

## NZAuASB Board Meeting Agenda

5 April 2023

9:15 am to 5.00 pm, XRB offices, Wellington

Apologies: David Hay

Est.Time	Item	Topic	Objective		Page	Supplementary	
9.30am	<b>1</b>	<b><u>Board Management</u></b>					
	1.1	Action list	Approve	Paper	3		
	1.2	Chair's report	Note	Verbal			
	1.3	AUASB Update	Note	Verbal			
	1.4	Update from CE	Note	Verbal			
	1.5	Prioritisation plan update	Note	Paper		4	
10.15am	<b>2</b>	<b><u>Environmental scanning</u></b>				Anna	
	2.1	International Update	Note	Paper	4		
	2.2	Domestic Update	Note	Paper	9		
	2.3	February Update for XRB	Note	Paper	11		
	2.4	Summary international sustainability projects	Note	Paper	23		
	2.5	Notes from Audit reference group	Note	Paper	26		
10.45am	<i>Morning tea</i>						
11:00am	<b>3</b>	<b><u>Assurance landscape</u></b>				Karen	
	3.1	Summary paper	Note	Paper	33		
	3.2	Assurance Stakeholder Map			35		
11:30am	<b>4</b>	<b><u>Standard setting policies</u></b>				Misha	
	4.1	Summary paper	Note	Paper	37		
	4.2	Slide pack	Consider	Paper	39		
	4.3	EG Au2	Note	Paper		7	
	4.4	Conformance and harmonisation policy	Note	Paper		19	
12.00pm	<b>5</b>	<b><u>GHG issues</u></b>				Anna	
	5.1	Summary paper	Note	Paper	58		
	5.2	Substantive issues (Late paper)	Consider	Paper	Late		
	5.3	Polling results	Note	Paper		31	
	5.4	Jeska McHugh Submission	Note	Paper		33	
	5.5	ACE Submission	Note	Paper		35	
	5.6	KPMG Submission	Note	Paper		37	
	5.7	Tonkin & Taylor Submission	Note	Paper		39	
	5.8	CEP submission	Note	Paper		42	
	5.9	AFAANZ submission	Note	Paper		48	
	5.10	OAG submission	Note	Paper		57	
	5.11	Submissions received after 9:30am 24 March	Note	Paper		Late	

Est.Time	Item	Topic	Objective		Page	Supplementary
1.00pm	<i>Lunch</i>					
1:45pm	<b>6</b>	<b><u>Audit Evidence</u></b>			<i>Bruce</i>	
	6.1	Summary paper	Note	Paper	61	
	6.2	Draft submission	Approve	Paper	65	
	6.3	IAASB Exposure Draft	Note	Paper		66
	6.4	Submissions received and poll results	Note	Paper		150
2:15pm	<b>7</b>	<b><u>Perceptions on trust and confidence</u></b>			<i>Misha</i>	
	7.1	Summary paper	Consider	Paper	73	
2:30pm	<b>8</b>	<b><u>Going concern</u></b>			<i>Sharon</i>	
	8.1	Summary paper	Note	Paper	76	
	8.2	Compelling reason test	Consider	Paper	82	
	8.3	Proposed ISA 570 (IAASB for approval)	Note	Paper		171
3:00pm	<b>9</b>	<b><u>Engagement team and group audits</u></b>			<i>Lisa</i>	
	9.1	Summary paper	Consider	Paper	88	
	9.2	Amending standard	Approve	Paper	91	
	9.3	Signing memo	Approve	Paper	122	
3.30pm	<i>Afternoon tea</i>					
3.45pm	<b>10</b>	<b><u>IAASB Strategy and work plan submission</u></b>			<i>Sharon</i>	
	10.1	Summary paper	Consider	Paper	126	
	10.2	Submission	Approve	Paper	129	
4.00pm	<b>11</b>	<b><u>ED Tax Planning and Related Services</u></b>			<i>Tracey</i>	
	11.1	Summary paper	Note	Paper	133	
	11.2	IESBA ED	Note	Paper		229
4.15pm	<b>12</b>	<b><u>Implementation and awareness raising</u></b>			<i>Tracey</i>	
	12.1	Cover memo	Note	Paper	135	
	12.2	SAE 3100 PiR Feedback statement	Note	Paper	136	
	12.3	Q&A Group audits revisions	Note	Paper	141	
	12.4	SAE 3450 Feedback statement	Note	Paper	143	

Next meeting: 7 June 2023, In person, Wellington

### NZAuASB Action list

Following February 2023 meeting

Meeting Arose	Board Action	Target Meeting	Status
June 2022	Engage with FMA to understand and consider developing FAQ on materiality	June 2023	Verbal update
Oct 2022	The IAASB issued an exposure draft of narrow scope amendments which will not preclude the application of the LCE standard for all group audits and are expected to issue the standard in Dec 2023.	April 2023	Verbal update
Feb 2023	Separate environmental scan into immediately relevant and longer-term issues	April 2023	To discuss when the Board meets in person

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 2.1  
**Meeting date:** 5 April 2023  
**Subject:** International Update  
**Date:** 20 March 2023  
**Prepared By:** Anna Herlender

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Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. This Update summarises the significant developments, relevant to auditing and assurance, from international organisations published since 1 February 2023. This agenda item is for information purposes of the Board.

### Background

2. The international update follows the following structure:
  - Hot topics are included in this BMSP below.
  - Appendix 1 includes list of organisations whose websites were reviewed for updates.
  - Appendix 2 includes a list of publications and updates that might be of interest to the NZAuASB.
  - NZAuASB environmental scans focus on topics relating to auditing and assurance matters. Supplementary Paper Agenda Item 2.3 includes the wider environmental scan that was prepared for XRB Board purposes.

### Hot topics

3. The following articles are of the most relevance for the NZAuASB.

#### *Hot Topic 1*

- IFAC released a report: [The State of Play: “Sustainability Disclosure & Assurance 2019-2021 Trends & Analysis”](#). The study captures and analyses the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance services. In 2021:
  - 95% of companies reviewed reported some level of sustainability information.
  - 64% of companies that reported sustainability information provided some level of assurance on it.
  - 57% of these assurance engagements were conducted by audit or audit-affiliated firms.

*Hot Topic 2*

- The International Sustainability Standards Board (ISSB), at its meeting on 16 February 2023 in Montreal, [has taken its final decisions on all the technical content of its initial Standards](#). The ISSB unanimously approved entering the thorough drafting and formal ‘balloting’ process of the Standards, ahead of their expected issuance at the end of Q2 2023. The ISSB agreed that its initial IFRS Sustainability Disclosure Standards, S1 and S2, will become effective starting January 2024.

The announcement was [welcomed by IOSCO](#) which plans to complete an independent assessment of the standards by the end of 2023.

The IESBA and IAASBA issued a [joint statement](#) that applauded the ISSB announcement and the support from IOSCO.

## Appendix 1 List of organisations reviewed for updates

### 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)
5. International Sustainability Standards Board (ISSB)

### International Audit and Assurance Regulator Forums

6. International Forum of Independent Audit Regulators (IFIAR)
7. International Organisation of Securities Commissions (IOSCO)

### International Professional Bodies

8. International Federation of Accountants (IFAC)
9. Association of Chartered Certified Accountants (ACCA)

### Developments in local jurisdictions

#### *Australia*

10. Auditing and Assurance Standards Board (AASB)
11. Accounting Professional & Ethical Standards Board (APESB)
12. CPA Australia

#### *Europe*

13. European Parliament and Council
14. Accountancy Europe

#### *United Kingdom*

15. Financial Reporting Council (FRC)
16. Institute of Chartered Accountants in England and Wales (ICAEW)
17. Institute of Chartered Accountants of Scotland (ICAS)

#### *United States*

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

#### *Canada*

22. Canadian Public Accountability Board (CPAB)
23. Canadian Auditing and Assurance Standards Board (AASB)
24. Chartered Professional Accountants Canada (CPA Canada)

### Insights from practitioners and other publications

25. Insights from practitioners
26. Other articles

## Appendix 2: Relevant publications and updates identified

### Public Interest Oversight Body (PIOB)

Updated PIOB's Public Interest Issues: IAASB projects, 27 January 2023, [Read here](#).

Updated PIOB's Public Interest Issues: IESBA projects, 27 January 2023, [Read here](#).

### International Auditing and Assurance Standards Board (IAASB)

#### Guidance and Support Tools

Digital Technology Market Scan: Digital Assets, 6 March 2023, [Read here](#).

Non-Authoritative Guidance: "Frequently Asked Questions on Investigating Exceptions and Relevance of Performance Materiality When Using Automated Tools and Techniques", 8 February 2023, [Read more here](#).

**Status of IAASB projects:** [IAASB projects \(iaasb.org\)](#)

### International Ethics Standards Board for Accountants (IESBA)

#### Guidance and Support Tools

Q&A on the revisions to the definitions of listed entity and public interest entity (PIE) in the Code, 10 March 2023, [Read here](#).

#### Consultations

Proposed Revisions to the Code Addressing Tax Planning and Related Services, 17 February 2023, [Read here](#). This is also included in the agenda item 11.

**Status of IESBA projects:** [IESBA projects \(ethicsboard.org\)](#)

### International Sustainability Standards Board (ISSB)

Seven key takeaways from the IFRS Sustainability Symposium, 6 March 2023, [Read here](#).

ISSB ramps up activities to support global implementation ahead of issuing inaugural standards end Q2 2023, 17 February 2023, [Read more here](#). Included in Hot Topic 2.

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

2022 Report on Annual Survey of Audit Inspection Findings, 14 March 2023, [Read here](#).

### International Organisation of Securities Commissions (IOSCO)

IOSCO welcomes the ISSB's decision to enter into the finalisation phase of its inaugural corporate sustainability reporting standards, 17 March 2023, [Read here](#). Included in Hot Topic 2.

### International Federation of Accountants (IFAC)

"The State of Play in Sustainability Assurance", 15 February 2022, [Read here](#). Included in Hot Topic 1.

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

Highlights of March 2023 Meeting, 16 March 2023, [Read here.](#)

Sustainability Assurance Update, 24 February 2023, [Read here.](#)

## CPA Australia

Guide on Climate Risk and Audit of Financial Statements, February 2023, [Read here.](#)

## Association of Chartered Certified Accountants (ACCA)

Green finance skills: the guide, 14 March 2023, [Download report here.](#)

Sustainability assurance – rising to the challenge, 28 February 2023, [Download report here.](#)

## Financial Reporting Council (FRC)

FRC and the Department of Levelling Up, Housing and Communities published a Memorandum of Understanding outlining the FRC's role as shadow system leader for the local audit system, 2 March 2023, [Read here.](#)

FRC published a thematic review on the Big 4 audit firms' methodology around IFRS 9, focusing on the audit of Expected Credit Losses (ECL) for larger banks, 24 February 2023, [Read here.](#)

FRC) has today published a mythbuster to dispel common misconceptions about Corporate Governance and Stewardship, 20 February 2023, [Read here.](#)

## American Institute of Certified Public Accountants (AICPA)

"Cost of Business Report", 13 February 2023, [Read here.](#)

## Center for Audit Quality (CAQ)

"The Role of the Auditor in Climate-Related Information", 9 March 2023, [Read here.](#)

## Other articles

"Service performance assurance for small charities: Experiences from New Zealand", International Journal of Auditing, 12 March 2023, [Read here.](#)



**NZAuASB Board Meeting Summary Paper**

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**AGENDA ITEM NO.** 2.2  
**Meeting date:** 5 April 2023  
**Subject:** Domestic Update  
**Date:** 20 March 2023  
**Prepared By:** Anna Herlender

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**Action Required**

**For Information Purposes Only**

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**Agenda Item Objectives**

1. This update summarises the significant developments relevant to auditing and assurance from New Zealand organisations published since 1 February 2023. This agenda item is for information purposes of the Board.

**Background**

2. For the purpose of the domestic scan, publications from the following organisations are reviewed:
  - The Financial Markets Authority (FMA)
  - The Chartered Accountants Australia and New Zealand (CA ANZ)
  - The Institute of Directors (IoD)
  - Other publications, including audit firms' insights and reports.

**Hot topics**

3. No hot topic identified in this period.

## The Financial Markets Authority (FMA)

### **Guidance and expectations for keeping proper accounting records**, 14 February 2023

“This document provides guidance to help entities to meet their statutory requirement to keep proper accounting records, and to address emerging and persistent issues in financial reporting”.

[Guidance-and-expectations-for-keeping-proper-accounting-records.pdf \(fma.govt.nz\)](#)

### **'5 mins with the FMA' podcast #5: Climate-related disclosures**, 13 February 2023

FMA issued a podcasts about climate-related disclosures:

['5 mins with the FMA' podcast #5: Climate-related disclosures | Financial Markets Authority](#)

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

### **Can digital reporting tame the corporate reporting beast?** 13 March 2023

“A new report looks at the challenges facing corporate reporting and how digital reporting can help.”

[Can digital reporting tame the corporate reporting beast | CA ANZ \(charteredaccountantsanz.com\)](#)

### **Submission on assurance over climate related disclosures**, 13 February 2023

CA ANZ supports the direct regulation of CRD assurance practitioners by the FMA and supports extending the scope of the assurance engagement from greenhouse gas (GHG) emissions disclosures to the whole climate statement, but no earlier than October 2028.

Other key points and the submission can be found here:

[Submission on assurance over climate related disclosures | CA ANZ \(charteredaccountantsanz.com\)](#)

## The Institute of Directors (IoD)

### **Submission on Assurance over CRDs**, 9 February 2023

“The IoD continue to support climate-related disclosures and the development of the standards, regulatory framework and professional capability and competence to support the new reporting regime. We also support the introduction of an occupational licensing regime for climate-related disclosure (CRD) assurance practitioners with the Financial Markets Authority (FMA)”

[Submission on Assurance over Climate-related Disclosures | IoD NZ](#)

## Other publications

### **Aotearoa New Zealand's Turning Point**, Deloitte, 7 March 2023

Deloitte's economic modelling shows decisive climate action could deliver \$64 billion to New Zealand's economy by 2050. With inadequate action, we stand to lose \$4.4 billion.

[nz-turning-point-report.pdf \(deloitte.com\)](#)

**Note: this item was prepared for XRB Board and is attached for information purposes for NZAuASB**

## Memorandum

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Date: 10 February 2023  
To: XRB Board  
From: Judith Pinny  
Subject: Environmental Update

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### Recommendation<sup>1</sup>

1. We recommend that the Board NOTES the International and Domestic update for the period 30 November 2022 to 8 February 2023.

### Purpose and impact

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

#### International

- (a) IFRS Foundation changes with Linda Mezon-Hutter appointed as the [IASB's Vice-chair](#) and a new ISSB office in [Beijing](#).
- (b) Climate litigation is increasing – in the UK, [shareholders have taken a case](#) against Shell's directors for failing to adopt an appropriate climate strategy.

#### Trans-Tasman

- (c) [CA ANZ IFRS Survey](#) on impact of IFRS 16, IFRS 15 and IFRS 9.
- (d) Research by CA ANZ *et al*, has found that the proportion of the financial statements impacted by [climate-related risks](#) is increasing worldwide.

#### Domestic

- (e) [OAG report](#): Observations from our central government audits: 2021/2022 highlights concerns about the way public organisations report on their spending and performance.
- (f) An NBR article criticising the [lack of accountability in government for infrastructure](#) investments.
- (g) [Report on Māori wellbeing economies](#) and providing pathways for Māori

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS<sup>®</sup> Standards, IFRIC<sup>®</sup> Interpretations and IASB<sup>®</sup> papers). It also refers to the work of the International Sustainability Standards Board (ISSB).

development. The [framework for conceptualising whanau](#) could be useful for thinking about the Ngā pou o te kawa ora project.

- (h) [BERL](#) report on the Value of Museums and Galleries, taking a wider view on value. Māori taonga remains an outstanding issue.

## **International**

### IASB: Vice-Chair appointed

- 4. The IFRS Foundation Trustees announced in December 2022 that Linda Mezon-Hutter has been appointed as the Vice-Chair of the IASB.
- 5. Linda has been a member of the IASB since September 2022, joining from the Canadian Accounting Standards Board (AcSB) where she had served as Chair since 2013.

[IFRS - Linda Mezon-Hutter appointed as IASB Vice-Chair](#)

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### IFRS Foundation: ISSB Office opening in Beijing

- 6. The IFRS Foundation has signed a Memorandum of Understanding with the Ministry of Finance of China in December 2022 to establish an ISSB office in Beijing, expected to open in mid-2023.

[IFRS - IFRS Foundation and MoF China sign an MoU to establish an ISSB office in Beijing](#)

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### Simpson Grierson: Litigation against Shell Directors in UK

- 7. Client Earth is an environmental law NGO which has brought a number of high profile climate cases. After purchasing a token shareholding in Shell, Client Earth has used its shareholder status to bring legal action against 11 Shell directors in the UK, alleging that the directors have breached their duties to the company.
- 8. Client Earth's case is that breaches of duty arise from the Board's failure to adopt a climate strategy that adequately reduces Shell's emissions. It claims that in failing to properly prepare the company for the net zero transition, the Board has increased the company's vulnerability to climate risk, putting its long-term value in jeopardy and risking the investments of shareholders, including pension funds.

[Storms ahead for directors: Shell's board sued for failing to manage climate risk - Simpson Grierson Lawyers](#)

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US Government: Accounting for Natural Capital

9. Dr. Arati Prabhakar, President Biden’s science advisor, October 2022 said:

“Nature plays an immense role in our climate but also in every other aspect of our lives. What does it take to stop eroding nature that we depend on for so much in our lives? It starts by accounting for the economic value of land and water, fish and forests, and other natural assets, rather than effectively counting nature as zero on the balance sheet.”

[US - Developing Natural capital reporting](#)

CDP<sup>2</sup>: Climate Transition Plans

10. Few climate transition plans produced by companies are credible, [research](#) on environmental disclosure by CDP shows.
11. Of 4,100 companies that reported plans to align with a 1.5°C world last year through CDP, just 81 provided information on all the elements that make for a detailed and trustworthy disclosure. In addition, less than half the companies producing plans said they are publicly available.

