no misunderstanding occurs between the parties of what has been agreed.

Planning and Performing the Engagement

Planning (Ref: Para. 17)

A20. The type of planning activities the assurance practitioner performs depends on the level of understanding of the entity the assurance practitioner has. The required understanding may be obtained from prior audit or review engagements performed.

A21. The assurance practitioner may decide to discuss elements of planning with the responsible party when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the entity’s personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the assurance practitioner’s responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the responsible party may compromise the effectiveness of the engagement by making the procedures too predictable.

A22. The performance of an assurance engagement is an iterative process. As the assurance practitioner performs planned procedures, the evidence obtained may cause the assurance practitioner to modify the nature, timing or extent of other planned procedures. In some cases, information may come to the assurance practitioner’s attention that differs significantly from that expected at an earlier stage of the engagement.

Materiality (Ref: Para. 18-19)

A23. The concept of materiality generally includes the principles that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the financial information;
- Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgements about matters that are material to intended users of the financial information are based on a consideration of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs vary widely, is not ordinarily considered.

A24. The stated basis of preparation may discuss the concept of materiality in the context of the preparation and presentation of the financial information. Such a discussion, if present in the stated basis of preparation, provides a frame of reference to the assurance

practitioner in determining materiality for the engagement. If the stated basis of preparation does not include a discussion of the concept of materiality, the characteristics referred to above provide the assurance practitioner with such a frame of reference.

- A25. The assurance practitioner may not be able to identify all those who will read the assurance report, particularly where there are a large number of people who have access to it. In such cases, particularly where possible users are likely to have a broad range of interests, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example by agreement between the assurance practitioner and the engaging party, or by law or regulation.
- A26. Judgements about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. However, decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement. Materiality calculated for purposes of the financial information may not necessarily be the same amount as would be calculated for an audit or review of the annual financial statements due to difference in the purpose for which the financial information is prepared and potential differences in who the intended users are.
- A27. The assurance practitioner's determination of materiality may need to be revised during the engagement as a result of:
- A change in circumstances (for example, the disposal of a major part of the entity's business).
 - New information, or a change in the assurance practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that accounting estimates used are likely to be substantially different from those included in the financial information used to determine materiality.

If during the engagement the assurance practitioner concludes that a lower materiality for the financial information (and, if applicable, materiality level or levels for particular types of accounts or disclosures) than that initially determined is appropriate, it may be necessary to revise materiality and the nature, timing and extent of the further procedures.

Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances (Ref: Para. 20-21)

- A28. The understanding of the entity required by paragraph 20 might include:
- Its size and complexity.
 - Its ownership and management structure.
 - The regulatory environment.
 - Key strategies.
 - Products and services.
 - The industry in which the entity operates.
 - Its operating history.

- Available financial resources and obligations.
 - Any changes from prior financial reporting periods in the nature or extent of its operations, including whether there have been any mergers or acquisitions.
- A29. Obtaining an understanding of the source and basis of preparation of the financial information and other engagement circumstances provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the engagement, for example when:
- Considering the characteristics of the source of the financial information;
 - Assessing the suitability of the stated basis of preparation;
 - Considering the factors that, in the assurance practitioner’s professional judgement, are significant in directing the engagement team’s efforts, including where special consideration may be necessary; for example, the need for specialised skills or the work of an expert;
 - Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
 - Developing expectations for use when performing analytical procedures;
 - Designing and performing procedures; and
 - Evaluating evidence, including the reasonableness of the oral and written representations received by the assurance practitioner.
- A30. In a limited assurance engagement, obtaining an understanding of internal control over the process used to prepare the financial information assists the assurance practitioner in designing and performing procedures that address the areas where a material misstatement of the financial information is likely to arise. In considering the process used, the assurance practitioner uses professional judgement to determine which aspects of the process are relevant to the engagement and may make enquiries of the appropriate party about those aspects.
- A31. The assurance practitioner’s understanding of the financial information generally includes obtaining an understanding of:
- The type, source and nature of the financial information.
 - The time period covered and the reasons for its selection.
 - Its intended use.
 - The extent to which the financial information may be affected by the responsible party’s judgements.
 - Whether the financial information contains comparative information, whether such comparative information will be restated, and if so, why.
 - Identifying relevant information available in the public domain.
 - Identifying expected and plausible relationships within the financial information for use when performing analytical procedures.

- Whether the financial information has been previously audited or reviewed and, if so, the type of audit opinion or review conclusion expressed in the assurance practitioner's report.
- Whether the financial information has been prepared on a consistent basis with that of any prior period audited or reviewed information included in the document.
- Whether adjustments have been made that were considered immaterial in the prior period audit or review.

A32. The stated basis of preparation of the financial information may differ from prior audited or reviewed historical information also included in the published financial information. When this is the case, the required understanding of the accounting policies that have been adopted, includes an understanding of why the stated basis of preparation differs from prior audited or reviewed historical financial information.

A33. Relevant industry factors may include industry conditions, such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the assurance practitioner may consider include:

- The market and competition, including demand, capacity, and price competition.
- Common business practices within the industry.
- Cyclical or seasonal activity.
- Product technology relating to the entity's products.

A34. Relevant legal and regulatory factors may include the applicable financial reporting framework in accordance with which periodic financial information is prepared, and the legal and political environment. Examples of matters the assurance practitioner may consider include:

- Industry specific accounting practices.
- The legal and regulatory framework for a regulated industry.
- Legislation and regulation that directly affect the entity's or any acquiree's or divestee's operations, including direct supervisory activities.
- Taxation.
- Government policies that may be relevant to the entity or any acquiree or divestee.
- Environmental requirements affecting the entity's or any acquiree's or divestee's industry and business.