ASCOR: Consultation on Framework to assess Sovereign issuers for Climate-related risks and opportunities.

12. Assessing Sovereign Climate-Related Opportunities and Risks (ASCOR) is the first, public investor framework to assess sovereign bond issuers on climate change.
13. ASCOR has been a collaboration by asset owners and asset managers, supported by international investor networks, to incorporate financially material climate change information when assessing sovereign bond investments.
14. The final framework will result in an independent, freely, and publicly available assessment tool intended to support investors achieve their net zero goals; help them engaging with issuers to find a common understanding of the transition at a national level, as well as giving the opportunity to sovereigns to showcase their progress in addressing climate change.

[ASCOR Consultation to Assess Sovereign Debt Issuers on Climate Change | News and press | PRI \(unpri.org\)](#)

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<sup>2</sup> Formerly Carbon Disclosure Project.

Australian Accounting Review: Special issue on IFRS 9

15. This special issue on the application and impact of IFRS 9 *Financial Instruments* was supported by the IASB, to provide evidence to inform the post-implementation review (PIR) of IFRS 9. Edited by Michael Bradbury and Bryan Howieson.

[Research on Application and Impact of IFRS 9 Financial Instruments - Bradbury - 2022 - Australian Accounting Review](#)

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AASB-AUASB Report: Climate-Related Disclosures and Assurance in ASX Listed Companies

16. The AASB-AUASB joint research report published in December 2022 identifies climate-related disclosures and associated assurance practices in Annual Reports of ASX-listed entities.
17. Australian listed companies across all industry groups are rapidly increasingly recognising climate impacts directly in their Annual Report. However, in no industries were disclosures at 100%. The lack of reporting and associated assurance commentary suggests that there is an under-consideration of climate-related matters, or that such matters are not material to all listed entities, even those in climate-vulnerable industries.
18. Most climate-related disclosures in the Annual Report were outside the financial reports and therefore not subject to audit.
19. The number of key audit matters including climate-related impacts is rising. In addition, a number of auditors reported the impact of climate-related reporting on their audit planning in their audit report.

[AASB-AUASB Joint Research Report on Climate-Related Disclosures and Assurance in the Annual Reports of ASX Listed Companies](#)

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**Trans-Tasman**

CA ANZ: 2022 IFRS Survey

20. In December 2022 the CA ANZ released its third Chartered Accountants IFRS Survey reflecting members' views on the impacts, challenges and opportunities of IFRS 16, IFRS 15 and IFRS 9.
21. The number of respondents who agreed that changes to IFRS 16 *Leases* and IFRS 15 *Revenue from Contracts with Customers* led to improved quality of information provided **decreased** compared to the last survey in 2020. For the IFRS 9 *Financial Instruments* the result was the same as in 2020. The respondents mainly criticised increasing complexity of accounting standards and limited benefits of the new requirements.

[2022 Chartered Accountants IFRS Survey | CA ANZ \(charteredaccountantsanz.com\)](#)

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Climate-related risks in financial statements research

22. New research by CA ANZ, the University of Melbourne and the University of Queensland has found that the proportion of the financial statements impacted by climate-related risks is increasing worldwide. Critical accounting estimates is the financial statement area that is most impacted by climate risks. The reporting of climate risks in financial statements is most prevalent in the utilities and energy industries. This report provides an update to previous research into balance dates between 31 December 2021 and 31 July 2022.

[Climate risk in financial statements | CA ANZ \(charteredaccountantsanz.com\)](#)

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**Domestic**

OAG: Observations from OAG's central government audits covering 2021/2022

23. In Part 4 of the OAG report *Observations from our central government audits: 2021/2022* Auditor-general, John Ryan, expressed concerns that the way public organisations report on their spending and performance has limited relevance to present society and does not answer the questions in which Parliament and the public are most interested.
24. Recent reports from the Parliamentary Commissioner for the Environment, and the Productivity Commission, also reinforce the need to significantly improve how the government reports on, and is held to account for, its performance and spending.
25. There are system constraints that currently do not enable the government to clearly report on public spending and what is being achieved unless there is a "one-to-one" relationship between the initiative and the authorising appropriation.
26. It is too often left for Parliament and the public to try to piece together information to answer questions of public accountability and to understand what has been spent and what has been achieved. The new Public Service Act, which allowed for greater collaboration between agencies, or introduction of "clusters" of agencies made the spent and output reporting even more challenging.
27. The new XRB standard PBE FRS 48 *Service Performance Reporting* presents an opportunity for public organisations to improve their performance reporting within the context of current system settings and to report on how they are making a difference for New Zealanders in a way that is meaningful to Parliament and the public.

[Observations from our central government audits: 2021/22 – OAG](#)

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NBR: Accountability missing in infrastructure investments

28. Not a single major projects performance report has been provided by Treasury or reviewed by Cabinet in the last five years “due to changes in ministerial priorities.”

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OAG: Integrity Framework

29. OAG have developed an integrity framework for the public sector. This framework is designed to support senior leaders, and those in governance roles, to deliver on their stewardship responsibility to support the integrity of New Zealand's public sector.

<https://lnkd.in/gaqem9xn>

24. OAG have also built the Integrity Workplace – an interactive showing how the integrity framework’s components fit together. All the components are required and need to reinforce each other.

<https://lnkd.in/dwJ4tC78>

RBNZ: Consultation on the future of money – private innovation

30. This Issues Paper explores Private Innovation in Money with a focus on opportunities and risks this may offer New Zealand, and our ability to meet the Reserve Bank’s objectives as the steward of money.
31. By private innovation in money, the Reserve Bank means novel arrangements that claim to provide new forms of money or associated services, using new technologies, financial models or organisational forms. Cryptoassets, including stablecoins, are key examples of these arrangements. The use of the Distributed Ledger Technology (DLT) to tokenise bank deposits would be another example. RBNZ intends to take a technology-neutral approach to innovations.
32. In the Issues Paper, the Reserve Bank is seeking feedback on their assessment of:
- (a) the opportunities and risks posed by private innovation in money
  - (b) how these innovations might impact our objectives as the steward of money
  - (c) what regulatory responses could be required to help deliver those objectives in the context of private innovation in money.
33. Private innovation in money involves complex issues ranging from financial stability to consumer protection and anti-money laundering.
34. Submissions close on 3 April 2023.

[The Future of Money – Private Innovation - Reserve Bank of New Zealand - Te Pūtea Matua \(rbnz.govt.nz\)](#)



FMA: Keynote address at Financial Services Council Outlook 2023

35. Samantha Barrass spoke about the way ahead for the FMA, addressing the difference that stakeholders find between speaking with staff and speaking with the Chief Executive. She also spoke about the FMA's refresh of its values. Looking to the Horizon – *te pae o te manawarangi* - is now at the heart of Te Mana Tātai Hokohoko's (FMA's) values.

[Samantha Barrass' keynote speech at the Financial Services Council Outlook 2023](#)

FMA: Leadership changes

36. Stuart Johnstone is joining the FMA as Chief Economist in February 2023 from the UK.
37. Sharon Thompson joins the FMA from IRD, heading its newly formed enterprise leadership team as Executive Director – Transformation and Operational Delivery.
38. John Botica (Director of Market Engagement, and Director of Regulation and Operations) will retire from the FMA in June 2023.
39. James Greig, (Director of Supervision) has recently left the FMA.

[FMA appoints Stuart Johnson to new Chief Economist role | Financial Markets Authority](#)

[FMA appoints Sharon Thompson to new executive leadership team | Financial Markets Authority](#)

NBR: CA ANZ article on XRB Climate Standards

40. NBR recently published an opinion piece from Karen McWilliams, CA ANZ Business Reform Leader sharing CA ANZ's response to the recently released climate standards.

Summary of article: [Unpacking the impact of New Zealand's new climate related standards](#)

NRB: Opinion - Litigation Outlook 2023: Mainzeal, ESG and tikanga Māori

41. Lawyers now expect insolvency-related litigation to be a major theme for the courts in 2023. All the factors are starting to point towards an economic contraction and that's going to result in an increase in insolvency. The forthcoming Supreme Court decision in Mainzeal, is expected to set the scene for directors' duties in the context of insolvencies and liquidations for the future.
42. Data from the Restructuring Insolvency & Turnaround Association of New Zealand shows that the construction industry accounted for just under a quarter of all liquidations in the year to November 2022.
43. Other trends include:
  - (a) litigation related to environmental, social and governance (ESG) and climate change concerns;
  - (b) the continued rise of class actions and litigation funding;

- (c) increased regulatory and enforcement action; and
- (d) the influence of tikanga Māori on the courts.

Māori Economy: Recent report and associated articles

Report: by Dr Chellie Spiller et al: [\*Te Niho o te Taniwha: Exploring present-future pathways for whānau and hapū in Māori economies of wellbeing.\*](#)

- 44. The Ngā Pae o te Māramatanga Māori Wellbeing Economies team have created a Present-Future Pathway framework to help guide their mahi rangahau<sup>3</sup>:
  - (a) Present provides a stocktake of the current situation, mapping the Māori economy as it stands;
  - (b) Future details a fully realised vision of a functioning wellbeing economy, outlining the practical parameters in which an achievable wellbeing economy would operate;
  - (c) Pathway provides the strategies, policies, and actions needed across the Māori economy to transition from the Present to the Future, as well as to determine the nature and timing of each phase and the necessary indicators for measuring progress.
- 45. In the final section, Pathways to the Future, (page 109) the authors propose a theory of the whānau and discuss two possible pathways toward Māori wellbeing economies for whānau.
  - (a) First, whānau as enterprise with a focus on how whānau differentiates Māori approaches to enterprise development.
  - (b) Second, how Māori human capital can support workplaces and employees to be high performing and contribute to Māori wellbeing. (page 122)

A useful summary of The Framework for Whanau is in [Appendix 6](#)

- 46. This report gave rise to the following article:

[Can the rising tide of a 'taniwha' economy lift the boats of all Māori? | The Spinoff](#)

- 47. The article contains the following quote:

"Put simply, no Māori economy can exist without the requisite political power to constitute and regulate an economy. While iwi have generated billions through their holdings corporations – themselves a form of colonial construct – which they have invested in social welfare, cultural revitalisation initiatives and environmental restoration, they are

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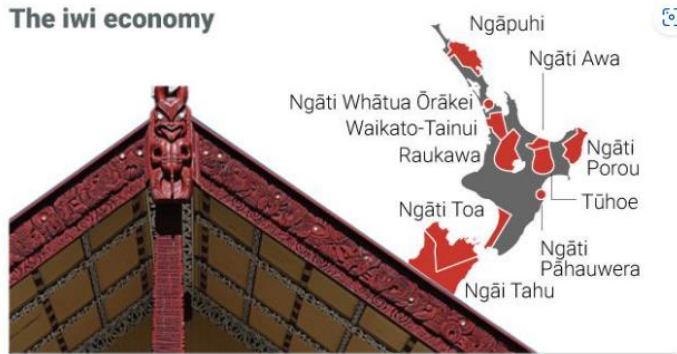
<sup>3</sup> Research.

not able to provide a safety net for all their members. It is the Crown that has the revenue and regulatory capacity.”

48. A separate article about the size of the Māori economy with a useful graphic in it, copied below:

[Ten post-settlement iwi have \\$8.1b assets - new report - NZ Herald](#)

**The iwi economy**



Iwi	Value of assets	Asset classes	Largest asset class	Capital allocated to largest asset	Gearing
Ngāi Tahu	<b>\$2.28b</b>	6	Property	37%	15%
Waikato-Tainui	<b>\$1.98b</b>	6	Property	62%	11%
Ngāti Whātua Ōrākei	<b>\$1.66b</b>	2	Property	98%	15%
Ngāti Toa	<b>\$811m</b>	5	Property	83%	43%
Tūhoe	<b>\$441m</b>	6	Financial	48%	0%
Ngāti Porou	<b>\$280m</b>	6	Financial	55%	7%
Raukawa	<b>\$228m</b>	6	Property	31%	0%
Ngāti Awa	<b>\$174m</b>	6	Primary industries	43%	6%
Ngāti Pāhauwera	<b>\$113m</b>	5	Forestry	46%	11%
Ngāpuhi	<b>\$86m</b>	5	Fishing	39%	4%

Source: TDB Iwi Investment Report / Herald Network graphic

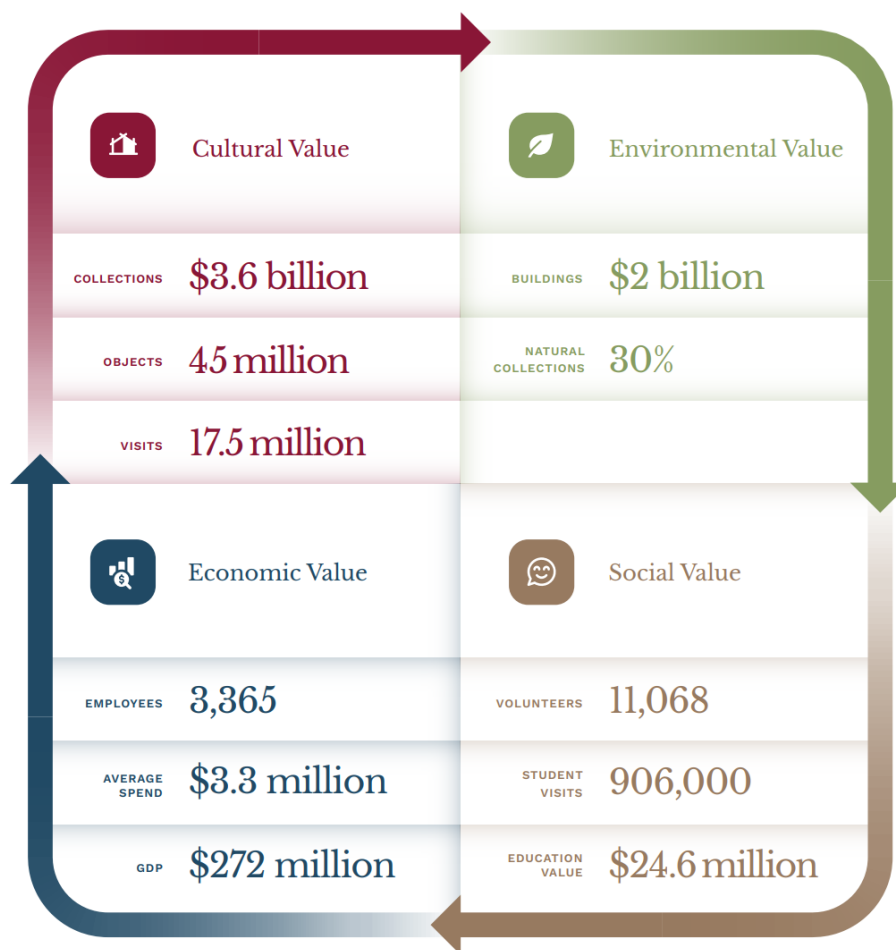
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**BERL<sup>4</sup> Report: The value of Museums and Art Galleries:**

49. Museums Aotearoa recently commissioned this report from BERL which, instead of calculating a single number to define the industry, has taken the approach of considering the wider context which surrounds the entire ecosystem. The total value of assets, including buildings and collections, were calculated. Further, museums and galleries provide social, cultural, economic and environmental value, calculated based on activities and contributions to tourism, Gross Domestic Product (GDP), employment, and education.

<sup>4</sup> Business and Economic Research Limited.

50. The various types of value are summarised in the following diagram:



51. In addition to these core findings, this report concluded that museums and galleries relied heavily on government funding to continue operating. Medium-sized museums and galleries were more likely to be operating in a deficit, which indicates a significant risk to their assets.
52. The conclusion notes: There is still more to explore in this space, most notably around the value of taonga Māori in collections, and the value of returning indigenous taonga back to their whānau, hapū and iwi. (page 57)
53. The report does not explicitly cover the accounting approach, and the IPSASB paper on Heritage<sup>5</sup> which was consulted on around the NZ Museums and Art Galleries in 2017.

[Value of Museums and Galleries - BERL report](#)

<sup>5</sup> IPSASB Consultation Paper *Financial Reporting for Heritage in the Public Sector*, April 2017.

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CA ANZ: Charities Reporting Awards

54. The sixth annual Charities reporting awards entries close on 28 February 2022. In addition to prizes for the Reporting Tiers, there is also a Sustainability award, and a Pandemic response award.

[New Zealand Charity Reporting Awards | CA ANZ \(charteredaccountantsanz.com\)](#)

Cabinet reshuffle

55. In the Cabinet reshuffle of 31 January 2023 following Chris Hipkins becoming Prime Minister, Dr Duncan Webb has taken over the Commerce portfolio, which includes oversight of the XRB. Dr Webb is a Minister outside cabinet.