A35. Other external factors might include the general economic conditions, interest rates and availability of financing.

Pro Forma Financial Information (Ref: Para. 25, 27)

A36. When the base financial information has been previously audited or reviewed, the assurance practitioner may:

- Request a copy of the audit or review report accompanying the base financial information and, if obtained, read it to understand the type of report issued and, if modified, the reasons for the modification;
- Contact the other assurance practitioner to request access to engagement documentation supporting the report and, if provided, read the documentation to

assess the appropriateness of the approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the base financial information. This includes assessing the appropriateness of the materiality level applied in relation to the audit or review of the base financial information as compared to the materiality level assessed for purposes of the limited assurance engagement;

- Read the base financial information to which the audit or review report relates to establish if its stated basis of preparation (that is, its accounting policies) and time frame covered are appropriate; or
- Plan to perform further procedures as is considered necessary in the engagement circumstances.

A37. As noted in paragraph A15, if the assurance practitioner has not previously performed an audit or review of the historical financial information, the assurance practitioner may instead consider performing an assurance engagement on the compilation of the pro forma historical financial information in accordance with ISAE (NZ) 3420¹³. If the assurance practitioner nevertheless agrees to perform an assurance engagement incorporating historical financial information they did not audit or review and requests access to the engagement documentation of another assurance practitioner and is unable to obtain such access, this may constitute a limitation of scope of the engagement. If the assurance practitioner is unable to obtain sufficient appropriate evidence by other means, the assurance practitioner considers the impact on the engagement and the assurance report.

A38. In respect of the pro forma adjustments, the understanding obtained by the assurance practitioner may include:

- Identifying the pro forma adjustments.
- Understanding the event or transaction that the pro forma adjustments are intending to record.
- Understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them.

Prospective Financial Information (Ref: Para. 26)

A39. The understanding of the stated basis of preparation of the prospective financial information obtained by the assurance practitioner may include an understanding of:

- Its relevance, completeness, reliability, and understandability; and
- Any differences between the stated basis of preparation and that used in the most recent audited or reviewed historical financial information.

Obtaining Evidence

Designing and Performing Procedures (Ref: Para. 30-31)

A40. When identifying areas where a material misstatement is likely to arise and designing procedures to address the risks identified, the assurance practitioner may take into consideration matters such as:

¹³ ISAE (NZ) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma financial Information Included in a Prospectus*

- The likelihood of intentional misstatement in the financial information;
- Applicable law or regulatory requirements or guidance with respect to the preparation or presentation of the financial information;
- The complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and
- How the responsible party makes significant accounting estimates and the data on which they are based.

A41. The nature, timing and extent of assurance procedures is influenced by various factors, for example:

- The identification of areas where material misstatement of the financial information is likely to arise and its impact on the sufficiency and appropriateness of evidence.
- The stated basis of preparation chosen by the responsible party.
- Whether some of the financial information has previously been audited or reviewed.
- Whether the financial information is prepared on the same basis as prior period audited or reviewed historical financial information, and if not, why not.
- Whether the source and time period covered by the financial information are appropriate and consistent with the stated basis of preparation.
- Whether misstatements considered immaterial in prior period audited or reviewed historical financial information need to be corrected.

A42. In designing analytical procedures, the assurance practitioner determines the suitability of particular analytical procedures in relation to the financial information, taking into consideration the identified risks of material misstatement of the financial information.

A43. Analytical procedures may be effective when disaggregated data is readily available, or when the assurance practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data and some common input controls applied.

A44. The assurance practitioner's enquiries of the responsible party regarding significant accounting estimates may address:

- Whether the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates
- The method chosen for making material accounting estimates and whether:
 - It has been applied consistently;
 - It is appropriate when compared with the most recent audited or reviewed financial statements;
 - It reflects any changes in method from prior periods; and
 - Any changes in method are consistent with the stated basis of preparation.

A45. It may be appropriate for the assurance practitioner to evaluate how the responsible party has considered alternative assumptions or outcomes in determining the accounting estimates, and why it has rejected them.

A46. Other procedures in the context of material accounting estimates that the assurance practitioner may determine are appropriate in the circumstances may include:

- Testing how the responsible party made the accounting estimate and the data on which it is based.
- Evaluating whether the method of quantification used is appropriate in the circumstances.
- Evaluating whether the assumptions used by the responsible party are reasonable.

A47. Other procedures the assurance practitioner may consider appropriate depending on the nature and circumstances of the engagement may include:

- Reviewing key contracts.
- Reconciling key recorded accounts and balances to supporting documentation.
- Re-performing key calculations such as accounting estimates and reconciling differences noted.
- Performing external confirmation procedures.

Pro forma historical financial information (Ref: Para. 32)

A48. The assurance procedures on the pro forma historical financial information may include:

- Enquiring of the responsible party about:
 - The process and source from which the base historical financial information has been prepared and the reliability of the underlying accounting records to which the base historical financial information is agreed or reconciled;
 - Whether all transactions for the time period have been recorded;
 - Whether the base historical financial information has been prepared in accordance with the entity's accounting policies;
 - Whether there have been any changes in accounting policies from the most recent audited or reviewed period, and, if so, how such changes have been dealt with;
 - Its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
 - The effect of changes in the entity's business activities and operations;
- If the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the base financial information has been extracted;
- Corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances; and

- Comparing the source from which the base historical financial information has been prepared with the corresponding prior period historical financial information and, as applicable, the immediately preceding annual or interim historical financial information, and discussing significant changes with the responsible party.