[Ministerial List as announced on 31 January 2023 \(dpmc.govt.nz\)](#)

**2022 Climate risk reports**

BNZ – separate report

56. Items of interest:

- (a) The BNZ's sustainability and climate strategy are identical: *to accelerate the just transition to a net zero emissions economy, one that supports the regeneration of the natural environment and builds climate resilience.* (page 5)
- (b) Metrics and Targets – Audit of GhG emissions: *All our emissions, except financed emissions, are verified by Toitū Envirocare, and, while we have been carbon neutral since 2010, we are proud to have achieved a Toitū net carbonzero certification this year. Our financed emissions methodology and data have been pre-assured by Ernst & Young.*(page 20)

[2022-BNZ-Climate-Report.pdf](#)

## **Appendix 6**

**A framework for conceptualising whānau (pp 112-113 from report by Dr Chellie Spiller et al: [Te Niho o te Taniwha: Exploring present-future pathways for whānau and hapū in Māori economies of wellbeing.](#)**

The reason for couching this theory of whānau in the language of organisations, institutions, wealth, and needs is that this helps connect the kaupapa of this project into the wider national and international wellbeing mahi – in particular Treasury’s Living Standards Framework (LSF). The LSF was updated in 2021 to reduce the emphasis on capitals and use more common language (e.g., social cohesion instead of social capital, natural resources instead of natural capital). It also considers he ara waiora as a Māori framework for wellbeing and does not try to integrate the two but places them alongside each other; not one (LSF) before the other (he ara waiora). However, this does not mean a complete lack of congruence between these concepts and te ao Māori. In the following section, the concepts of organisations, institutions, wealth, and needs will be expanded on, and the congruences with te ao Māori outlined. However, a brief overview is that:

- Whānau need to be the central organisation in the Māori wellbeing economy. Organisations are structures bound together by a common purpose to achieve objectives, in this case, wellbeing, through satisfying needs. From a te ao Māori perspective, this can best be understood through whakapapa and kaupapa.
- Organisations and economies reflect the institutional framework in which they are embedded. Institutions are the humanly (and or metaphysically) devised constraints regulating human (and for Māori non-human) interactions, from deeply held beliefs and values to specific laws and traditions. The current institutional framework that shapes both organisations and the economy is rooted in an Anglo-centric framework, for a Māori wellbeing economy there needs to be institutional change. From a te ao Māori perspective, institutions are found in mātauranga, kaupapa, and tikanga.
- There are four key forms of wealth – natural resources, social cohesion, human capability, and financial/built capital – which are the resources needed to meet human needs in a wellbeing economy. From a te ao Māori perspective, wealth can be understood as the cosmic forces of mana, mauri, tapu, hau, and wairua. Furthermore, ‘natural resources’ are understood as kin and have their own needs.
- Finally, needs theory identifies a set of universal needs all humans have. Meeting these delivers wellbeing, so needs theory provides the objectives of the Māori wellbeing economy. From a te ao Māori perspective, the satisfiers of needs are Māori values.

[Back to Maori Economy](#)

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	2.4
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Summary of International Projects on sustainability
<b>Date:</b>	21 March 2023
<b>Prepared By:</b>	Anna Herlender, Bruce Niven and Karen Tipper

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Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. The objective of this agenda item is to provide an update of IAASB's and IESBA's projects on sustainability and IESBA's Use of Experts project.

### Background

2. In September 2022, IAASB approved the proposal to draft a new overarching standard, ISSA 5000 General Requirements for Sustainability Assurance Engagements. IAASB expects to approve the Final Standard in December 2024.
3. In December 2022 the IESBA approved the Sustainability Project and the Use of Experts project.
  - a. The aim of the Sustainability project is to develop Ethics and independence standards for all sustainability assurance practitioners and to make sustainability-related revisions to the Code to address ethical issues that professional accountants might face while providing sustainability related services. The IESBA expects to approve the Exposure Draft by December 2023.
  - b. The aim of the Use of Experts project is to assess the sufficiency of the Code's provisions when professional accountants (assurance practitioners) use the work of experts in their professional activities and to develop an ethics framework to guide professional accountants (PAs) when they determine whether to use or rely on the work of an expert. This has been identified as an area that is growing, as experts are increasingly being used by PAs, particularly in audit and other assurance (including sustainability) engagements. The IESBA expects to approve the Exposure Draft by December 2023.

### Update on the Projects

4. IAASB drafted and tabled the proposed ISSA 5000 at its March Meeting. The standard includes the following considerations:

- a. It is profession agnostic and is based on ISAE 3000, ISAE 3410 and the ISA suite as appropriate. It is an overarching standard to cover all sustainability assurance. It is envisaged that a suite of standards that will provide more specificity for sustainability assurance will be required to developed over time.
  - b. Quality management principles have not been included in the standard. ISSA 5000 requires compliance with ISQM1 or a standard that is at least as demanding as ISQM1.
  - c. Ethics principles have not been included in the standard. ISSA 5000 requires that the IEBSA code or principles at least as demanding as the IEBSA code be applied.
5. IESBA is currently considering the following matters for its sustainability assurance standard:
- a. Three options for presentation being:
    - i. Integrated Approach Option 1 – sustainability assurance matters are added to the current structure of the Code (that is to Part 1, Part 2, Part 3 and Part 4).
    - ii. Integrated Approach Option 2 – new Part 5 is added to the current Code to include sustainability assurance matters.
    - iii. Stand Alone Approach – a separate Code of Ethics for sustainability assurance matters is developed.
  - b. Key definitions (sustainability assurance engagement, sustainability assurance team, sustainability assurance client)
  - c. Identification of independence considerations applicable to sustainability assurance engagements
  - d. Terminology considerations (whether terminology used in the existing Part 4A is fit for purpose for profession agnostic standards for all sustainability assurance providers)
  - e. Whether ethics standards for sustainability reporting should be profession agnostic or for professional accountants only.
6. Experts covered by IESBA’s Use of Experts project are individuals or organisations that possess expertise in a particular field or area. This does not include Artificial Intelligence (AI) as it does not possess the skills, knowledge and experience in a particular field or area to be able to exercise judgment, interpret the inputs and outputs, and be accountable for them. With the exception of an external expert used in the context of an audit or other assurance engagement, the Code does not currently define who an expert is, or describe the possible ways in which experts might be used.
7. The proposed ethical framework for Use of Experts provides three layers of guidance, for all experts (internal or external) to be used by an organisation or firm, a PA should:
- a. Consider how the expert will be used and define scope of the expert’s work.
  - b. Identify facts and circumstances that might create threats for a PA when undertaking a professional activity incorporating the work of experts.
  - c. Evaluate whether the use of experts is appropriate, especially around competence and objectivity (which is linked to independence).
8. There are three possible approaches to how a PA might assess the objectivity/independence of an external expert:
- a. Comply with Part 4A for audit and review engagements.



- b. Comply with Engagement team – Group Audit revisions for individuals out of network who are part of audit team (Part 4A within a limited perimeter).
  - c. Comply with select requirements specific to the external expert used (introduce a differentiated and scalable framework).
9. On balance, the Task Force recommends approach C. This is because it would introduce a differentiated and scalable framework relevant to the nature of the expert’s work and its criticality to the preparation and presentation of information, in an audit or other assurance engagement. Approach C also allows the Task Force to explore how other provisions of the Code might be applicable in the context of assessing the objectivity of the external expert (for example, there may be circumstances where the external expert to be used for an audit or assurance engagement might also be concurrently an advisor of a competitor of the audit or assurance client, giving rise to conflict of interests).
10. These proposed changes to the Code of Ethics will be the subject of discussions during international roundtables held by IESBA in March – April 2023. XRB is attending the roundtable in Sydney on 31 March.

**Material Presented**

Agenda item	Board Meeting Summary Paper
	Notes from the Technical Reference Group

## Auditing Standards Reference Group Discussion on topics for IAASB March 2023

14 March 2023

### Discussion 1: Sustainability (IAASB Agenda Item 4)

*Objective: Obtain input on draft proposed ISSA 5000*

#### **Points for Discussion (questions from the IAASB paper):**

1. The IAASB is asked for its views on proposed ISSA 5000, as presented in Agenda Items 4–B and 4-C, including with respect to the matters discussed in Section B above.
2. The IAASB is asked whether there are any other matters that the Task Force should consider in progressing the draft of proposed ISSA 5000.

#### **Points presented in the meeting for Consideration by the TWG:**

- Given that sustainability reporting is often quite qualitative in nature, does the definition of materiality including performance materiality adequately include the considerations of qualitative materiality?
- Does ISSA 5000 meet the objective of being profession agnostic? Does more information need to be provided for example for Quality Mgmt. or Ethics? Are there any further considerations that should/could be included?
- Is it the Technical Reference Group’s view that this ISSA 5000 is suitable for assurance over all sustainability reporting? The standard as worded includes a lot of information from ISAE 3410 – but is not intended to be a replacement for 3410. Are there any other considerations that should be included in the draft standard to cover sustainability assurance as opposed to GHG assurance. How does this standard interact with 3410?
- Is it the Technical Reference Group’s view that the work required for limited and reasonable assurance engagements is clearly presented within the current standard?
- Is the reliance on experts and reliance on another assurance provider sufficient? Are there any other matters that should be considered?
- Are there sufficient considerations of the assurance and audit procedures to be done to audit forward-looking information (risk-based scenarios) and disclosures in this standard?

#### **Points discussed during the meeting:**

##### **Profession agnostic:**

- It would be useful to add clearer guidance about what compliance with PES and QMS means for non-accountants. The IAASB could consider extracting the main principles from ISQM 1 and Ethics standard – rather than referring to the original standard.
- Additional guidance is provided for Quality Management but not for Ethics/Independence. IAASB could consider adding more application guidance for Ethics considerations.
- One of the objectives of the standard is that the level of reliance should be the same as financial statements. Given that sustainability reporting can be inherently uncertain i.e. the use of highly estimated emission factors, assurance over scenario analysis, is it realistic that the reliance can be the same? Would more assurance reports have to be qualified? Financial Statements are subject to reasonable assurance – a significant amount of GHG inventory audits are currently done to limited assurance as the engagement risk is considered higher.
- Off-line comments:

*To be a member of IFAC the member organisation provide/illustrate the standards that are being applied and progress towards PES 1, PES 3 and 4 or standards that are at least as demanding (which I assume IFAC will determine if they are). IFAC monitors the standards applied per member organisation and/or progress made to standards that are at least as demanding as the IFAC standards. I'm not sure if IFAC will require all other organisations working in the sustainability space to be members of IFAC? I'm not sure how this will work in NZ for these organisations – they will most likely apply the XRB adopted standard and become members of FMA/CAANZ, but I'm not sure. There will also be some form of accreditation.*

### Materiality

- Mixed views regarding sufficiency of application of materiality/performance materiality, including evaluation of misstatements identified.
- Discussed concept of “auditor tolerance” and the need to consider various factors.
- Application material regarding grouping misstatements looks good (A17A), however some asked to make it more prominent (leading sentence/subtitle – to find it easier). Material is currently repetitive – could add flowcharts and provide more examples of principles and criteria.
- The guidance is useful – but hard to find. More examples of principles for qualitative would be useful as well as more guidance on tolerance for errors, groupings and application. Wider user views could be considered/incorporated. **Offline comment: Could considerations from Service Performance Information be included within this standard?**
- Off-line comments:
  - “Paragraph 1(cc) Performance materiality – only deals with ‘amount(s)’ of misstatements. The issues paper describes that the task force concluded that performance materiality relates to quantitative information only. The definition and application material aligns with this view.*

*When referring to ISA 450 (A4, A5, A8 and A17) misstatements in qualitative disclosures are ‘accumulated’ as the audit progress unless clearly trivial. Even though they cannot be ‘added together’ like other misstatements they still have to be evaluated collectively to conclude if the financial statements as a whole are materially misstated – I think there is enough information in this standard to describe this, I’m just trying to say that the uncorrected misstatements of a qualitative nature are also ‘tracked’ and considered in total at the end of the audit. “*

### Limited vs Reasonable

- Inclusion of 12L (operating effectiveness of the controls) is confusing, because you do not need to do it in limited assurance. Two situations discussed when you might do test of controls in a limited assurance engagement:
  - 1. if you assess material misstatement then you might start digging and check the controls.
  - 2. If you are doing limited assurance but it is at the end of the spectrum close to reasonable assurance.
- Discussion about mixed engagements “blend approach” (some parts of sustainability information would be subject to limited and some subject to reasonable assurance). This is something new and we are not used to this. It is included in the standard but not prominent.

- Formatting suggestion: is it possible to spell out in one sentence what is difference between the limited vs reasonable requirements. It would be easier for the reader instead of the reader trying to identify which words are different in the columns and what does it mean.
- Off-line comments:

*“The task force applied the EER guidance to describe the different work effort required. Agree with using this guidance as it correctly describes that a limited assurance engagement ‘stops’ at identifying possible risk areas to focus work rather than identifying risks, assessing them, and performing procedures to address (respond to) each risk.*

*I’m not sure that the auditor would perform tests of controls procedures in a limited assurance engagement (confirmed by information from p133 of the EER guidance). Therefore the work effort around understanding controls as currently described (paragraph 12 L pages 28-29 and paragraph 14L) should be reduced. I’m of the view that it would not be an effective approach for the auditor to test the operating effectiveness of controls because the level of evidence required is already reduced and would not reduce the need to perform substantive procedures. “*

#### **Reliance on Other Auditors/Experts**

- Further guidance about what to do if a practitioner refuses to cooperate would be useful. This could include additional tests that could be performed.

#### **Other considerations**

- Paragraph 7c: if you can’t meet the preconditions, a practitioner cannot accept the engagement. If you have to accept the engagement then cannot refer to the standard. Can this be clarified? How would this work in practice?
- The definition of the Engagement Team excludes reliance on other practitioners. Should this be expanded?
- **Offline Comment:** *Audit of forward-looking information (estimates is included). 19L: Specific Focus Areas Estimates, Including Forward-Looking Information (Ref: Para. A30-A31). This refers to the guidance in 3410 for estimates. This is applicable to GHG assurance but would not be relevant to concepts currently included in CS1 or the TCFD framework including assuring scenario analysis.*

*Off-line comments:*

*Paragraph 1(l) ‘Engagement team’ should be further clarified.*

*Agree with the task force that there will be scenario’s where ‘another auditor’ performs work (could even be completed) on sustainability information for a different purpose. Another auditor would in my view not form part of the engagement team because the other auditor is not performing procedures on the engagement and it will be difficult to have involvement in their work (ISA 600) when the work has been completed or the engagement agreement is not with us. ISA 600 principles would therefore mostly not apply.*

*Agree with requirements in paragraph 28. They are similar to using the work of an external auditor’s expert (who is excluded from the engagement team).*

- **Offline Comments XRB:** *Concepts from the ISO world and other practitioners could be considered, particularly if sustainability assurance could be assurance over a process or*

system. Expanding on comments regarding ISO and connecting directly with ISO in the meeting - concepts included in ISO 14001 – management systems could be relevant – auditing a system/process for some sustainability information rather than numbers.

- Concepts included in Service Performance assurance and the audit of key performance indicators and different performance measures would be useful to consider and include in the standard as sustainability metrics are likely to have different bases and measures and be more qualitative in nature.
- As a number of organisations use environmental reporting systems to report sustainability information is more guidance about the auditing of IT systems required to be included in this standard?
- Off-line comments:

*The standard is mostly based on ISAE 3000 – agree this is a sound basis. The task force also used ISAE 3410 other relevant ISAs and the EER guidance (good document describing differences in limited and reasonable assurance)*

Definitions:

- Paragraph 1(g) 'Disclosures' should be further clarified rather than including application material in paragraph A3. The definition should also be linked to paragraph 1(pp) 'Sustainability information'. When reading paragraph 1(pp) it was not immediately clear that it includes 'Disclosures' or qualitative/narrative information.

Other information:

- Agree with task force that it is important to describe our work on other information.
- Agree to apply ISA 720
- Agree to not include that information can be provided after the engagement has been completed as is currently the case in ISA 720 for listed entities. ISA 560 should apply i.e. only consider such other information when the auditor becomes aware of it, otherwise no responsibility.

Reporting

- The task force and respondents are not supportive of requiring KAMs for these engagements regardless of the public interest in such information. This is against what the XRB is currently proposing in its exposure draft. I don't believe the reasons provided below are valid:
  - Users may perceive a greater level of assurance than that provided in a limited assurance engagement;
  - Costs may outweigh benefits for these types of engagements; and
  - A need to maintain a clear distinction between other types of assurance engagements and audits of financial statements, including flexibility in reporting for the former.

*KAMs would still be appropriate in a limited assurance engagement. KAMs relate to matters that were of most significance during the audit. In a limited assurance engagement when the auditor becomes aware of a possible material misstatement it will require additional work to get to the bottom of it. Such matters would be regarded as a KAM.*

**Discussion 2: Going Concern (IAASB Agenda Item 2)***Objective: Approve ED*

- Paragraph 35 is unclear. It may be helpful to separate the requirements to clarify that 35a applies to all entities, and in addition paragraph 35b applies for list entities (i.e., the requirements are incremental).
- The relationship between ISA 701 and when a KAM applies and the proposed ED 570 about “close calls” is not clear. As we understand it, the intent is that the auditor will report the “close call” under ED 570. There needs to be an explicit statement to this effect (e.g., in the conforming amendments to ISA 701). There was also discussion whether there would be the same level of disclosure in a KAM vs Going Concern paragraph as to how the matter was addressed by the auditor. A suggestion to consider is to add some Application Material to paragraph 4 ( c ) of ISA 701 to clarify that a close call on Going Concern is now required to be reported in accordance with ISA 570.
- Paragraph 20, consider this paragraph could be earlier in the requirements. Paragraphs 15-19 all reference management’s assessment, however it is not until paragraph 20 that the auditor is required to request management to make its assessment if they have not already done so.
- Paragraph 30 brings in the concept of possible management bias in the evaluation of the judgements and decisions made by management. This concept could be introduced earlier in the draft, perhaps in the consideration of the method, assumptions and data used.
- Paragraph 37, concern over the appropriateness of inclusion of the separate section on going concern when an adverse opinion is issued. If an adverse opinion is issued by the auditor it seems counter intuitive for the auditor to then indirectly provide assurance to the users by stating in the separate section on going concern that the going concern basis is appropriate. While the Illustrative example #5 covers a qualified opinion, it would also be helpful to see an illustrative report of an adverse opinion due to lack of adequate disclosure, but going concern basis is appropriate (assuming the current position in the ED is retained)..
- Paragraph A50 notes if alternative strategies or sources of financing are not available, a material uncertainty may exist. The second sentence indicates that there may be a limitation on the audit evidence (which seems to point to a scope limitation, i.e., disclaimer). This begs the question when does a material uncertainty give rise to a disclaimer and is there sufficient guidance? Suggest amending the last sentence of the paragraph to make it more generic by pointing the auditor to consider the implications for the audit.
- There was overall support for approval as an ED.

**Discussion 3: Listed Entities and PIEs (IAASB Agenda Item 7)***Objective: Consideration of issues*

- TRG members commented that the PIE disclosure will inevitably end up in the audit report – but still felt that it could be confusing to readers and not add a lot of value. They accepted that the audit report was the clear mechanism to operationalise the IESBA transparency requirement.

- The conditional approach was supported – the XRB also supported this approach in our October 2022 submission.
- TRG members said use of the term “additional” as well as “differential” – while adding more words would be helpful in instances where the standard is translated.
- It was noted that it was appropriate for there to be no disclosure re: PIE status when an entity was about to list for confidentiality reasons.
- TRG members confirmed that the group audit provisions (i.e., if the group audit client is a (a) PIE – then the PIE provisions apply also for the component auditors involved in the group audit, even though a component may be a non-PIE etc). are consistent with practice (e.g., when the group is involved in US SEC reporting).
- RE: review engagements, we noted in our October 2022 submission that “we think consistency across audit and review reports is desirable. However, given the nature of public interest entities it is more likely that their financial statements will be subject to audit. If they are subject to a review engagement, it will likely be in accordance with ISRE 2410 rather than ISRE 2400 (Revised).
- RE: review engagements, we also said in our October 2022 submission that: “If the IAASB is to update the review engagement standards to address transparency about the relevant independence requirements for certain entities in an approach consistent with ISA 700 (Revised), we think the appropriate and more relevant standard to update is ISRE 2410. As this standard has not been updated since 2006, we encourage the IAASB to add a project to its work plan to update ISRE 2410 and at the same time include amendments to address transparency about requirements for independence in an approach consistent with the revisions in ISA 700 (Revised)”.

#### **Discussion 4: Audits of LCEs (IAASB Agenda Item 6)**

*Objective: Consideration of issues.*

- S6 B, Section: Audit Evidence and Documentation. All makes sense but questioned whether this achieves the objective of being a reduction in work? Identified that would not need to confirm why some ISAs would not apply under the LCE standards.
- Quality MGMT: what does it mean by sufficiently involved in an audit? Should this be expanded? Like the way the requirements and EEM applicable when there are engagement team members are clearly signposted in boxes.
- Engagement Acceptance: Audit will refer to LCE ISA. Suggestion that should say that do a reasonable assurance using the LCE ISAs.
- Initial Audit Engagements: Significance terminology of opening balances not defined – can this be defined. Could this refer to materiality?
- Planning – comments very supportive. More guidance of using mgmt. and auditor expert. Guidance from ISA 500 added. Makes sense. Could consider recommending what happens when sole partner.
- Materiality: 5.3.1. no comments. Examples re 5% does not align with what is happening in practice. In practice would be a higher level based on how the users will take money from the business. Could a range of examples be added 5-10%.
- Communicating to management all those charged with governance, the scope, timing and direction. This could be impractical with small audits. Could add more guidance than requirements around communication.
- Section 6: Risk Assessment: no comments – practical application will be interesting.

- Section 7: support conclusions and additions to this part of the standard.



**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	3.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Global Assurance Landscape
<b>Date:</b>	21 March 2023
<b>Prepared By:</b>	Karen Tipper

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

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**Agenda Item**

1. The objective of this agenda item is to diagrammatically illustrate the wider assurance landscape for sustainable assurance. It is intended that this map be a living document that is used for ongoing stakeholder engagement and outreach. The NZAuASB is requested to review and provide feedback on any obvious omissions or gaps.

**Background**

2. The 2022/23 NZAuASB prioritisation plan includes a planned action to understand the scope of information that may require assurance and who is undertaking that work.
3. The XRB Assurance standards are primarily used by financial statement assurance practitioners. Assurance is provided across many industries for both voluntary and mandatory reporting engagements and this map includes examples of these assurance practitioners and the corresponding standards and frameworks that they comply with and work within.
4. The proposed XRB GHG Assurance standard has been designed to be profession agnostic. As sustainability assurance grows, the XRB is wanting to gain an understanding of what assurance in a broader sense is, as assurance practitioners in other industries could have skills that would be beneficial to GHG and wider sustainability assurance.
5. The global assurance landscape has been presented in two ways. Some companies may appear in more than box depending on their role, and this is intentional, for example some companies provide both assurance and advisory services to different clients or some operate across different sectors.
6. The map has been compiled as below:
  - a. The wider sustainability ecosystem:
    - i. Certification providers/Audit and Assurance Providers
    - ii. Standard Setters
    - iii. Environmental Product Labelling

- iv. Regulators and Accreditation bodies
- v. Professional Bodies
- vi. Consultants and Advisors
- b. Integrated Reporting Capitals:
  - i. Financial
  - ii. Manufactured
  - iii. Intellectual
  - iv. Human
  - v. Social and Relationship
  - vi. Natural

**Matters to Consider**

- 7. We seek views from the board on whether:
  - a. There any obvious gaps in the information presented? Should other companies be included?
  - b. There other assurance practitioners that XRB should be engaging with?

**Material Presented**

Agenda item 3.1	Board Meeting Summary Paper, Global Assurance Landscape
Agenda item 3.2	Assurance Stakeholder Map

# Inspection/Assurance/Certification Bodies



# Standards



# Environmental Product Labelling



# Regulators/Accreditation Bodies



# Professional Bodies



# Consultants/Advisors



# Financial Capital



# Manufactured



# Intellectual



# Human Capital



# Social and Relationship Capital



# Natural Capital



## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	4.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Assurance Standard Setting Policies
<b>Date:</b>	23 March 2023
<b>Prepared By:</b>	Misha Pieters

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### Agenda Item Objectives

1. To obtain views on the XRB's assurance standard setting policies, in particular related to which international standards the XRB adopts.

### Background

2. The XRB's current mandate relative to assurance standards is set out in section 12(b) of the Financial Reporting Act 2013 and include the issue of auditing and assurance standards for:
  - (i) the purposes of the [Auditor Regulation Act 2011](#) or any other enactment that requires a person to comply with those standards; or
  - (ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require members to comply; or
  - (iii) any other purpose approved by the Minister [by notice](#) in writing to the Board.

Auditing and assurance standards may (without limitation) include—

- a. professional and ethical standards that govern the professional conduct of audit or assurance practitioners.
  - b. standards for related services.
3. The XRB's extant standard setting policies are described in:
    - a. [EG Au2](#) Overview of Auditing and Assurance Standard Setting Process. Key points for this agenda discussion are that the policy references the issue of two types of standards:
      - i. standards based on international standards developed and issued by two international standard-setting bodies, the IAASB and the IESBA. *Does not refer to any other international standard setting bodies.*
      - ii. domestic standards. Where there is no international standard, our policies reflect that we may converge with an Australian standard or develop a domestic standard.

The policy reflects a strong commitment to harmonising New Zealand and Australian standards.

- b. The [Policy and Process](#) for International Conformance and Harmonisation of Standards policy agreed recently in conjunction with the AUASB (included in the supplementary papers). In summary the policy reflects that both the XRB adopts international auditing and assurance standards, including the professional and ethical standards for assurance practitioners unless modifications are considered in the public interest and these do not

conflict with, or result in lesser requirements to the international standards. Implicit in this approach is the need to be mostly a “standards-taker”.

4. With the extension of XRB’s mandate to include climate reporting and non-binding guidance on non-financial information, the XRB has been working to engage with a broader base of assurance practitioners, given the wider base of both mandatory and voluntary subject matter information. E.g., the recent exposure draft of the temporary standard on GHG emissions refers to both the ISAEs and ISOs. This is a proposed *temporary* approach, so it is now timely to review the extant XRB’s policies to determine if and how they may need to be adjusted. A key question to explore at this stage is what international standards we should plan to adopt as the base of XRB standards.
5. The standard setting policies are determined by the XRB board. The objective of this agenda item is to explore matters and seek views to inform the XRB board discussion.

**Matters to discuss**

6. We recommend that the Board CONSIDER the attached slide pack. Staff will not present to these slides at the meeting, rather will seek your thoughts in two parts:
  - a. Views on the assumptions, constraints, and contextual information;
  - b. Views on the options explored.

**Material Presented**

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Slide pack
Agenda item 4.3	EG Au2
Agenda item 4.4	Policy and Process for International Conformance and Harmonisation



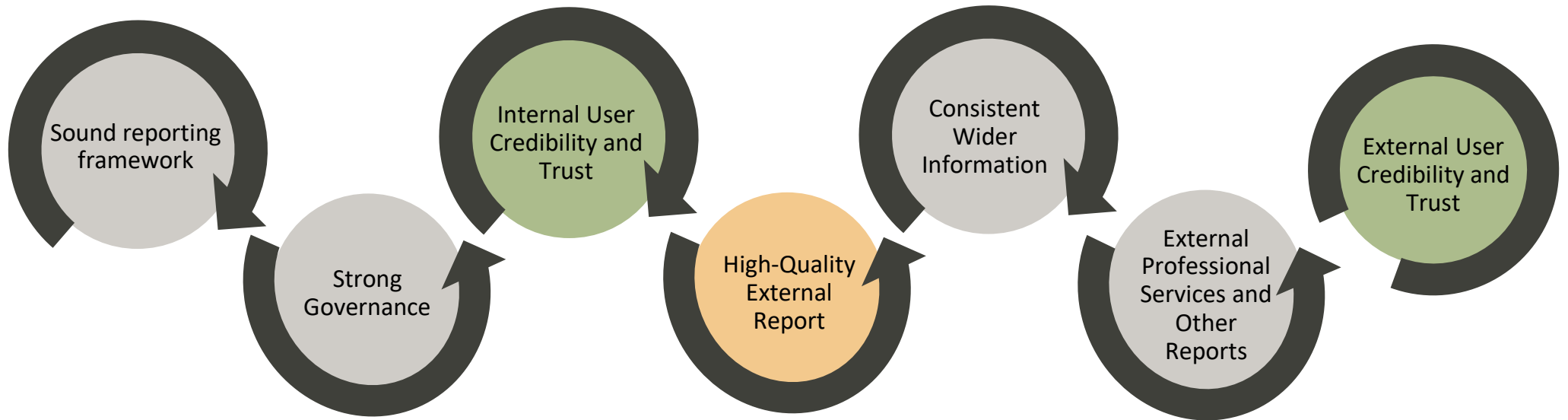
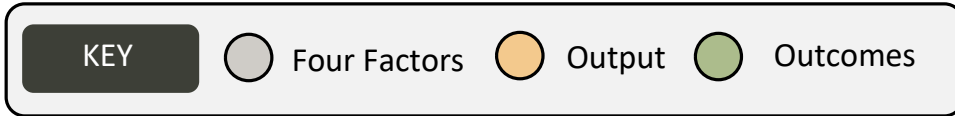
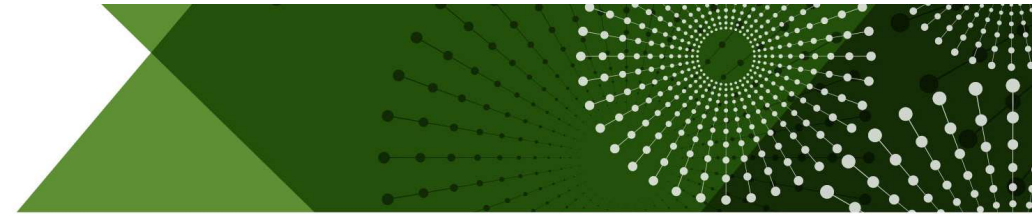
*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

# **XRB's assurance standards setting policies to enhance trust and confidence**

Misha Pieters



Four factor Credibility and Trust Model in reported information  
 (Source IAASB EER Guidance [Support Material](#))



▶ Criteria – who, what, why, when and how of the report

▶ Oversight and management functions  
 Effective system of internal control, with “Lines of Defence”, including internal audit

▶ Obtaining external professional services

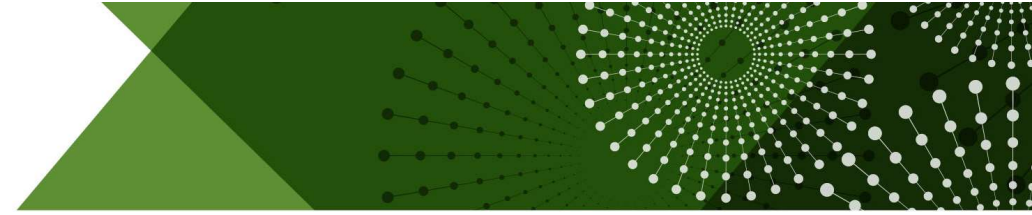
▶ Transparency of:  
 - Reporting framework  
 - Governance

▶ Internal and external sources of information

▶ Publication of professional services reports(s):  
 - Assurance  
 - other



# Assuming



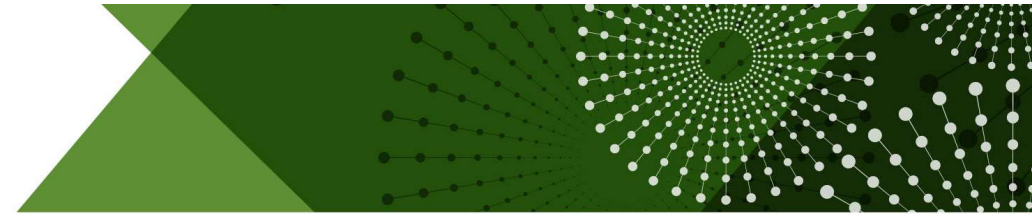
- Annual preparation and reporting of financial (and increasingly non-financial information)
- External independent assurance is a good thing
- Higher level of assurance is preferable – low understanding of difference between limited and reasonable assurance and users may “take/assume” the higher level regardless
- The need to balance cost versus benefit
- XRB’s standards goal is to ensure high quality assurance
  - Standards that are locally acceptable, internationally credible
- XRB remains a standard setter with limited resources
  - XRB does not mandate who has to report or what is subject to mandatory assurance
- Transparent to user what is within scope of assurance

## Context: current standard setting issues



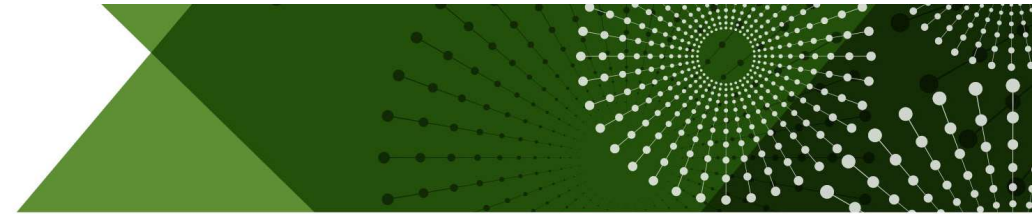
- Despite attempts to enhance scalability, standards are lengthy, complex, detailed, focused on big town
- Regulatory audit quality findings ratcheting up standards and regulations, misdiagnosing compliance findings and differences in judgement as a need for more prescriptive rules.
- Representation on the IAASB help's XRB influence international standards; but NZ is a small player
- Auditor shortages, attracting new talent to audit is a challenge (are XRB's standards part of the problem?)
- Relevance of "audit" under pressure, is audit still fit for purpose? Are financial statements fit for purpose?
- Expanding scope of reporting, will assurance follow? What does assurance over expanding information mean?
- Scope of legislative assurance requirements requiring use of XRB's assurance standards is growing
- Alternative international standards not freely available. Not evident how XRB influences or adjusts these
- Code of Ethics is problematic: IESBA mandate is broader than XRB's mandate applicable to all professional accountants, its in the title - the standard is not profession agnostic. Extant XRB mandate links to Code of Ethics for Accountants. Duplication of Code between NZICA and XRB.