A49. When there is no audit or review report on the source from which the base financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source (e.g., when historical financial information is extracted from financial statements or management accounts that were not audited or reviewed). Factors that may affect the nature and extent of these procedures include, for example:

- Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to other periodic reviews by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the base historical financial information.

A50. For the pro forma historical financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. For example, in the context of a business combination this may involve consideration of such matters as:

- Whether differences exist between the acquiree's accounting policies and those of the entity; and
- Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A51. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- Whether it has appropriately applied such policies in preparing the pro forma historical financial information.

Prospective financial information

A52. This SAE does not require the assurance practitioner to perform an audit or review of the source from which the base financial information has been extracted as part of the engagement, if such an audit or review has not already been performed. (Ref: Para. 33(c))

A53. A high risk that there may be a significant difference between the prospective financial information and actual results may call into question the suitability and reasonableness of the assumptions used as the basis for the preparation of the prospective financial information and their characterisation as reasonable. (Ref: Para. 33 (e))

A54. The assurance practitioner's enquiries of the responsible party may also address the interaction of assumptions with each other. (Ref: Para. 35(b)(v))

A55. The assurance practitioner's evaluation of the stated basis of preparation used by the responsible party may include: (Ref: Para. 37(a))

- The process for its selection and approval;
- The differences, if any to the basis of preparation, adopted in the most recent financial report; and
- Its suitability for the preparation of the prospective financial information, based on the stated purpose of the prospective financial information.

A56. Prospective financial information ordinarily becomes more speculative and less verifiable as the length of the period covered increases. (Ref: Para. 38(a))

Pro Forma Prospective Financial Information (Ref: Para. 39)

A57. The assurance procedures on the pro forma prospective financial information may include:

- Enquiring of the responsible party about:
 - The process by which the base financial information has been prepared and the reliability of the underlying accounting records to which the base financial information is agreed or reconciled;
 - Whether all transactions for the time period have been recorded;
 - Whether the base financial information has been prepared in accordance with the entity's accounting policies;
 - Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with;
 - Its assessment of the risk that the base financial information may be materially misstated as a result of error or fraud; and
 - The effect of changes in the entity's business activities and operations;
- If the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the base financial information has been extracted;
- Corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries when the responses appear inconsistent with the assurance practitioner's understanding of the entity or the engagement circumstances; and
- Comparing the base financial information with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the

responsible party.

A58. When there is no audit or review report on the source from which the base financial information has been extracted, the assurance practitioner's procedures may include those necessary to obtain sufficient appropriate evidence about that source. Factors that may affect the nature and extent of these procedures include, for example:

- Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information and the assurance practitioner's knowledge of the entity from such engagement.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to other periodic reviews by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the assurance practitioner is able to access documentation describing and supporting the source of the base historical financial information.

A59. For the pro forma prospective financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:

- Whether differences exist between the acquiree's accounting policies and those of the entity; and
- Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into consideration the entity's particular circumstances.

A60. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s) the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- Whether it has appropriately applied such policies in preparing the pro forma prospective financial information.

Specialised Skills or Knowledge (Ref: Para. 40)

A61. The assurance practitioner may decide to engage an expert to, for example:

- Evaluate the suitability of the stated basis of preparation.
- Assess the impact of contractual requirements on the pro forma prospective financial information.
- Evaluate pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation.
- Value new complex financial instruments.

A62. The expert may be an assurance practitioner's internal expert (i.e., from the assurance practitioner's firm) or an external expert.

Subsequent Events (Ref: Para. 45-46)

A63. If the assurance practitioner becomes aware of events, transactions or errors after the document has been lodged with the appropriate regulatory body, the assurance practitioner considers the implications for the assurance report, as well as any obligation the assurance practitioner may have to inform the entity issuing the document.

Going Concern (Ref: Para. 47-48)

A64. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that such an assessment could have implications for the assurance report. Ordinarily the assessment of going concern is appropriate for assurance engagements relating to historical financial information. Ordinarily in an engagement to report on prospective financial information, the going concern assumption is not relevant to the assurance practitioner's conclusion as the nature of the information is based on anticipated event(s) or transaction(s) that have not occurred and its preparation requires the exercise of considerable judgement by the responsible party.

A65. If the assurance practitioner considers that performing a going concern assessment is relevant, the assurance practitioner ordinarily performs the assessment as if the events or transactions giving rise to the capital raising had occurred, and considers, for example, the entity's prepared future forecasts, future cash flow statements, the directors' working capital statements, and financial position and any other event(s) or condition(s) that are relevant to the assessment. For example, if the prospects for profitability are not supported by adequate positive future cash flows, then both the forecast financial performance statement and the ongoing viability of the entity are at risk. There may also be mitigating factors that in the assurance practitioner's professional judgement eliminate the going concern uncertainty. Mitigating factors may include:

- A review of recently prepared forecasts, cash flow statements, working capital statements or statements of financial performance;
- Unequivocal financial support provided from another entity which has the capacity to provide support;
- A signed underwriting agreement being in place; and/or
- The underlying event(s) or transaction(s) giving rise to the document (for example, a capital raising) which will, if completed successfully, raise sufficient funds to result in the entity becoming a going concern.

Mitigating factors need to be supported by appropriate written evidence. In such circumstances, the assurance practitioner evaluates and documents how the unequivocal financial support or proceeds from the fundraising issue will provide funding for future operations of the entity that will result in the entity becoming a going concern. Consideration is given to any proposed underwriting of any capital raising, and the circumstances in which the proposed underwriting may not occur. The assurance practitioner may also consider it necessary to request a written representation from the responsible party regarding the appropriateness of the going concern assumption.

A66. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern basis:

- (a) If the basis has not been modified, then the conclusion in the assurance report may need to be modified on the basis of the going concern assumption being inappropriate to the historical financial information; or
- (b) If the basis has been modified, and the assurance practitioner considers the basis to be appropriate, then the assurance practitioner may still include an Emphasis of Matter paragraph in the assurance report to draw attention to the disclosure of this alternate basis.

Preparing the Assurance Report (Ref: Para. 50-51)

A67. The assurance report may be prepared solely in respect of one type of financial information or may be a composite report where two or more types of financial information are the subject of the assurance report (for example historical and prospective financial information).

A68. In a composite report:

- (a) The different types of financial information should be clearly identified in the financial information, and separately referred to in the assurance report; and
- (b) The assurance report should clearly identify and segregate the work carried out and the conclusion expressed on the different types of financial information.

Assurance Report Content (Ref: Para. 52)

A69. Illustrative assurance reports are set out in Appendix 1.

A70. In addition to the required basic elements, the assurance report may include a liability statement.

A71. The assurance practitioner may wish to refer to both this standard and ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standard in the assurance report. The assurance practitioner is not precluded from doing so. For example, we have conducted our review of the historical financial information in accordance with SAE 3450, *Assurance Engagements Over Financial Information Prepared in Connection with a Capital Raising* and NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*.

A72. An appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. A description of the assurance practitioner's procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.

A73. Factors to consider in making that determination and the level of detail to be provided include:

- (a) Circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);
- (b) Specific engagement circumstances affecting the nature and extent of the procedures performed; and
- (c) The intended users' expectations of the level of detail to be provided in the assurance report based on market practice, or applicable laws or regulations.

A74. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken.

Other Information (Ref: Para. 56-57)

A75. The assurance practitioner ordinarily reads all other information included in the public document for consistency with the financial information. The assurance practitioner's reading of the other information does not infer any assurance on that information, as the assurance practitioner reads it only to establish if there are any material inconsistencies or misstatements which may impact the financial information.

A76. The assurance practitioner ordinarily pays particular attention to the following disclosure areas within the published financial information:

- Other financial information not subject to the assurance engagement including:
 - Summarized financial information, for example, in tabular or graphical forms.
 - Disclosures related to other financial information that has been previously audited or reviewed.
 - Management discussion and analysis discussing other financial information.
- Disclosures about the nature of the events or transactions giving rise to the preparation of the published financial information.
- Qualitative and quantitative disclosures about the entity's plans and future outlooks.
- Key trends and factors related to the entity's industry or nature of operations that are likely to affect the entity's strategy or the timeframe over which achievement of the strategy is planned.
- Other relevant disclosures, for example:
 - Explanations of how revenue would be generated.
 - Nature and extent of related party disclosures.
 - Valuation of material assets.

A77. If there are material inconsistencies, or material misstatements, related to the financial information which are not corrected by the responsible party, or the assurance

practitioner does not consider the assurance report will be used for the intended purpose, the assurance practitioner ordinarily does not provide consent.

Consent (Ref: Para. 58-59)

A78. Consent is ordinarily provided by way of a separate consent letter issued to the entity prior to the assurance report.

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Appendix 1

(Ref: Para. A69)

Illustrative Assurance Reports

The following illustrative assurance reports are for guidance only and are not intended to be exhaustive or applicable to all situations.

- Illustration 1: An Independent Limited Assurance Report where the full sets of financial information have been reviewed.
- Illustration 2: An Independent Limited Assurance Report where selected financial information has been reviewed.

Illustration 1: An Independent Limited Assurance Report where the full sets of financial information have been reviewed

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

- The financial information includes a full set of historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information.
- The financial information is published in the online register.
- An unmodified opinion was issued on the historical financial information.
- An unmodified limited assurance conclusion is issued on each type of financial information.

INDEPENDENT LIMITED ASSURANCE REPORT

To *[Appropriate Addressee]*

Conclusions

Historical financial information

Based on our review (which is a limited assurance engagement), nothing has come to our attention that causes us to believe that the Historical Financial Information of the ABC Company, is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in section [x] of the Supplementary Financial Information, being the recognition and measurement principles contained in New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and the Company's adopted accounting policies.

Pro Forma historical financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in the Supplementary Financial Information, has not been prepared, in all material respects, in accordance with the stated basis of preparation as described in section [x] of the Supplementary Financial Information, being the recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS that reflect (i) the recognition of certain items in periods

different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date]

Prospective financial information

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

- The Directors' best-estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in Financial Reporting Standard No. 42 *Prospective Financial Statements* (FRS-42), for the preparation of the PFI; and
- The PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
 - Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in NZ IFRS and the Company's adopted accounting policies.

Pro Forma Prospective financial information

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

- The Directors' best-estimate assumptions used in the preparation of the Pro Forma PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the Pro Forma PFI; and
- The Pro Forma PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
 - Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS, that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date]].

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

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

Financial Information subject to assurance

(a) Historical Financial Information being the

- Consolidated Statements of Comprehensive Income of ABC Company for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2
- Consolidated Statements of Changes in Equity for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Consolidated Statements of Cash flows for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Consolidated Statements of Financial Position as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the Register Entry, and which have been prepared in accordance with the stated basis of preparation set out in the financial statements for those years, being the recognition and measurement principles contained in NZ IFRS and the Company's adopted accounting policies, as described in the notes to the Supplementary Financial Information included in the Register Entry.