# Characteristics of financial audit market



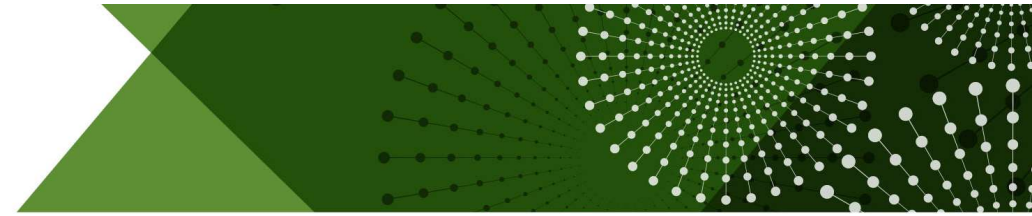
- Nature of entities required *by law* to have an audit of financial reports and who can undertake those audits?
  - Statutory audits of FMC reporting entities (licensed auditors from registered audit firm)
  - Some other companies: large, large overseas company, with 10 or more shareholders unless opt out, fewer than 10 shareholders that opt in (if not an FMC reporting entity, audit must be undertaken by a qualified auditor)
  - Large charities (medium sized charities must have reasonable or limited assurance) (Qualified auditor)
  - Public entities (appointed auditor)
- FMC audits mostly undertaken by big 4 and mid-tier using global methodology. Small firms/sole practitioners audit small charities & incorporated societies, small companies, schools or childcare, AML, real estate, gambling returns, grants.
- Oversight and regulation of audit
  - FMC audits overseen by the FMA
  - Global firms conduct their own reviews
  - Professional bodies regulate their own members. CPD requirements to stay up to date with developments
- Ongoing pressure to split audit firms from other services
- Public sector audits undertaken in accordance with Auditor-General's standards, historically based on XRB standards
- Size of NZ entities and audit firms small in the context in which global standards are set
- No liability cap to protect the profession
- Talent drawn from overseas. Convergence with global standards helps, enhancing attractiveness of profession

# Is financial assurance different from non-financial assurance?



Financial	Non-financial
Independent third party	Independent third party
Mostly quantitative	More qualitative – hard to quantify
More focussed on historical	More forward looking information
More established reporting framework	Multiple frameworks, more developing Science based or constantly evolving
To inform financial decisions	For a range of reasons which includes financial decisions
Reasonable or limited assurance, agreed upon procedures	Verification, validation, agreed upon procedures – different / long form reporting
True and Fair Opinion on the financial statements as a whole (assurance over systems may support the opinion)	Assurance over systems Assurance over the process Assurance over the reported information Assurance over models

## Characteristics of broader assurance market



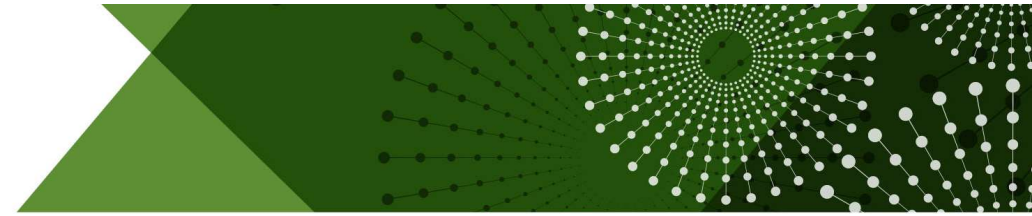
- Existing players may not have realised potential impact of XRB standards. As the market matures and expands, other players may be required to apply XRB's assurance standards for the first time.
- Various certification/validation/verification engagements undertaken for various purposes (voluntary or compliance) but not required to be undertaken in accordance with XRB's assurance standards
- Various regulators (beyond financial regulators) involved
- Various professional bodies, auditor qualifications, accreditation/professional groupings or not
- Various oversight – accreditation body, global firm, other regulator or none
- Various players – large global operations (e.g., Bureaus Veritas) to small NZ only operators. Generally corporates not partnerships who could also provide a wide range of other consultancy services.
- Other international assurance standards used – ISOs have been identified as used in New Zealand to date
  - ISO standards are strictly copyrighted, are not freely available. Not yet evident if and how XRB might consult with stakeholders in the development or tailor the standard after issue.
- CPD requirements

## Constraints

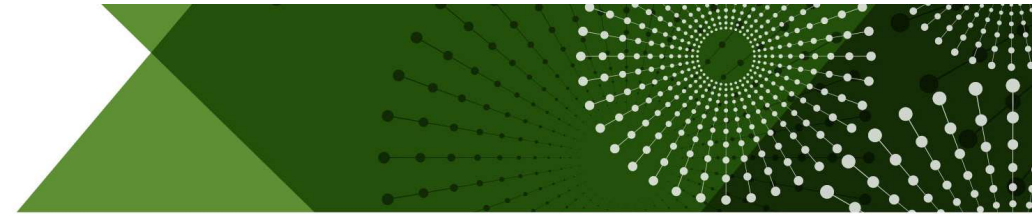
- “Integrated” reporting is under construction. Too early for “integrated” assurance. Separate assurance engagements required under the law.
- Financial regulators presume audit requirements should apply e.g., IOSCO endorse IAASB and IESBA work. FMA is regulator of climate reporting and proposed assurance regulator.
- Auditors outside NZ can apply to FMA (for FMC audits) or Companies Office (other statutory audits). FMA Audit oversight regime - prescribed list of overseas auditors entitled to act as auditor (cross recognition with Australia, European Union, Hong Kong, Singapore and US) based on adoption of similar standards.
- Commitment to harmonisation with Australia. Dual listings benefit from same standards.
- Global firms desire global alignment – cost increase if local firms develop own methodology. To be locally acceptable, support for international alignment. Urge XRB not to take domestic approach.
- In regulated space preferable to have a **single** standard to level the playing field (temporary approach of allowing two standards may not be appropriate in the longer term as market matures).
- Engagement leader ultimately responsible. Can responsibility be shared? Joint audits or assurance engagements not current practice or envisaged under the legislation.

# Opportunities

- Technological Developments
  - AI
  - Blockchain
  - #CHatGPT
- Continual Systems Based Assurance
  - Intelligence analysis
- Ngā pou o te kawa ora



## Tiered or multi-sector approach? Is an “audit” an “audit” an “audit”?



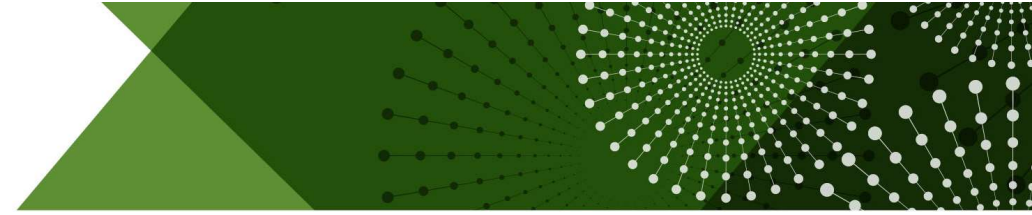
- New Zealand’s largest entities are relatively small on the global scene (and so are our audit firms)
- Assurance standards developed to be framework and sector neutral. Aimed at delivering the expressed level of assurance (rather than tailored for the entity that is audited). There are a few exceptions, with a few differential requirements targeted at FMC reporting entities or public interest entities (PIE).
- Auditor-General sets the auditing standards for the public sector in New Zealand, based on XRB standards but adds material for the public sector. Expressed strong (and differing) views about the PIE differential treatment for NAS, applies the most stringent requirements to all. Strong (and differing) views about the audit of service performance information.
- Statutory assurance requirements already excludes the smallest of the small (but may seek voluntary assurance). (i.e. no statutory need for a tier 4 approach – but ISA for LCE might serve this market well).
- Concern expressed on auditing standard for Less complex entities as it gives impression of a lesser audit.

Differential requirements problematic if aim is highest level of assurance (implies what excludes the “differential” is lesser). Scalability or proportionate standards is a better way to describe the aim. The risk of being perceived as a lesser product will remain.

Recommend adopting the ISA for LCE in New Zealand and to consult on who should apply it in New Zealand.



## Should standard setting policies change?



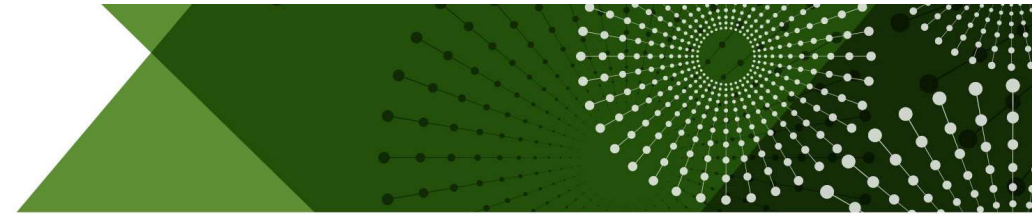
### **Adopting IAASB and IESBA standards and working on domestic standards with the AUASB**

- In the context of financial statement audits and reviews
  - Current policies are not broken. No need for profession agnostic standards. Is there a need to go minus in some instances, if it all seems too complex and unclear how it will solve the problem?
- For other assurance engagements (under the banner of ISAE 3000)
  - Often voluntary assurance and these standards fill a gap. Current policies are not broken.
- For related services including agreed upon procedures
  - Current policies serve us well, are not broken.

### **In context of sustainability need to relook at the policies to ensure profession agnostic standards, reflecting alternative sources**

- For mandatory assurance over NZ climate reports if this goes ahead in New Zealand
- For voluntary assurance over sustainability reporting in the broadest sense
- For ethics and quality management
  - Options and challenges explored in these slides

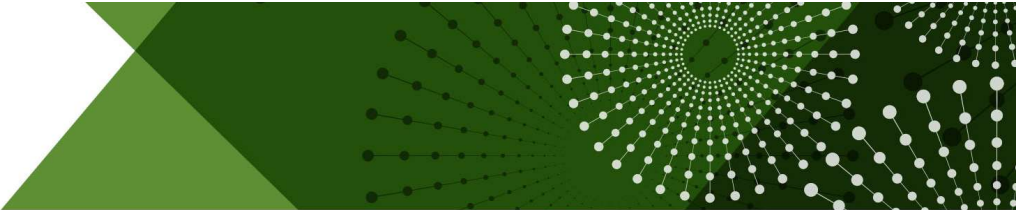
## Options to explore for possible mandatory climate engagement standard (if MBIE proposals go ahead)



Preferable in longer term for there to be a single standard for all practitioners

Align with ISSA 5000 under construction	Use a different source e.g., ISO under construction	Develop a Domestic standard for NZ mandatory regime on climate statement (might work under ISSA 5000 and ISO if principles align)
Concerns that will not be profession agnostic (other practitioners will not see themselves in the standard)	Currently no visibility of developing standard. Not freely available once final. Lack of transparent due process. Will XRB meet its obligations to consult if not freely available?	Trust and confidence enhanced by international alignment. Increase cost if requirements differ from global methodologies
Will be an umbrella standard broader than climate reports so is something more specific needed?	Will be an umbrella standard broader than climate reports so is something more specific needed? XRB unable to modify for NZ environment.	Begs the question what makes NZ assurance so different from the rest of the world?

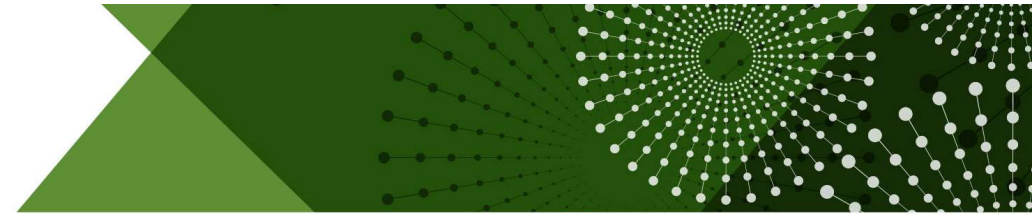
**Assurance over broader sustainability reporting (voluntary at this stage with no current proposal to mandate)**



- Not as high a priority than for potential statutory climate reporting assurance
- Does XRB need a standard to fill the gap as voluntary sustainability reporting and assurance continues to develop?

Adopt ISSA 5000 under construction	Adopt ISO under construction	Domestic standard	Don't issue anything yet (too early)
<p>Concerns that will not be profession agnostic (other practitioners will not see themselves in the standard)</p>	<p>Currently no visibility of developing standard. Not freely available once final. Lack of transparent due process. Will XRB meet its obligations to consult if not publicly available?</p>	<p>Not urgent priority over topics outside of climate</p> <p>*Ngā pou o te kawa ora project as applicable to assurance still unknown</p>	<p>Just point to various international standards once issued</p>

## Constraints for Ethics and independence



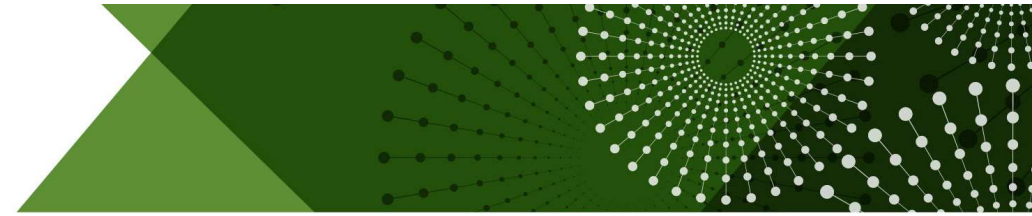
- XRB's assurance engagement standards require compliance with PES 1 as a prerequisite
- IAASB's reference to ethical requirements as least as demanding as IESBA's raises questions— who makes this assessment
- IESBA code is written for professional accountants (PAs)
  - Exploring but not committed to a standalone standard for assurance on sustainability
- Legislative mandate covers standards for any rules or codes of ethics of an association of accountants where those rules or codes require members to comply
- CA ANZ currently requires members to comply with PES 1 which aligns with the NZICA Code of Ethics
- Ethical requirements for some other practitioners are embedded in many different places or sources
- Not all assurance practitioners are members of a profession and may not have Codes of Ethics
- Ethical and independence requirements scattered across ISOs/accreditation rules/etc.
- Financial regulators pushing for requirements equivalent to audit of financial statements.
- Is this premise valid for a market that is still emerging?

## Ethics options to explore



<b>One standard across all assurance Based on IESBA Code</b>	<b>Separation for sustainability (Base on IESBA if go separate standards)</b>	<b>No obvious alternative international source</b>	<b>Domestic for all assurance</b>	<b>IESBA for audits and reviews and other assurance. Domestic for sustainability</b>
<p>Complex, lengthy and would be a barrier to non-accountants.</p>	<p>Too early to tell but possible base to draw from.</p>	<p>Multiple ISOs, accreditation requirements, professional requirements.</p> <p>Barriers to ISO access and copyright as above</p>	<p>Trust and confidence builds on international alignment.</p> <p>Compliance with IAASB engagement standards require compliance with IESBA Code or at least as demanding</p>	<p>Begs question why ethics and independence differ for sustainability?</p>
<p>Should policies build in flexibility to go IESBA minus if continue to use IESBA as a base?</p>				

## Implications for Quality management

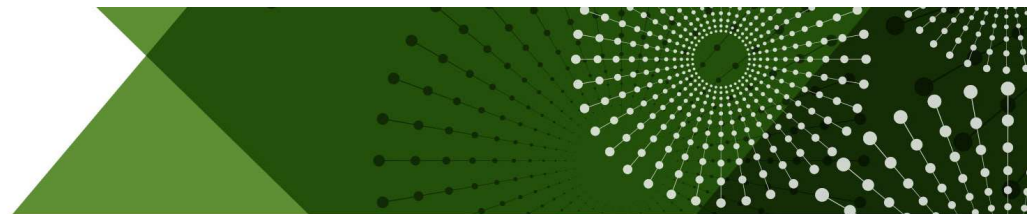


- XRB's current engagement standards require compliance with PES 3 as a prerequisite
- IAASB's reference to quality management requirements as least as demanding as ISQM raises questions- – who makes this assessment
- PES 3 applies to firms that undertake assurance engagements
- CAANZ members required to comply with equivalent requirements under their membership obligations
- Quality requirements for other practitioners are embedded in many different places or sources
- Not all assurance practitioners are members of a profession and may not have quality requirements
- Quality requirements scattered in ISOs in a way that raises questions for adoption for the XRB's mandate
- Do we aim for a level playing field – one standard for all organisations that provide assurance? Is managing quality at the “firm” or “assurance organisation level” different based on the subject matter of the engagement justification for a totally separate standard?

## Quality options to explore

Adopt IAASB standard as base across all assurance	No obvious alternative international source	Domestic	Mix of international or domestic depending on subject matter
<p>Recently revised and adopted by the XRB. Focus on being scalable to the type of engagements and risks the organisation faces. Risks increasing barriers to entry</p>	<p>Quality requirements are brief and scattered in various places</p>	<p>Trust and confidence builds on international alignment</p> <p>Compliance with IAASB engagement standards require compliance with ISQM 1 or at least as demanding</p>	<p>Begs question why quality management differs for sustainability? (same risk for differential requirements – seen as a lesser standard)</p>

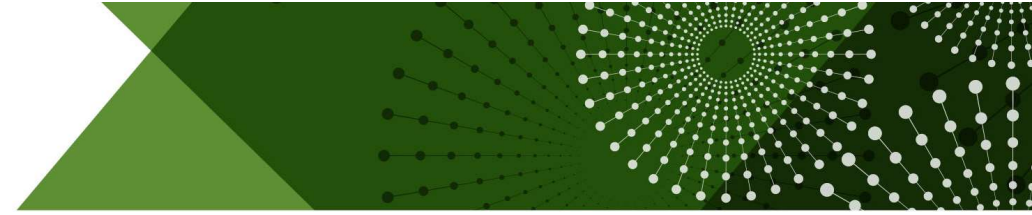
## Recommendation



- Overall approach – converge and harmonise with international standards where considered locally relevant (recognise broader base of international standards to draw from) or if no international standard deemed relevant for the NZ need, develop a domestic standard.
- Multi-tier, multi subject matter framework
  - Financial statements (multi –tier)– (Audits and Reviews) retain existing harmonisation and convergence approach to ISAs and ISREs and apply to the Audits of Less Complex Entities standard when finalised. If this is not appropriate or another domestic standard is need for micro audits, develop something local (if considered to be within the mandate of the XRB). **Should the XRB’s policies allow for international minus standards? If yes why and under what parameters?**
  - Other assurance (3000 and sub-standards) retain existing harmonisation and convergence approach to ISAEs or ASAEs, noting many of the extant 3000 standards are domestic standards, that sit under ISAE (NZ) 3000 (Revised).
  - Sustainability assurance – policy to reflect adopting from a broader base of standards provided the following conditions are met: standards can be freely available on the XRB website and the XRB can modify the base standard, in limited circumstances to make the standard locally relevant. The aim would be a single standard for all, not allowing application of 1 of 2 standards. Our reporting environment is unique to NZ, so may need to develop a NZ domestic standard, if the international standards are not found to be fit for purpose. The policy should include parameters to guide staff and the board in determining when to draw from what.



# Recommendations for professional and ethical standards



- Convergence and harmonisation with international standards remains the objective, with ability to adjust for local relevance
  - Ethics - recommend a split in policy to reflect independence requirements for financial statement engagements and non-financial engagements (so a multi-standard approach). This may draw from a wider range of international standards or be developed as a domestic standard where the XRB determines that the international standards are not locally relevant. The policy should include parameters to guide staff and the board in determining when to draw from what.
  - Should XRB continue to set broader ethical standards for assurance practitioners or limit the XRB's standards to independence?

**Is it too soon to presume independence requirements for financial statement audits are relevant for sustainability and why or why not? From a perception of independence, will the user expect, or have the same perception concerns, when making capital allocation decisions?**

- Quality management – develop a policy that reflects a commitment to bridging the divide between multiple quality management standards. Recommend that the XRB needs a single standard on quality management for all organisations that perform assurance engagements, this may be using an international or developing a domestic. The policy should include parameters to guide staff and the board in determining when to draw from what.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	5.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	GHG Assurance
<b>Date:</b>	24 March 2023
<b>Prepared By:</b>	Anna Herlender

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**Action Required**

**For Information Purposes Only**

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### **Agenda Item Objectives**

1. The objective of this agenda item is for the Board to CONSIDER substantive issues emerging from the submissions received on Exposure Draft: Assurance Engagements over Greenhouse Gas Emissions.