(b) Pro Forma Historical Financial Information being the:

- Pro Forma Consolidated Statements of Comprehensive Income of ABC Company for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Pro Forma Consolidated Statements of Cash Flows for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Pro Forma Consolidated Statements of Changes in Equity for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Pro Forma Consolidated Statements of Financial Position as at 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Notes and assumptions to these pro forma historical consolidated statements of comprehensive income, cash flows, changes in equity, and financial position

which have been prepared in accordance with the stated basis of preparation set out in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS, that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date]].

(c) Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;

- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows,

which have been prepared in accordance with the stated basis of preparation set out in the *Prospective Financial Information* section in the Register Entry, being the recognition and measurement principles of NZ IFRS

(d) Pro Forma Prospective Financial Information being the:

- Pro Forma Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Pro Forma Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4
- Pro Forma Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
 - Notes and assumptions to these pro forma PFI consolidated statements of comprehensive income, cash flows, changes in equity, and financial position

which have been prepared in accordance with the stated basis of preparation set out in the Supplementary Financial Information in the Register Entry, being the recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS, that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date]].

Our limited assurance engagement

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

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

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

Our Independence and Quality Control

We have complied with Professional and Ethical Standard 1 *International Code of Ethics for*

Assurance Practitioners (including International Independence Standards) (New Zealand), which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

[*Assurance Firm name*] does not have any interest in the outcome of the Offer other than the preparation of this limited assurance report and related due diligence procedures, for which normal professional fees will be received. We are independent of the Company. [*We have no relationship with or interest in the Company other than in the capacity of auditor. The provision of these other services has not impaired our independence.*]

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the financial information, including its basis of preparation. This includes responsibility for compliance with applicable laws and regulations and such internal controls as the Directors determine are necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

The Directors of the Company are responsible for the preparation and presentation of the PFI and for the determination of assumptions that have a reasonable and supportable basis (as required by FRS-42).

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

Our responsibilities

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

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

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

Disclaimer

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

Restriction on Use

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

[Other information (or other appropriate title)]

If the assurance practitioner considers it necessary, the assurance practitioner may include an “other information” paragraph in the report when information that is included in the published financial information is not covered by the assurance practitioner’s report. Such a paragraph clarifies the responsibilities of the assurance practitioner for that other information.]

Consent

[Assurance Firm name] has consented to the inclusion of this assurance report in the *[Offer Document]* in the form and context in which it is included.

Liability

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

[Name of lead assurance practitioner]

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

[Address]

[Date]

Illustration 2: An Independent Limited Assurance Report where selected financial information has been reviewed.

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

- The financial information includes selected historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information
- The financial information is published in the Product Disclosure Statement (PDS) and online register entry (Register Entry).
- An unmodified opinion was issued on the historical financial information
- An unmodified limited assurance conclusion is issued on each type of financial information.

INDEPENDENT LIMITED ASSURANCE REPORT

To *[Appropriate Addressee]*

Conclusions

Historical financial information

Based on our review (which is a limited assurance engagement), nothing has come to our attention that causes us to believe that the Historical Financial Information of the ABC Company, is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in section [x] of the PDS, being the recognition and measurement principles contained in International Financial Reporting Standards (IFRS) and New Zealand International Financial Reporting Standards (NZ IFRS) and the Company's adopted accounting policies.

Pro Forma historical financial information

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

Prospective financial information (PFI)

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

- The Directors' best-estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in Financial Reporting Standard No. 42 *Prospective Financial Statements* (FRS-42), for the preparation of the PFI; and
- The PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and

- Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies.

Pro Forma Prospective financial information

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

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

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

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

Financial Information subject to assurance

Historical Financial Information being the

- Revenue, earnings before interest tax, depreciation, and amortisation (EBITDA) and net profit after tax / (loss after tax) for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2
- Net cash flows from operating activities for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the PDS, and which have been prepared in accordance with the basis of preparation set out in the financial statements for those years, being the recognition and measurement principles of *International Financial Reporting Standards* (IFRS) and *New Zealand Equivalents to International Financial Reporting Standards*

(NZ IFRS) and the Company's adopted accounting policies, and calculated in accordance with the notes in the PDS.

Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the PDS;
- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- Notes and assumptions to this pro forma historical financial information.

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

Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows,

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

- The EBITDA reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- *Selected financial information* from the prospective financial information above included in the PDS, being revenue, EBITDA, net profit after tax / (loss after tax), dividends paid on all equity securities, dividends paid post IPO, total assets, cash and cash equivalents, total liabilities, total debt, total debt including leases and net cash flows from operating activities.

Pro Forma Prospective Financial Information being the:

- Pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities for the years ending 31 December 20X3 and 31 December 20X4 in the PDS; and
- The pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry,

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

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

Our limited assurance engagement

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

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

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

Our Independence and Quality Control

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

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

[*Assurance Firm name*] does not have any interest in the outcome of the Offer other than the preparation of this limited assurance report and related due diligence procedures, for which normal professional fees will be received. We are independent of the Company. [*We have no relationship with or interest in the Company other than in the capacity of auditor. The provision of these other services has not impaired our independence.*]

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the financial information, including its basis of preparation. This includes responsibility for compliance with applicable laws and regulations and such internal controls as the Directors determine are necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

The Directors of the Company are responsible for the preparation and presentation of the PFI and for the determination of assumptions that have a reasonable and supportable basis (as required by FRS-42).

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

Our responsibilities

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

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

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

Disclaimer

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

Restriction on Use

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

[Other information (or other appropriate title)]

If the assurance practitioner considers it necessary, the assurance practitioner may include an “other information” paragraph in the report when information that is included in the published financial information is not covered by the assurance practitioner’s report. Such a

paragraph clarifies the responsibilities of the assurance practitioner for that other information.]

Consent

[*Assurance Firm name*] has consented to the inclusion of this assurance report in the [*Offer Document*] in the form and context in which it is included.

Liability

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

[*Name of lead assurance practitioner*]

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

[*Address*]

[*Date*]

DRAFT



Date: 1 December 2022

To: Michele Embling, Chair External Reporting Board

From: Marje Russ, Chair NZAuASB

Subject: **Certificate Signing Memorandum:** *SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising*

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue Standard on Assurance Engagements (SAE) 3450, *Assurance Over Financial Information Prepared in Connection with a Capital Raising*.

Background

2. The XRB's assurance standards currently do not specifically address assurance over financial information prepared in connection with a capital raising. Such assurance is not required by regulation, but is voluntarily sought.
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.

International process

4. There is no equivalent international standard.

Domestic process

5. An exposure draft was developed with significant reliance on ASAE 3450 as its base. Staff was 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. The NZAuASB consulted its constituency, performing targeted outreach in developing the exposure draft and a formal consultation process prior to finalising the standard.
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

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

days. We communicated our exposure draft via our usual channels, i.e., the XRB website, notification via Alerts, and held a virtual feedback forum.

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. Submissions were received from PwC (written), EY (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, but EY did raise some concerns.
10. The Director Assurance and senior project manager met with representatives of EY to discuss their submission to ensure we had properly understood the concerns raised. These included:

- Differences in practices between the firms, with some firms limiting the scope of the engagement to assurance over specific line items in the product disclosure statement (e.g., with respect to historical financial information, assurance over revenue, EBITDA and net profit after tax) and other firms agreeing the scope to be over the full underlying financial statements included in the online register, (e.g., the primary financial statements such as an income statement, cash flow statement or balance sheet prepared in accordance with appropriate recognition and measurement principles)

In NZ, the assurance engagement over financial information prepared in connection with a capital raising is a voluntary engagement where the scope of the engagement is negotiated with the engaging party. The NZAuASB determined that the standard allow for the engaging parties to determine the scope of the standard, and we recommend that both practices are permissible under the draft standard. Illustrative reports have therefore been included reflecting both practices.

- The need for due diligence participation and reporting ethical standards, similar to those issued by the Accounting Professional Ethics Standards Board (APESB) in Australia². We discussed with EY that these standards are beyond the mandate of the XRB and therefore we have not been able to adjust the standard for this point;
- The consistency of the proposed standard with the ASAE. EY noted several areas where the NZ proposed standard differed from the ASAE. This was mainly in the definitions where the Board has adopted NZ appropriate definitions, and in the areas dealing with quality control, professional scepticism, professional judgement,

² APES 345, *Reporting on Prospective Financial Information Prepared in Connection with a Public Document* and APES 350, *Participation by Members in Public Practice In Due Diligence Committees in connection with a Public Document*

documentation where the NZAuASB agreed not to duplicate material included in the base standards³; and

- The interaction of the proposed standard with the auditing/assurance standards. EY noted that the proposed standard should first and foremost set out specific requirements and then where applicable demonstrate the interrelationship with the base standards. In response, we have changed the way the standard refers to the base standards in the requirements.

11. We believe these matters did not result in substantive changes to the exposure draft, and therefore do not warrant re-exposure.

Australian process and harmonisation with Australia

12. The SAE was developed with significant reliance on ASAE 3450 as its base. Given the number of dual listings on the NZX/ASX the NZAuASB considers consistency between the SAE and ASAE 3450 an important factor. However, as ASAE 3450 contains direct references to the Corporations Act 2001 and other review standards that have no equivalent in New Zealand, its adoption without amendment is not appropriate.
13. In support of the NZAuASB/AUASB convergence policy, staff has had regular engagement throughout the project with AUASB staff.

Privacy

14. 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

15. 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

16. The issuance of SAE 3450 *Assurance Over Financial Information Prepared in Connection with a Capital Raising* is consistent with the XRB's strategy to harmonise with Australian standards. There is no equivalent international standard.

Other matters

17. 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.

³ The term base standards is used to refer to ISAE (NZ) 3000 (Revised) and the applicable review engagement standard.

Recommendation

18. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

- SAE 3450 *Assurance Over Financial Information Prepared in Connection with a Capital Raising*
- Certificate of determination
- Approval certificate

Marje Russ

Chair NZAuASB



Date: 14 November 2022
To: NZAuASB Members
From: Rene Herman, AUASB staff
Subject: **Transparency in auditor’s report (Public interest entity, Going concern, Fraud)**

Recommendations and Questions for the Board

Question No.	Question for the Board
Question 1	<p>What are the NZAuASB members views of the costs/benefits of additional disclosure in the audit report of considering (refer to agenda item 7.2 for more information):</p> <ul style="list-style-type: none"> • boilerplate text • tailored text <p>Note to NZAuASB: One foundation discussion now will form the basis of future discussions on topics such as:</p> <ul style="list-style-type: none"> • Public Interest Entities • Going Concern • Fraud