### **Background**

2. The [Exposure Draft](#) and the [Consultation Document](#) were issued in December 2022. They were posted on the [XRBB website](#) together with FAQs that provided clarification on the most asked questions during the process of the development of the exposure draft.
3. The submission period closed on 24 March 2023. The Board pack includes the submissions that were received until 9.30 am on 24 March 2023.
4. High level analysis of the more substantive issues resulting from the submissions will be included in a late paper, agenda item 5.2. Any submission received after 9.30 am on 24 March 2023 will be also included in the late paper. All submissions received before the submission period close will be analysed and feedback will be considered in the drafting of the final standard.

### *Summary of our outreach*

5. A short [video](#), with an overview of the proposed standard, was posted on the XRBB website early February. The ED was also promoted in Assurance Alerts and in the February PitoPito Kōrero and in the Need to Know Webinar in March 2022.
6. An Interactive Feedback Forum was held on 8 February 2023. 58 people, a mix of practitioners, consultants, and preparers, attended the event. We ran 7 polling questions that largely mirrored our consultation questions. Between 25 and 44 people responded to the polling questions (respondent numbers differed depending on the question). The polling results are included in the agenda item 5.3.
7. The Chair of NZAuASB and Director Auditing and Assurance delivered presentation to the Association of Consulting and Engineering New Zealand (ACE) on 8 February 2023.

8. The Director Auditing and Assurance talked to GHG assurance aspects in a presentation delivered together with Director Sustainability Reporting to the members of Property Institute of New Zealand on 16<sup>th</sup> March 2023 and during panel discussion to CFOs organised by Toitū and the Sustainable Business Council on 17 March 2023.
9. We contacted targeted users/preparers and met with various parties to explore broader perspectives on GHG and climate statement assurance. Common comments from meetings held so far include:
  - Mixed views on the usefulness of external assurance (overlap with governance, some bigger entities, like banks, have good in-built processes);
  - Mixed views on the usefulness of additional communication tools in the assurance reports (some users will not read assurance reports at all, some would find KAMs very helpful and “add colour” to the report);
  - Concerns raised about cost of external assurance and the layering of assurance;
  - Concerns raised about capability of the assurance providers.
10. We also explored views on developing assurance requirements and challenges with XRAP at its meeting on 20 March 2023. Feedback included:
  - Mixed views about only including high level of principles for independence and quality management within the standard. Concern was raised that it could lead to an inconsistent approach across practitioners. The requirements in the Code of Ethics and quality management standard have been developed over time to address audit quality and ethical issues that have been seen in practice. Others supported a principles-based approach but advocated for more guidance to promote consistency;
  - That assurance is critical to address the risk of greenwashing;
  - Subject matter knowledge and assurance skills are critical to this regime and the new emerging market needs a transition period but that this transition period should have a finite life;
  - Concerns about data quality and the need for guidance to assist preparers to get ready for assurance.

### **Matters to Consider**

11. Informal submissions and feedback received so far highlight the following key issues to explore:
  - Competency and capability of those who perform GHG assurance engagements.
  - Alternative wording of the assurance conclusion for “forecast” information (if ISO standard is followed) and potential confusion of the users of the assurance report.
  - Inclusion of key matters in limited assurance engagements.
  - Sufficiency of quality management and ethics requirements included in our standard
  - Use of experts and/or reliance on other assurance practitioners’ requirements are not sufficiently clear.
  - Limited transparency of ISO standards which are not freely available.
  - Preference for the same standards for all practitioners in the longer term
  - The responsibilities and reporting on comparative GHG information if errors are identified.

- Documentation requirements.
12. Due to the submission close date being 24 March, the more substantive points emerging from the submissions will be included in late paper agenda item 5.2.

**Recommendations**

13. We recommend that the Board NOTE the submissions received and PROVIDES guidance on the key issues identified so far.

**Next steps**

14. We will perform a detailed analysis of all the submissions. The detailed analysis of the feedback and submissions will be included in June Board Papers with the objective of seeking approval of the standard at the June meeting if possible.

**Material Presented**

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues Paper – Late Paper

**Supplementary papers**

Agenda item 5.3	Polling results
Agenda item 5.4	Jeska McHugh submission
Agenda item 5.5	ACE submission
Agenda item 5.6	KPMG submission
Agenda item 5.7	Tonkin & Taylor submission
Agenda item 5.8	CEP submission
Agenda item 5.9	AFAANZ submission
Agenda item 5.10	OAG submission
Agenda item 5.11 (and onwards)	Submissions received after 9.30 am on 24 March – Late Paper

## NZAuASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	6.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	ISA 500 (Revised) <i>Audit Evidence</i> Submission
<b>Date:</b>	22 March 2023
<b>Prepared By:</b>	Bruce Mcniven

Action Required

For Information Purposes Only

### Agenda Item Objectives

1. The objective of this agenda item is to APPROVE the draft submission on the proposed ISA 500 (Revised) *Audit Evidence* to the IAASB, which is included in Agenda item 6.2.

### Background

2. **Timeline** – the timeline of the project is summarised in the diagram on the right.
3. On 24 October 2022, the IAASB issued an Exposure Draft (ED) on ISA 500 (Revised) *Audit Evidence*.
4. The ED was published on the XRB's [website](#). Comments were requested to be submitted to us by 15 March 2023. The IAASB comment period closes 24 April 2023.
5. We gathered initial views and feedback from Board members at the December 2022 board meeting.

The Board DISCUSSED:

- The definition of audit evidence, noting a general level of support for the new definition.
- The change in the requirement for the auditor to evaluate, rather than consider, the relevance and reliability of information to be used as audit evidence.
- The proposed stand-back requirement of the standard. The Board questioned whether there is duplication of the stand back with ISA 330, i.e., is it intended to be the same stand back or different.
- That the proposed standard does not really address technology in any meaningful way.

The Board NOTED the proposed timeline and engagement with constituents, and the timeline for furnishing a response to the IAASB.



6. The Technical Reference Group’s minutes of the 7 September 2022 meeting noted their agreement with the proposals in their fatal flaw review of the draft standard. The June 2022 minutes noted general support for the revisions.
7. We expect a final standard to be approved in June 2024.
8. Consultation process - refer to Appendix 1 for an overview and key statistics. In addition, we gave a brief overview of the project in the XRB’s Assurance Need to Know webinar on 14 March.

***Further information***

9. Supplementary agenda item 6.2 includes details on the background as to how we reached our conclusions and answers to the submission questions. Supplementary agenda item 6.4 contains submissions received by NZAuASB (which stakeholders have permitted to be published publicly), including poll results from the Virtual feedback forum, and details from the teams call with a stakeholder.
10. XRB Staff have been in contact with the AUASB staff to share progress throughout this project. We have also watched recorded presentations on the audit evidence exposure draft, from the AUASB, Hong Kong Institute of CPAs and from CPA Canada, to help inform our thinking and content for outreach presentations.
11. At this time, we are not aware of any further matters that should be brought to the NZAuASB’s attention which may be considered a compelling reason to modify ED ISA 500.
12. My thanks to Sylvia van Dyk for helping with the walkthrough video (posted on YouTube).

**Recommendations**

13. Subject to any discussion at the meeting or editorial comments, we recommend that the Board APPROVES the draft submission on the proposed ISA 500 (Revised) *Audit Evidence* to the IAASB.

**Material Presented**

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Draft NZAuASB Submission to IAASB
Supplementary Agenda item 6.3	Exposure draft
Supplementary Agenda item 6.4	Submissions received by NZAuASB, including poll results from the Virtual feedback forum

# Appendix 1

## Consultation process (data at 22/3/2023)



### E-notifications

We notified stakeholders of our consultation directly via LinkedIn posts, email newsletters, and direct email invitations to attend the forum. This consultation was also advertised via the Hot Topics, Consultations, and International Update sections of the front page our website. I wrote an article using ChatGPT advertising the Audit Evidence event (a public article on my personal LinkedIn page). On the XRB's LinkedIn page we also posted a link to our walkthrough video on YouTube.



### YouTube

A walkthrough video was posted to our website and to YouTube in December to provide insights on key matters addressed by the proposed standard. No comments from stakeholders have been posted on YouTube.



### Virtual feedback forum

A virtual feedback forum was hosted on 1 March to get views from stakeholders via polls and comments (no direct comments were received during this webinar). Slides from the forum are posted on our website.





## Submissions

One email submission was received from a stakeholder from the Office of the Auditor-General. A teams call was held with a technical director of a Big-4 accounting firm. A late submission has been received from CAANZ.

Total email submissions

2

Total teams calls

1



X March 2023

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
Submission via IAASB website

Dear Willie,

***Exposure Draft: Proposed International Standard on Auditing 500 (Revised) Audit Evidence***

Thank you for the opportunity to comment on the Proposed ISA 500 (Revised) *Audit Evidence*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) on the specific questions raised in the exposure draft (the ED).

The External Reporting Board (XRB) is the Independent Crown Entity responsible for issuing accounting, audit and assurance and climate standards for New Zealand reporting entities. We enable high quality, trusted, and integrated reporting through frameworks and standards that are internationally credible and locally relevant. We are focused on reporting and assurance in New Zealand that promotes trust, confidence, transparency and accountability. The XRB delegates responsibility for issuing auditing and assurance standards to the NZAuASB.

In formulating this response, the NZAuASB sought input from a range of New Zealand constituents. A virtual feedback forum was held in March 2023, and we posted a webcast on our website and YouTube in December 2022. The NZAuASB also received submissions from various New Zealand stakeholders.

All feedback has helped inform the NZAuASB in developing its attached response, which reflects both the views of stakeholders and the independently formed views of the NZAuASB itself. Overall, we are supportive of the changes in the standard, however there are some further suggested changes, which we have highlighted below and in the attached submission.

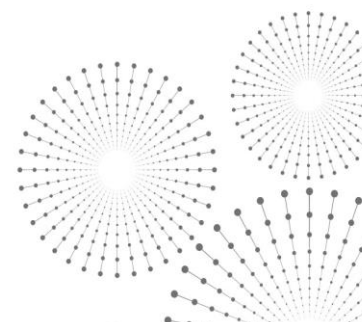
We note that while the proposed standard does not fully address the changes in technology in a detailed way, we nevertheless agree with the need of the standard to be principles based. Further illustrative guidance, providing examples of current technology, would be useful to support the standard. We also recommend that the board expedites the updating of the 500 series, as well as ISRE 2400, to take into account the changes relating to technology.

Feedback received from stakeholders did not support the change in terminology from *consider* to *evaluate* for the work undertaken to assess the relevance and reliability of information. The additional audit work could be unnecessary and burdensome for no perceived benefit. We also noted some concern regarding the duplication of stand-backs now appearing in ED-500 and ISA 330, and the potential for it to require further unnecessary work. It would be more efficient for there to be only one stand-back in the suite of auditing standards relating to evaluating the sufficiency and appropriateness of audit evidence.

Should you have any queries concerning our submission please contact either myself at the email address provided below or Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,

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



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

### Proposed International Standard on Auditing 500 (Revised) Audit Evidence

#### Overall Questions

**Q1. Is the purpose and scope of ED-500 clear? In this regard:**

- (a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?*
- (b) Are the relationships to, or linkages with, other ISAs clear and appropriate?*

#### Response

1. We consider that the ED-500 does provide an appropriate principles-based framework for auditors. No concerns have been raised by stakeholders on this matter.
2. The relationships to, or linkages with, other ISAs are clear and appropriate. We consider it reasonable and appropriate for ED-500 to link with other standards.

**Q2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?**

#### Response

3. We agree that the proposed revisions in ED-500 may lead to enhanced auditor judgements when obtaining and evaluating audit evidence. For example, requiring the auditor to consider automation bias, should lead an auditor to be more professionally sceptical over such evidence.

**Q3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?**

#### Response

4. We believe that there is an appropriate balance of requirements and application material. Our stakeholders have not raised any issues in terms of the balance of requirements and application material.

**Q4. Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?**

#### Response

5. We note that while the proposed standard does not fully address the changes in technology in a detailed way, we nevertheless agree with the need of the standard to be principles based. For example, it was felt that auditors generally have a good understanding of the use of drones for inventory. Stakeholders felt that the application material needs to address more complex uses of

**Commented [BM1]:** A summary of how we reached our responses are shown in the comment boxes below:

#### **Commented [BM2]:** Background

There has been no specific feedback from stakeholders on this. There does not appear to be any significant concerns around ED-500 being a principles-based reference framework or with the revised scope and introduction paragraphs. We agree that the ED provides an appropriate principles-based reference framework, and the relationships/linkages with other ISAs are clear and appropriate.

#### **Commented [BM3]:** Background

There has been no specific feedback from stakeholders on the ED being a principles-based reference framework or with the revised scope and introduction paragraphs. We agree that that the proposed revisions in ED-500 will lead to enhanced auditor judgements when obtaining and evaluating audit evidence.

#### **Commented [BM4]:** Background

There has been no specific feedback from stakeholders on the balance of requirements and application material. Staff conclude the requirements and application material appears to have an appropriate balance.

#### **Commented [BM5]:** Background

In the December 2022 board meeting, the Board discussed that the proposed standard in respect to technology. We asked this question in our virtual feedback forum, with half of stakeholders who voted (12/24) voting yes, 9 stakeholders were unsure, and a minority of 3 voted no. Staff agree that the principles based approach is not prescriptive. Items like considering automation bias are important to be included in the standard. The move to new terminology, like automated tools and techniques is consistent with IESBA's proposed Technology changes to the Code of Ethics. Staff note that automated tools and techniques are not defined in the standard, yet are defined in the Proposed ISA for LCE (which will be discussed in the March 2023 IAASB meeting). We recommend a definition is included in the standard for consistency.

CAANZ's submission noted: "...the following concerns were raised:  
-- Lack of clarity that the use of technology is an audit procedure.  
-- The ED requirements and AM seem to focus more on the use of technology tools in risks assessment rather than being clear they are appropriate in analytical and substantive procedures as well.  
-- The overall feedback was that the ED does not address the complexity of technology. The examples in the AM were viewed as too simplistic. For example, it was felt that auditors generally have a good understanding of the use of drones for inventory. Stakeholders felt that the AM needs to address more complex uses of technology such as data assurance. If this cannot be done in the standard, then the IAASB would need to provide non-authoritative guidance which can be updated more regularly to provide more detail about the use of technology in audit procedures..."

technology such as data assurance. If this cannot be done in the standard, then the IAASB should consider providing non-authoritative guidance which can be updated more regularly to provide more detail about the use of technology in audit procedures.

6. We also recommend that the board expedites the updating of the 500 series, as well as ISRE 2400, to take into account the changes relating to technology. This includes providing more clarity that the use of technology is an audit procedure.
7. We note the positive move away from *computer-assisted audit techniques* to *automated tools and techniques* and changes of terminology from *electronic media* to *digital media*.
8. We note that automated tools and techniques are not defined in the standard, yet are defined in the Proposed ISA for LCE (para 2.3 of the Proposed ISA for LCE's standard). We recommend that a definition is included in ED-500 (or other relevant standard) for consistency.

**Q5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?**

**Response**

9. We note that the exercise of professional scepticism is reinforced throughout the standard, including in:
  - Designing and performing audit procedures in a manner that is not biased;
  - Evaluating the relevance and reliability of information intended to be used as audit evidence; and
  - Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

We agree that the requirements and application material appropriately reinforce the exercise of professional scepticism.

**Commented [BM6]: Background**

We asked this question in our virtual feedback forum, with a majority of stakeholders voting yes.

Staff consider the requirements and application material do appropriately reinforce the exercise of professional scepticism.

**Specific Questions**

**Q6. Do you support the revised definition of audit evidence? In particular, do you agree with the "input- output model" that information can become audit evidence only after audit procedures are applied to it?**

**Response**

10. We support the revised definition of audit evidence and agree with the input-output model. Stakeholders consulted agree with the change of the audit evidence definition and the input-output model

**Commented [BM7]: Background**

In the December 2022 board meeting, the Board discussed the definition of audit evidence, noting a general level of support for the new definition

We asked this question in our virtual feedback forum, with a majority of stakeholders voting yes.

Staff agree with the new definition of audit evidence and the input-output model.

**Q7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?**

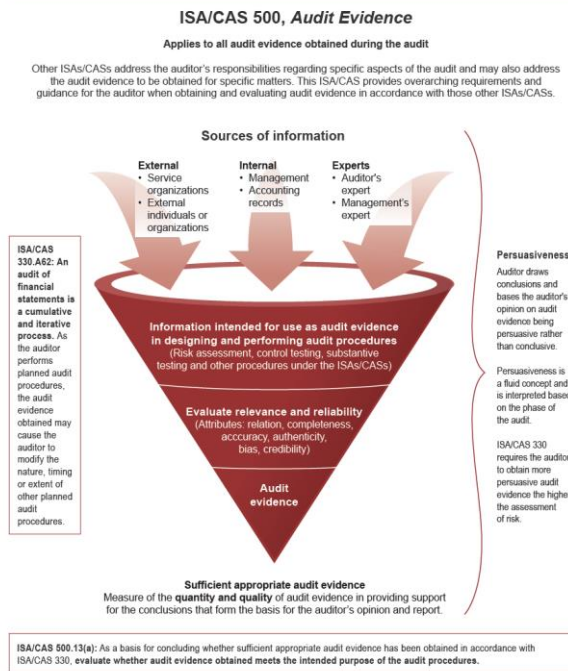
**Response**

11. The application material appropriately describes the interrelationship. We do note that the persuasiveness of audit evidence is not defined but do not consider it necessary for such a definition to be included in the standard. However, we do note that persuasiveness is only included in the application material, and not the requirements section. The IAASB should consider introducing this concept within the requirements section, rather than introduce this new concept just within the application material.
12. **Diagram illustrating relationship between key concepts**

A diagram to help illustrate the key concepts of the standard would be a useful addition to the standard. In particular to help illustrate the concept of persuasiveness, in lieu of a definition within the standard, and illustrate the cumulative and iterative process to obtain sufficient appropriate audit evidence. We encourage IAASB to consider adding a diagram into the ISA as an appendix. We have noted that the Canadian Audit and Assurance Standards Board has developed a diagram and is proposing to add one<sup>1</sup> to their standard.

**Diagram illustrating key concepts in proposed ISA 500, Audit Evidence**

ISA/CAS 200.17 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.



**Commented [BM8]: Background**

We asked this question in our virtual feedback forum, with a majority of stakeholders voting yes (14/21). Staff consider that the interrelationship is adequately described. However, we do note that persuasive audit evidence is not defined but do not consider it necessary for such definition to be included in the standard.  
An introduction of a diagram may be useful in this area (to visually display the interrelationship).

CAANZ's submission correctly noted that the concept of persuasiveness was only introduced within the application material, not in the requirements section. We will recommend that IAASB considers introducing the concept of persuasiveness within the requirements section.

In research for this project, we read the Canadian AASB exposure draft on this project. They have a very relevant diagram, shown on this page, that they propose to include in their standard to illustrate relationship between key concepts contained in the proposed standard. This could be useful for others, including our stakeholders, so we will suggest to the IAASB that they consider including this in the ISA 500 (revised) standard as well. It is particularly useful to illustrate the concept of Persuasiveness. Diagrams to visualise key concepts in a standard are always useful.

<sup>1</sup> Refer to the Canadian AASB exposure draft (page 8) on <https://www.frascanada.ca/en/cass/documents/ed-audit-evidence>

**Q8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?**

**Response**

13. We agree that the requirements and application material in the ED are sufficient. Feedback from our stakeholders is in favour of maintaining the status quo of *Consider* (refer paragraph 7 of the current standard).

We agree with our stakeholders and believe that the change in terminology from *Consider* to *Evaluation* will create an unnecessary burden on auditors as identified in the consultation document. Evaluation suggests additional work and is perceived as requiring unnecessary documentation requirements. It also potentially could lead to creation of checklists of the attributes of relevance and reliability as part of the evaluation process, which is not ideal.

Further, we do not see that paragraph 9.(b) "given the intended purpose of the audit procedures" provides any indication on scalability. We recommend a plain English explanation in the application guidance on the IAASB's expectations; to provide an indication on scalability (similar to the discussion in the significant matters section of the ED), and to avoid any confusion or disagreement, that could potentially occur on such matters of judgement, between auditors and regulators.

We do agree that consideration on the relevance and reliability should be undertaken on all information intended to be used as audit evidence.

**Commented [BM9]: Background**

In the December 2022 board meeting, the Board discussed the change in the requirement for the auditor to evaluate, rather than consider, the relevance and reliability of information to be used as audit evidence.

In the virtual feedback forum staff mentioned "the current standard only requires the auditor to consider the relevance and reliability of information to be used as audit evidence, rather than evaluate. There are potential views that the term *Evaluation* is too strong, and infers that there could be a burden of additional work and documentation to be included on file."

We then posed the question, "What do you believe an auditor should do to information which is to be used as audit evidence? Evaluate the relevance and reliability of the information or Consider the relevance and reliability of the information"

The results were 12/21 in favour of the status quo (Consider), 6 for Evaluate, and 3 unsure.

The IAASB state in the ED, para 42 page 14

.. the IAASB cautioned against creating an unnecessary burden on auditors in making this evaluation. The IAASB's intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable). The reference to "given the intended purpose of the audit procedures" in paragraph 9(b) of ED-500 addresses this scalability by indicating that the auditor's professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures.

Staff have considered this note in the ED and the results of the virtual feedback forum, from this we would be more in favour of using the term *Consider* (as in the extant standard), rather than *Evaluate* - to further reduce the risk of creating an unnecessary burden on auditors. *Evaluation* would require a memo or some structured documentation, where as *Consider* could just be covered by a simple question tick box in the audit file. Both would require the same thought processes.

As an aside, the current standard reads "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." So maintaining the paragraph as consider is appropriate.

**Q9. Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?**

**Response**

14. We agree with the separate conditional requirements. We also consider that accuracy and completeness of information should be considered based on professional judgement (i.e., only when those attributes are applicable in the circumstances).

**Q10. Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?**

**Response**

15. General consensus is that a stand-back is an effective tool to use when evaluating if auditors have obtained sufficient appropriate audit evidence.
16. We do note some concern with the duplication of stand-back’s appearing in ED 500 and ISA 330, and suggest further consideration is given to this so there are no unintended consequences – e.g., the unlikely event that regulators requiring auditors to prepare two stand-back documents to satisfy both ED 500 and ISA 330 requirements. An option may be to simply include a reference to ISA 330 at para 13 of ED 500. Paras 13-14 of ED 500 could then be incorporated within the contents of ISA 330, paragraphs 25-27 (“Evaluating the Sufficiency and Appropriateness of Audit Evidence”).
17. We recommend that paragraphs 13 (a) and (b) should swapped around so the content of 13 (b) becomes 13 (a), and vice-versa. This would mean that an auditor would firstly *Consider* all evidence obtained and the consistencies and corroboration with assertions and then *Evaluate* whether the audit evidence obtained meets the intended purpose of the audit procedures. Usually the auditor would first determine the assertions to be tested, prior to determining audit procedures, so it makes sense that this stand-back works in the same order.
18. Similar to our response to question 8, we do caution against putting an additional unnecessary documentary burden upon auditors for no perceived benefit, and suggest that the auditor should *Consider* both aspects of the stand-back (rather than *Consider* then *Evaluate*).

**Commented [BM10]: Background**

We asked this question in our virtual feedback forum. Opinion was divided with 9 in favour, 8 voting No, and 4 undecided. We also asked how accuracy and completeness should be considered, with 17/21 voting that it should be based on professional judgement, with 2 being unsure and 2 voting it should not be considered separately. In the forum I mentioned the differing opinion, which was raised both in the ED and in the Canadian webinar from CPA Canada. I stated that “there are some stakeholders that believe accuracy and completeness should always be relevant when evaluating the reliability of information. And that accuracy and completeness are already mentioned in paragraph A56 as attributes of reliability, so it really necessary to single out these attributes again in the requirements section...” However, the voting has gone in favour as is what is proposed. On balance, it is the staff opinion that what is suggested is sufficient and it should be up to the auditor’s judgement as to whether accuracy and completeness attributes are applicable.

**Commented [BM11]: Background**

We asked this question in our virtual feedback forum, 16 of 22 participants voted in favour of the stand-back requirement. We did highlight that there will be a duplication of stand-backs – with another one appearing in paragraph ISA 330. In the December 2022 board meeting, the Board discussed the proposed stand-back requirement of the standard. The Board questioned whether there is duplication of the stand-back with ISA 330, i.e., is it intended to be the same stand-back or different. Staff noted that the IAASB suggests that the stand-backs to work in tandem, and at the same level as para 26 of ISA 330. The stand-back (para 13a) in ISA 500 (revised) is theoretically required to close the loop from para 8b. On balance, we should ask the IAASB to reconsider whether two stand-backs are actually needed, and if there are any unintended consequences that could arise from having two – for example, regulators requiring two stand-back documents that align with ISA 500 (revised), then another for ISA 330. An option is simply having a reference to ISA 330, at paragraph 13 of ED 500. Paragraphs 13-14 of ED 500 could be incorporated within the contents of ISA 330, paragraphs 25-27 (“Evaluating the Sufficiency and Appropriateness of Audit Evidence”). One stakeholder (Roy Glass) noted on paragraph 13 “From a plain reading of this para, (a) and (b) seem to be in the reverse order to what I would expect. I would expect the “consider” task to take place before the “evaluate” task.” On reflection, staff agree with this – it makes sense to firstly consider then evaluate. So we will recommend that the IAASB swaps the two sentences around.

**Q11. Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.**

**Response**

19. We have the following additional editorial suggestions:

**20. Paragraph A47 term: “foreign language”**

21. In paragraph A47 an example shown, where an auditor’s expert is used, is: “... information may be in a foreign language and may need to be translated...” In New Zealand (and presumably some other countries), there is more than one official language (English, te reo Māori and New Zealand Sign Language) and so a translation may be required for a non-foreign language. With recent law changes in New Zealand, there will be times when an auditor is presented with information that is not in the presentational language of the financial statements, and they may need to engage an auditor’s expert to translate. The language used in that case would not be a *foreign* language. We recommend that this sentence is altered to read “The information may be in a language other than the presentational language of the financial statements, and may need to be translated”.

**22. Consequential change to ISA 240 (on page 59 of the Exposure Draft document)**

The consequential amendment documented in the ED states:

*“If the auditor has identified a fraud or has obtained audit evidence information that indicates a fraud may exist, the auditor shall communicate these matters, ... , on a timely basis with the appropriate level of management ...”*

We suggest that “audit evidence or information” is the correct wording to be used in this instance. Otherwise, the auditor is required to collect audit evidence that indicates a fraud may exist, which is often time-consuming and onerous. They may have found the fraud in information before that information became audit evidence, so deleting the reference to information is not necessary.

**23. Consequential change to ISA 505 (on pages 69 and 70 of the Exposure Draft document)**

There is a very minor inconsistency in the headings above paras 16 and A24. We suggest both are titled “Evaluating the Results of the External Confirmation Procedures”

**24. Paragraph A63 – example of internally generated information.**

We suggest that the sentence in paragraph A63 is amended to “...For example, accuracy, reliability, and completeness ordinarily will be applicable for information generated internally from the entity’s information system...”

Reliability is just as important for internally generated information as it is for externally generated information, therefore should be an attribute to be considered for internally generated information.

**Commented [BM12]: Background**

In reading paragraph A47, staff suggest that we soften the wording of “foreign language” to “language other than the presentational language of the financial statements”.

This is particularly important with the Incorporated Societies Act 2022 ([para 101](#)) permitting accounting records to be kept in written form in English or te reo Māori; or in a form or manner that is easily accessible and convertible into written form in English or te reo Māori. Thus accounting records may not be kept in the presentational language of the financial statements, and the auditor may need to have them translated. In which case, it is not a foreign language that is being translated but a language other than the presentational language of the financial statements.

**Consequential changes**

One stakeholder (Roy Glass) provided useful comments on other areas of the standard, which we will include in this section:

- Consequential change to ISA 240 - It is possible that fraud may be discovered after obtaining information, before it becomes audit evidence. So we will suggest that paragraph 41 becomes “audit evidence or information”, and information is not deleted.
- Consequential change to ISA 505 – the title above paragraph 16 “Evaluating the Results of the External Confirmation Procedures” should align with the title above paragraph A11 “Results of the External Confirmation Procedures”. We suggest the title above paragraph 16 is used for both.

**Paragraph A63 – example of internally generated information.**

In our discussion with a stakeholder from a big 4, they noted that paragraph A63 – states “For example, accuracy and completeness ordinarily will be applicable for information generated internally from the entity’s information system. For information obtained from a source external to the entity, the auditor may be more focused on other attributes of reliability, including the credibility of the source providing the information.”

They correctly pointed out that reliability of information would ordinarily also be considered for information generated internally from the entity’s information system. If data inputted is not reliable, then the resulting evidence may not be reliable either (i.e. rubbish in, rubbish out).

## Request for General Comments

**Q12.** The IAASB is also seeking comments on the matters set out below:

**(b) Effective Date**—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

### Response

25. We agree with the proposed effective date.

### Commented [BM13]: Background

We agree with the proposed effective date. There has been no specific feedback from stakeholders on this.



## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	7.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Audit committee chairs perceptions on trust and confidence
<b>Date:</b>	21 March 2023
<b>Prepared By:</b>	Misha Pieters

Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. To update the Board on planned research to be commissioned.

### Background

2. The XRB's 2022-2027 statement of intent includes, in the priority focus areas, the need to engage and influence stakeholders to understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in New Zealand reporting.
3. To progress this focus area the XRB is advancing plans to commission research as described below.

### Objective of research

4. To explore perceptions of audit committee chairs (ACC), by way of scheduled interviews, on the role of audit in maintaining trust and confidence in financial reporting to inform discussions on whether the XRB's standards enhance trust and confidence in New Zealand reporting.
5. To issue a report that shares the results including:
  - A summary of key findings, and key messages we can promote through various channels.
  - Comparative results to perceptions in Australia (AUASB RR09 (12/22) and/or the UK). Such a comparison may inform the XRB of NZ issues to incorporate in the NZ standards, depending on if or where perceptions on key matters align or differ.
  - Anecdotal "quotes" or stories on the value of audit to support trust and confidence to better understand where the auditing standards are resulting in a service that is meeting needs.
  - Perceptions on assurance matters related to climate statements to inform the XRB's work on developing a standard for assurance on climate statements.

### Scope of research

6. Users' perceptions are important however they are scoped out of this research piece. XRB management are considering a separate research piece that spans across all product lines (climate, financial reporting and assurance standards), that explores who the users are, what are their needs and whether the XRB's standards are meeting those needs.
7. This research is limited to perceptions of audit committee chairs for two reasons:
  - To establish a manageable boundary around the research. E.g., the interview questions, timeframes and expected cost are tailored to this scope.

- To provide comparative results to the UK and Australia.
8. We aim to interview at least 20 to be able to provide rich perspectives. We aim to interview audit committee chairs who are engaged with auditors from at least the big four, mid-tier and Audit New Zealand.
  9. Finding willing interviewees is likely to be the biggest risk. The XRB staff will arrange the interviews. We aim not to exclude any sector but must ensure that the sample size is both diverse enough to provide rich analysis and manageable in terms of timeline.
  10. Possible questions to explore are outlined in the appendix to this memo.

#### **Timing**

11. Audit committee chairs availability will impact the timeline. We recommend that interviews are undertaken in May before year end reporting deadlines. A draft report will be requested by the end of June with the aim of publishing the findings in July 2023.

#### **Recommendations**

12. We recommend that the Board NOTE the update.

#### **Material Presented**

Agenda item 7.1

Board Meeting Summary Paper

## **Appendix 1: Outline of possible questions to explore with audit committee chairs**

The questions for interviews will be agreed with the researchers in advance. Possible questions include:

### *Context: Factors that enhance trust and confidence*

#### *1. Sound financial reporting framework*

Do financial statements prepared in accordance with the XRB's financial reporting standards enhance trust and confidence in reported information in New Zealand? Why or why not? How much does alignment with international reporting standards contribute to that trust and confidence?

#### *2. Strong Governance*

How do users have trust and confidence that robust processes and controls were applied with appropriate oversight, by competent people and without undue influence by conflict of interests?

### *Role of Audit in Enhancing trust and confidence*

- Does an audit undertaken in accordance with the XRB's auditing standards enhance trust and confidence in reported information in New Zealand? Why or why not? How much does alignment with international auditing standards contribute to that trust and confidence?
- What do ACCs consider to be the value of audit? Do they have a story to share that demonstrates the value of the audit?
- Where do ACCs consider there is opportunity to further enhance trust and confidence or improve the quality of the audit?

### *Audit quality*

- What do they consider to be good audit quality?
- What are their concerns about the audit market as a whole?
- How do you assess the quality of your audit on completion of the audit?

### *Selecting the audit firm*

- What factors are considered in appointing the auditor?
- Do you find the FMA's audit quality reports useful? What could make these more useful?
- Do you consider there is merit in disclosing the tenure of the auditor?

### *Engagement with the auditor*

- Type and frequency of ACCs engagement with the auditor?

### *Assurance over the climate statement*

- Will the entity's for which you are ACC obtain outside assistance to prepare their climate statements? Over what aspects and why?
- Who will you engage to assure your GHG disclosures and why?
- Will you voluntarily obtain assurance over the climate statement and why?
- If the scope of mandatory assurance extends to the full climate statement, who will you engage to assure your climate statements and why?

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	8.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Going Concern
<b>Date:</b>	21 March 2023
<b>Prepared By:</b>	Sharon Walker

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objective of this agenda item is to provide the Board with an update on the IAASB's project to revise ISA 570 (Revised), *Going Concern*, our planned outreach activities and to consider possible NZ compelling reason changes.

### Background

2. At its upcoming March 2023 meeting, the IAASB is expected to vote to issue an exposure draft (ED) proposing to revise the Going Concern standard. This project has been undertaken in response to feedback received in relation to the IAASB's 2021 Discussion Paper, [Fraud and Going Concern in an Audit of Financial Statements](#), which explored the differences between public perceptions about the role of the auditor and the auditor's responsibilities in a financial statement audit.
3. The project is primarily focused on standard setting actions that are intended to address targeted revisions, rather than a comprehensive revision.
4. The purpose of this agenda paper is to highlight to the NZAuASB the more substantive proposed changes to the requirements of the standard that will meet the project objectives and improve audit quality.
5. In developing this ED, the IAASB aims to:
  - Promote consistent practice and behaviour and facilitate effective responses to identified risks of material misstatement related to going concern;
  - Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional scepticism; and
  - Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.
6. The table below presents the more substantive matters expected to be included in the ED. Except for technology, changes to the application material have not been presented.