Background

1. The objective of this paper is to plan for and consider how the NZAuASB may respond to upcoming IAASB proposals as it relates to enhanced transparency in the auditor’s report in relation to PIE, Going Concern and Fraud considering the objectives of the Auditor Reporting project which was to enhance the communicative value and relevance of the auditor’s report.
2. The auditor’s report is the key deliverable addressing the output of the audit process. As noted at the time of the Auditor Reporting project, users of the financial statements signalled that while the auditor’s opinion on the financial statements is valued, many called for the auditor’s report to be more informative and relevant.
3. In the IAASB’s Discussion Paper on Going Concern and Fraud, it was highlighted that, from an audit standard setting perspective, the knowledge gap for users of the financial statements can only be addressed through more transparency in the auditor’s report (i.e., the auditor provides more information within the auditor’s report so that users better understand what the auditor did or the outcomes of certain procedures). Suggestions have been made, that to narrow the expectation gap in relation to users of the auditor’s report and their expectations for what has been done in an audit, the auditor’s report should provide more detail with respect to going concern and fraud.

Matters for Discussion and Staff Recommendations

4. Assessing the feasibility of future impacts on the auditor’s report should not only be looked at on an individual basis but also from a holistic perspective. Individual assessments may appear appropriate on the face of it but looking at all impacts holistically may alter this view.

5. While fully supportive of transparency in the auditor's report there needs to be a balance in recognising demands from users of these reports, and a consideration that the extent of proposed changes may ultimately increase complexity, understandability, and length of the auditor's report, thereby diminishing the value in reporting.
6. The NZAuASB needs to consider whether they are supportive of the direction of the IAASB and if not, why not. There are mixed views on this topic and staff do not consider there is sufficient evidence-based information to form a definitive view (summary at Agenda Item 7.2 supports this view).

High Level Overview of Current IAASB Proposals Impacting the Auditor's Report

A. PIE PROJECT

7. The IAASB have already issued this Exposure Draft to which the NZAuASB has already responded. The Exposure Draft proposed targeted revisions to ISA 700 and ISA 260 to respond to the revisions to the IESBA Code that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs.
8. The NZAuASB acknowledged that the auditor's report is the most appropriate mechanism for the IAASB to operationalise the IESBA's requirement to publicly disclose when the auditor has applied the specific independence requirements for certain entities. While supportive of transparency, the NZAuASB raised concerns with the proposals, noting that the amendments may be of limited value to users.

B. GOING CONCERN

9. IAASB Proposals are not too dissimilar from what is currently disclosed in the auditor's report, detail contained in Agenda Item 7.3. The key changes from extant are:
 - Going concern will have a separate section in the auditor's report
 - Boilerplate blanket statement where there is no material uncertainty
 - All 'close calls' are now effectively a KAM (although not called a KAM) (Listed only)
 - MURGC – enhanced disclosures effectively bring disclosures in line with those under KAM
10. Staff's key concerns are around the boilerplate blanket statement and the differential reporting for 'close call' scenarios.

C. FRAUD

11. Considerable uncertainty as to direction of proposals – to be followed up after IAASB December 2022 or March 2023 meeting.

Evidence informed standard setting

12. The NZAuASB supports evidence based standard setting. The IAASB has done extensive information gathering in informing their decisions, including:
 - Issuing a Discussion Paper – September 2020
 - Hosting an Expectation Gap roundtable – September 2020
 - Auditor Reporting Post Implementation Review – June 2021

- Academic Research

13. A summary of considerations / deliberations is included at Appendix 1 to this paper. Included within agenda item 7.2 are some of the NZAuASB considerations previously expressed on this topic.

OVERALL POSITION

14. As described through Appendix 1 to this paper, there are significant mixed views regarding the benefits of issues related to additional disclosures by the auditor through the auditor’s report. Additionally, academic research in this area is not definitive on the impacts to users through additional reporting by the auditor. Accordingly, the ATG does not consider there is sufficient evidence-based information to form a definitive view. On this basis the ATG considers that the NZAuASB should have a foundation discussion on the costs/benefits of additional disclosure in the audit report to form the basis of consideration of the matter in future projects.

Collaboration with AUASB

15. This paper will be considered by both the AUASB and the NZAuASB.

Materials Presented

Agenda Item	Description
7.2 (Supplementary paper)	High level summary of considerations into the proposals of transparency in the auditor’s report
7.3 (Supplementary paper)	Going Concern reporting: summary of current IAASB proposals

AGENDA ITEM NO.	8.1
Meeting date:	1 December 2022
Subject:	PIR SAE 3100 <i>Compliance Engagements</i> – Project Plan & Update
Date:	16 November 2022
Prepared By:	Tracey Crookston

<input type="checkbox"/> Action Required	<input checked="" type="checkbox"/> For Information Purposes Only
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Agenda item Objective

1. The objective of this agenda item is for the Board to:
 - (a) note the project plan for the Post Implementation Review (PIR) of SAE 3100 *Compliance Engagements* (Revised) (SAE 3100 (Revised)); and
 - (b) receive a project update.

Background

2. At the April 2022 NZAuASB meeting, the Board:
 - (a) noted the AUASB staff's project plan for the PIR of ASAE 3100 *Compliance Engagements* (which included targeted consultation with key stakeholders); and
 - (b) agreed to a New Zealand PIR of SAE 3100 (Revised).
3. The XRB relies on outreach to make the best decisions when developing new standards. However, it is not until the standards are applied that any unforeseen issues become apparent.
4. The objective of a PIR is to assess whether standards are working as intended and achieving their objectives. PIRs are a regular part of standard setting and are usually carried out once a new standard has been applied for a few years. They help ensure the standards remain current and operational.
5. A PIR looks at:
 - (a) whether a standard is performing as intended;
 - (b) whether any new issues have emerged since a standard was issued; and
 - (c) whether the cost of applying a standard is consistent with expectations.
6. SAE 3100 (Revised) was issued by the XRB in 2017. It replaced the previous version of the standard issued in 2011. The revised standard was developed in collaboration with the AUASB.
7. The AUASB has completed its PIR of ASAE 3100 *Compliance Engagements* and has published a [Feedback Statement](#). Based on the evidence gathered through the PIR process there are no recommended changes to ASAE 3100. However, the feedback statement notes that the AUASB could look to further its communications to raise awareness about the concepts and principles of limited and reasonable assurance engagements under the ASAE suite of standards (e.g., via a landing page on its website).

8. The New Zealand PIR is timely as we are currently exploring with assurance practitioners whether SAE 3100 (Revised) is applicable when auditors are engaged to undertake assurance engagements required by the Reserve Bank's Orders in Council.

Matters for Noting

9. We have set out the project plan for the PIR of SAE 3100 at **agenda item 8.2**. We have also provided a project update. As we are due to receive responses from stakeholders after the Board papers are finalised, we will provide a verbal update at the December meeting.
10. Board members are asked to NOTE the PIR project plan and project update at **agenda item 8.2**.

Material Presented

- Agenda item 8.1 Board Meeting Summary Paper
Agenda item 8.2 Project Plan and Update

Project Plan – PIR SAE 3100 (Revised) Compliance Engagements

Purpose

1. The purpose of this project is to:
 - (a) conduct a post implementation review to gather information about the application of SAE 3100 (Revised) *Compliance Engagements* (SAE 3100 (Revised)).
 - (b) evaluate the standard's implementation since SAE 3100 (Revised) was applicable. Staff will engage with stakeholders to ascertain whether the standard is operating as intended (i.e., there are no concerns with the standard or any unintended consequences).
2. If any issues come to the attention of staff during the PIR, that may require consideration of changes to the standard, these will be considered by the External Reporting Board (XRB).

Scope

3. We will engage with key stakeholders to seek their feedback on the use of SAE 3100 (Revised). We understand that it is used in a variety of assurance engagements including:
 - custodian assurance engagements¹ (section 87(1), section 229U; [FMC Regulations 2014](#));
 - assurance engagements for derivatives issuers (section 248; FMC Regulations 2014);
 - AML audits (section 59, 59A [AML/CFT Act 2009](#)); and
 - audits of real estate trust accounts² ([Real Estate Agents \(Audit\) Regulations 2009](#)).
4. Under the AML/CFT Act 2009³ an assurance engagement is required over the (a) risk assessment and (b) AML/CFT programme.
5. CA ANZ have produced guidance for members which notes that the work involved over the risk assessment is a compliance engagement in accordance with SAE 3100 (in addition to ISAE (NZ) 3000). The work involved over the AML/CFT programme involves ISAE (NZ) 3000, SAE 3100 (and SAE 3150 *Assurance Engagements on Controls*).

Engagement

6. The PIR will involve targeted engagement with key stakeholders from:
 - (a) practice – large, medium and small practitioners – some of whom undertake AML audits and the audit of real estate trust accounts;
 - (b) public sector (e.g., Audit New Zealand and the Office of the Auditor General);
 - (c) financial markets regulator (FMA); and
 - (d) professional bodies (CA ANZ, CPA Australia).

¹ A custodian must obtain, within 4 months after the relevant date, an assurance engagement with a qualified auditor (including obtaining the assurance report within that period (section 87(1) FMC Regulations 2014).

² The NZ Real Estate Authority (REA) has a [model report](#) which contains example opinion wording from SAE 3000 and 3100. The [REA website](#) includes a download for SAE 3100.

³ Full title: the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009.

7. The PIR questions (adapted from the PIR or ASAE 3100) are as follows:

1.	When do you use SAE 3100 (Revised) or when are you aware of this standard being applied in practice? How frequently is this standard applied in practice?
2.	Do the requirements of SAE 3100 (Revised) enable the auditor to achieve/meet the objectives of the standard and/or the objectives of the engagements undertaken in accordance with the standard?
3.	Were there any challenges with SAE 3100 (Revised) that you encountered over the last 2 years in a COVID environment, as you were conducting your compliance engagements?
4.	Are there any costs that you consider to be significant/disproportionate in applying this standard?
5.	Are there any other matters you would like to raise regarding the current standard and its application (e.g., any requirements that are problematic, any further requirements that need to be added etc.).
6.	Are the concepts of materiality and assessment of compliance engagement risk adequately explained in the standard?
7.	Is the requirement for assessing the elements of an entity's compliance framework clear? Does the standard provide relevant application material for the assurance practitioner?
8.	Are the requirements specific to determining, evaluating, and communicating material deficiencies and breaches in an entity's compliance framework clear?

Timetable

8. The following timetable is proposed:

Task	By When
Develop project plan and identify key stakeholders	Late October/early November
Email sent to key stakeholders	Allow 2 weeks for responses
Receive key stakeholder feedback	Mid November
Analyse responses and recommend action	December Board meeting (verbal update)
Draft and publish feedback statement	January 2023
Consider amendments to standard (if necessary)	During 2023

Progress update

9. Staff sent an email to stakeholders with the PIR questions in early November. Responses were due after the Board papers were finalised. We will update the Board at the December meeting on the nature of the responses received and staff's recommended action(s).