	Area addressed	Substantive matters addressed in the requirements of the standard:
a.	Responsibilities [Paragraphs 3-7]	Introduction clarifies management's and the auditor's responsibilities
b.	Risk Identification and assessment [Paragraphs 11-15]	Enhanced and new requirements to: <ul style="list-style-type: none"> <li>• Enable a more robust approach for performing risk assessment procedures that will provide audit evidence to support an appropriate basis for identifying, on a timely basis by the auditor, the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</li> <li>• Perform risk assessment procedures related to going concern matters to obtain an understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control by building on the foundational requirements in ISA 315 (Revised 2019).</li> </ul>
c.	Use of technology [Paragraphs A6, A12, A36 and A38]	Enhanced and new application material to incorporate examples of automated tools and techniques and emphasise the impact of technology on the auditor's work related to going concern. Particularly beneficial is incorporation of risk of cyber-attack and use of predictive modelling.
d.	Reinforcement of professional scepticism [Paragraphs 17, 30]	<ul style="list-style-type: none"> <li>• New requirements to emphasise the importance of professional scepticism when evaluating management's assessment in a manner that is not biased towards obtaining audit evidence that may be corroborative or excluding audit evidence that may be contradictory.</li> <li>• New requirements to evaluate whether the judgements and decisions made by management in making its assessment of going concern, even if they are individually reasonable, are indicators of possible management bias.</li> </ul>
e.	Timeline over which concern assessment is made [paragraph 21]	Change in the commencement date of the period of the auditor's evaluation of management's assessment of going concern, from the date of the financial statements to the date of approval of the financial statements <i>(in NZ currently from date of auditor's report)</i>
f.	Management's assessment of going concern	Enhanced and new requirements to: <ul style="list-style-type: none"> <li>• Require the performance of audit procedures to evaluate management's assessment of going concern, irrespective of whether events or conditions that may</li> </ul>

	[Paragraphs 16, 18, 25, 26-27]	<p>cast doubt on the entity’s ability to continue as a going concern have been identified.</p> <ul style="list-style-type: none"> <li>• Perform audit procedures to evaluate the method, assumptions and data used by management to makes its assessment of going concern by leveraging concepts in ISA 540.</li> <li>• Strengthened requirements to evaluate whether management has the intent to carry out specific actions in its plan and the ability to do so.</li> <li>• New requirement to explicitly request management to update its assessment and for the auditor to perform audit procedures on such revised assessment when the auditor identifies events or conditions that may cast doubt that management has not previously identified or disclosed to the auditor.</li> </ul>
g.	<p>Transparency in reporting through the auditor’s report (all reports will contain either a GC or MURGC paragraph)</p> <p>[Paragraphs 35-39; Appendix illustrative reports]</p>	<p>New requirements to:</p> <ul style="list-style-type: none"> <li>• Provide explicit statements about going concern in a separate section in the auditor’s report when the basis of accounting is appropriate and no material uncertainty exists.</li> <li>• When events of conditions are identified or when a MURGC section is provided, describing in the auditor’s report of a <i>listed entity</i> how the auditor evaluated management’s assessment.</li> </ul>

7. Subject to IAASB approval at its March meeting, the IAASB expects to publish the ED in May 2023 with a 120-day comment period, with responses due early September.

#### **Planned outreach**

8. In line with [Explanatory Guide Au2, Overview of the Auditing and Assurance Standard Setting Process](#), where the NZAuASB considers that modification to an international standard is required in developing it as a New Zealand standard, there will be a separate due process for that New Zealand modification. Ideally that separate due process will be around the same time as the international due process with the proposed New Zealand modification clearly highlighted<sup>1</sup>.
9. Subject to the Board’s agreement to the identified compelling reason amendments, we will prepare a brief consultation document to be issued in conjunction with the international ED. This would be a wraparound document highlighting the NZ changes to be made, along with the reasons therefore and seeking views on New Zealand specific matters at the same time as obtaining views on the international proposals.
10. We will perform outreach activities, including notification of consultation through the usual channels, holding outreach events and will work with the XRB communications team to engage with constituents throughout June/July.

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<sup>1</sup> EG Au2, paragraph 23

## **Matters to Consider**

11. We have identified the following possible NZ new compelling reason change:

- Proposed paragraphs 35(b) and 36(d) include specific requirements for audits of listed entities. In the ISAs (NZ) references to listed entities are generally changed to refer to FMC reporting entities considered to have a higher level of public accountability, which is much broader than the IAASB term<sup>2</sup>.

Staff recommend that reference to listed entities be replaced with reference to FMC reporting entities considered to have a higher level of public accountability, consistent with previous changes to the international standards. This is effectively current practice in New Zealand with auditors of FMC reporting entities considered to have a higher level of public accountability reporting “close calls” as KAMs. (agenda item 8.2, test 2)

12. The following table presents the extant ISA (NZ) 570 (Revised) NZ paragraphs, along with staff recommendations whether or not to retain:

<b>Extant paragraph</b>	<b>Recommendation</b>
NZ1.1 For the purposes of this ISA (NZ), a reference to “management” is taken to mean “management, and where appropriate, those charged with governance”.	Relates to NZ regulatory environment <sup>3</sup> . Still relevant, carry forward (agenda item 8.2, test 1)
NZ1.2 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.	Relates to NZ regulatory environment. Still relevant, carry forward (agenda item 8.2, test 1)
NZ16.1 Requesting written representations from those charged with governance, regarding their	Amend proposed paragraph 40. Relates to NZ regulatory environment (written representations

<sup>2</sup> For example, ISA (NZ) 701, *Key Audit Matters*, applies to audits of complete sets of financial statements of FMC reporting entities considered to have a higher level of public accountability.

<sup>3</sup> In New Zealand, for companies there is a statutory requirement that the directors are responsible for the preparation of the financial statements. In other instances, it is considered best practice for those charged with governance to be responsible for the financial statements. This change has been made consistently throughout the ISAs (NZ).

plans for future actions and the feasibility of these plans. (Ref: Para. A20)	are required to be obtained from those charged with governance). Still relevant, carry forward. (agenda item 8.2, test 1)
NZ8.1 This ISA (NZ) supersedes ISA (NZ) 570, <i>Going Concern</i> .	NZ paragraph would be updated to reflect superseding of ISA (NZ) 570 (Revised) on adoption of new standard.
NZ13.1 In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider the relevant period, which may be the same as or may differ from that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than the relevant period, the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor. (Ref: Para. A11–A13)	No longer necessary to make this compelling reason change. IAASB proposal extending the date of assessment to 12 months from the date of approval of the financial statements is consistent with the extant NZ requirement (12 months from the date of the auditor's report)
NZ13.2 Relevant period means the period of at least 12 months from the date of the auditor's current report.	No longer necessary to make this compelling reason change. IAASB proposal extending the date of assessment to 12 months from the date of approval of the financial statements is consistent with the extant NZ requirement (12 months from the date of the auditor's report)
NZA15.1 Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the relevant period, which, as discussed in paragraph NZ13.2, is at least twelve months from the date of the auditor's report on the current financial statements.	No longer necessary to make this compelling reason change. IAASB proposal extending the date of assessment to 12 months from the date of approval of the financial statements is consistent with the extant NZ requirement (12 months from the date of the auditor's report)

13. Does the Board agree with the recommended NZ changes to the IAASB's proposed revisions to ISA 570?



### **Recommendations**

14. We recommend that the Board:

- NOTE the update on the expected exposure draft of ISA 570 (Revised);
- CONSIDER the proposed NZ compelling reason changes; and
- AGREE the planned outreach approach.

### **Material Presented**

Agenda item 8.1

Board Meeting Summary Paper

Agenda item 8.2

Compelling reason test

#### **Supplementary papers**

Agenda item 8.3

Draft Proposed ISA 570 (March IAASB for approval)

## Compelling Reason Test

### Proposed Modifications to Proposed ISA 570 (Revision 2023)

Reference: [Convergence and Harmonisation Policy](#)

1. Proposed Modification to reflect NZ regulatory environment	
<p><i>[Note: paragraph references refer to extant ISA (NZ) 570 (Revised)]</i></p> <p>NZ1.1 For the purposes of this ISA (NZ), a reference to “management” is taken to mean “management, and where appropriate, those charged with governance”.</p> <p>NZ1.2 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.</p> <p>NZ16.1 Requesting written representations from those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20)</p> <p><i>We recommend that paragraphs NZ1.1 and NZ1.2 be retained and that the requirement in proposed paragraph 40 of the ED to request written representations from management and, where appropriate, those charged with governance, be revised, consistent with extant ISA (NZ) 570, paragraph NZ 16.1, i.e., to require written to be requested from those charged with governance.</i></p>	
Rationale for the proposed modification	
<p>A. The international standard is not consistent with New Zealand legal and regulatory arrangements. (Para 12 (a))</p>	<p><i>In New Zealand, for companies there is a statutory requirement that the directors are responsible for the preparation of the financial statements. In other instances it is considered best practice for those charged with governance to be responsible for the financial statements. This change has been made consistently throughout the ISAs (NZ).</i></p>
<b>OR</b>	
<p>B. The international standard does not reflect, or is not consistent with principles and practices that are appropriate having regard to the public interest in New Zealand (including in the use of different terminology) (Para 12 (b))</p>	<p>N/A</p>
A. Consideration of compelling reason criteria where the international standard is not consistent with New Zealand legal and regulatory arrangements.	
Compelling Reason Test (Para 13)	Consideration
<p>(a) The proposed new or modification requirement ensure effective and efficient compliance with the legal and/or regulatory framework in New Zealand; and</p>	<p>Yes. Modifications are needed to clarify that the appropriate reference is those charged with governance in New Zealand to ensure compliance with the regulatory and best practice requirements</p>

(b) The proposed new or modification requirement does not result in a requirement that is lesser than or in conflict with the international standard; and	The international standard already contemplates that in some jurisdictions, the appropriate reference is those charged with governance therefore this does not conflict with the ISA requirements.
(c) The benefits of the proposed new or modification requirement to the international standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).	<i>No expected cost implications</i>
<b>Compelling Reason Test criteria met?</b>	<b>Yes</b>
<b>B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.</b>	
<b>Compelling Reason Test (Para 14)</b>	<b>Consideration</b>
(a) The proposed modification to the standard ensure compliance with principles and practices that the NZAuASB considers appropriate and in the public interest in New Zealand; and	N/A
(b) The proposed modification to the standard is clear and promotes consistent application by all practitioners in New Zealand; and <i>(For example, excluding options not relevant in NZ and Australia )</i>	N/A
(c) The proposed modification will promote significant improvement in audit/assurance quality in New Zealand environment; and <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	N/A
(d) The proposed modification will not result in a standard that conflicts with, or result in lesser requirements than the international standard; and	N/A
(e) The proposed modification overall does not result in the standard being overly complex and confusing; and	N/A
(f) The proposed modification does not inadvertently change the meaning of the international standard by imposing more onerous requirements on a practitioner in New Zealand than are necessary; and	N/A

<p>(g) The benefits of the proposed new or modification requirement to the international standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).</p>	<p>N/A</p>
<p><b>Compelling Reason Test criteria met?</b></p>	<p>N/A</p>

## 2. Proposed Modification Listed Entities

*The proposed ISA 570 contains specific requirements for listed entities.*

*For an audit of financial statements of a listed entity, when events or conditions are identified or when a material uncertainty exists, the auditor is required to describe in the auditor’s report how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.*

[Refer proposed ISA 570, paragraphs 35(b) and 36(d)]

### Rationale for the proposed modification

A. The international standard is not consistent with New Zealand legal and regulatory arrangements. (Para 12 (a))

*The NZAuASB has consistently amended international requirements that refer to “listed entities” to refer to “FMC reporting entities with a higher level of public accountability” in the ISAs (NZ), given that the term more appropriately captures the NZ market. This term includes listed entities, but is broader, including issuers of financial products, registered banks, licensed insurers, building societies and credit unions.*

*Broadening the requirement to FMC HLPAs is consistent with best practice in New Zealand, and appropriately reflects the NZ market, including those entities that are subject to oversight by the FMA and have a higher level of public accountability.*

**OR**

B. The international standard does not reflect, or is not consistent with principles and practices that are appropriate having regard to the public interest in New Zealand (including in the use of different terminology) (Para 12 (b))

N/A

### **A. Consideration of compelling reason criteria where the international standard is not consistent with New Zealand legal and regulatory arrangements.**

#### **Compelling Reason Test (Para 13)**

#### **Consideration**

(a) The proposed new or modification requirement ensure effective and efficient compliance with the legal and/or regulatory framework in New Zealand; and

This would promote consistency for all engagements of FMC reporting entities considered to have a higher level of public accountability, subject to oversight by the FMA and more appropriately captures the New Zealand market.

(b) The proposed new or modification requirement does not result in a requirement that is lesser than or in conflict with the international standard; and

FMC reporting entity with higher accountability includes but is more broadly defined than listed entity, including issuers, registered banks, licensed insurers, building societies and credit unions.

(c) The benefits of the proposed new or modification requirement to the international standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).	We recognise that there will be some cost implications resulting from the broader application of the requirement to FMC HLPAs reporting entities, however, we consider consistency for all engagements of FMC reporting entities is in the public interest.
<b>Compelling Reason Test criteria met?</b>	Yes
<b>B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.</b>	
<b>Compelling Reason Test (Para 14)</b>	<b>Consideration</b>
(a) The proposed modification to the standard ensure compliance with principles and practices that the NZAuASB considers appropriate and in the public interest in New Zealand; and	N/A
(b) The proposed modification to the standard is clear and promotes consistent application by all practitioners in New Zealand; and <i>(For example, excluding options not relevant in NZ and Australia )</i>	N/A
(c) The proposed modification will promote significant improvement in audit/assurance quality in New Zealand environment; and <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	N/A
(d) The proposed modification will not result in a standard that conflicts with, or result in lesser requirements than the international standard; and	N/A
(e) The proposed modification overall does not result in the standard being overly complex and confusing; and	N/A
(f) The proposed modification does not inadvertently change the meaning of the international standard by imposing more onerous requirements on a practitioner in New Zealand than are necessary; and	N/A

<p>(g) The benefits of the proposed new or modification requirement to the international standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).</p>	<p>N/A</p>
<p><b>Compelling Reason Test criterias met?</b></p>	<p>N/A</p>

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	9.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Revisions to the Code Relating to the Definition for Engagement Team and Group Audits
<b>Date:</b>	22 March 2023
<b>Prepared By:</b>	Lisa Thomas

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objective of this agenda item is to APPROVE *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits (“Standard”)* and the signing memorandum.

### Background

2. At its February meeting, the Board considered the revisions to the definition of engagement team and group audits as approved by the IESBA. The focus of the discussion was on the complexity of the standard, with some concern expressed that the revised independence requirements for individuals from a component audit firm outside of the group audit firms network would differ from those from within the network.
3. The IESBA had originally proposed to align the independence requirements of individuals from a component audit firm regardless of whether they are within or outside of the network firm.
4. Following consultation, the IESBA considered that the cost of implementing a system to monitor the proposed requirements for individuals from a component audit firm from outside of the group audit firms network would be disproportionate relative to the likelihood of threat. Also, it recognised that it could be a significant compliance task and have the unintended consequence of taking resources and time away from focusing on audit work, potentially adversely impacting audit quality.
5. The final IESBA standard requires that the individuals of the group audit team from the component auditor firm outside of the group audit firm’s network to be independent of:
  - a. The component audit client;
  - b. The entity on whose group financial statements the group auditor firm expresses an opinion; and
  - c. An entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component audit client.



6. The NZAuASB agreed however that there were no compelling reason changes needed in the New Zealand context, noting that making changes for the New Zealand context would only add to the complexity.
7. The amending standard was issued by the IESBA at the end of February following approval by the Public Interest Oversight Board (“PIOB”). It is applicable for periods beginning on or after 15 December 2023.

### **Matter for consideration**

#### ***Revised Definition of Engagement team and New Section on Group Audits***

8. We recommend adopting the IESBA revisions to amend Professional and Ethical Standard 1 for the revised definition of engagement team to align with ISA (NZ) 220 *Quality Management for an Audit of Financial Statements* and to provide robust, comprehensive, and clear independence requirements for Group Audits. The requirements strengthen and clarify the independence principles that apply to:
  - Individuals involved in a group audit, including those within, or engaged by, firms that audit components within a group
  - Firms engaged in the group audit, including firms within and outside the group auditor firm’s network.

And more explicitly set out the process to address a breach of an independence provision at a component auditor firm, reinforcing the importance of transparency and appropriate communication with those charged with governance of the group.

9. The adoption of New Zealand (NZ) spelling and naming conventions have been applied in preparing the amending standard.

#### ***Conforming and Consequential Amendments***

10. In developing the amending standard and the related conforming and consequential amendments at agenda item 9.2 the following NZ changes were made:

- *Definition of Audit Client and Group Audit Client – listed entity to FMC HLPAs*

The IESBA definition of “audit client” uses the term “listed entity”. In NZ we have adopted a NZ definition for “audit client” that increases the scope from “listed entity” to “FMC reporting entity considered to have a higher level of public accountability” (FMC HLPAs).

The IESBA revisions to the code for the definition of engagement team and group audits, includes a new definition for “group audit client”. Like “audit client” this also references “listed entity” as part of that new definition. To be consistent with the NZ definition of “audit client”, we have replaced the term “listed entity” with FMC HLPAs in a NZ definition of “group audit client”.

- *Definition of Audit Client and Group Audit Client – listed entity to publicly traded entity*

For periods beginning on or after 15 December 2024, the definition of public interest entity has been revised to include “publicly traded entity” instead of “listed entity”. This revision will also be incorporated into the definition of “audit client” and “group audit client” which will refer to the term “publicly traded entity” instead of “listed entity”.

As detailed above, the NZ definitions for “audit client” and “group audit client” have replaced the term “listed entity” with “FMC HLPAs”. To avoid the risk of any unintended consequence of a publicly traded entity not being captured as a FMC HLPAs, we

recommend that both terms FMC HLPAs and “publicly traded entity” are adopted in the NZ definitions i.e., the definition of audit client and group audit client refer to both FMC HLPAs and publicly traded entity for periods beginning on or after 15 December 2024.

- *Non-Compliance with Laws and Regulations (Section 360)*

Some of the conforming amendments relate to NZ paragraphs in the Code on “Non-Compliance with Laws and Regulations” (NOCLAR). These NZ paragraphs expand on the IESBA NOCLAR requirements to be applicable for review engagements as well as audit engagements and for assurance practitioners rather than professional accountants.

Any conforming amendments for revisions to the definition of engagement team and group audits that impact these NZ paragraphs, have been updated to be applicable to both audit and review engagements and assurance practitioners.

### 11. Do you agree with these NZ changes included within the amending standard?

#### **Recommendations**

12. We recommend that the Board APPROVE:

- Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits* for issue at agenda item 9.2; and
- The signing memorandum at agenda item 9.3.

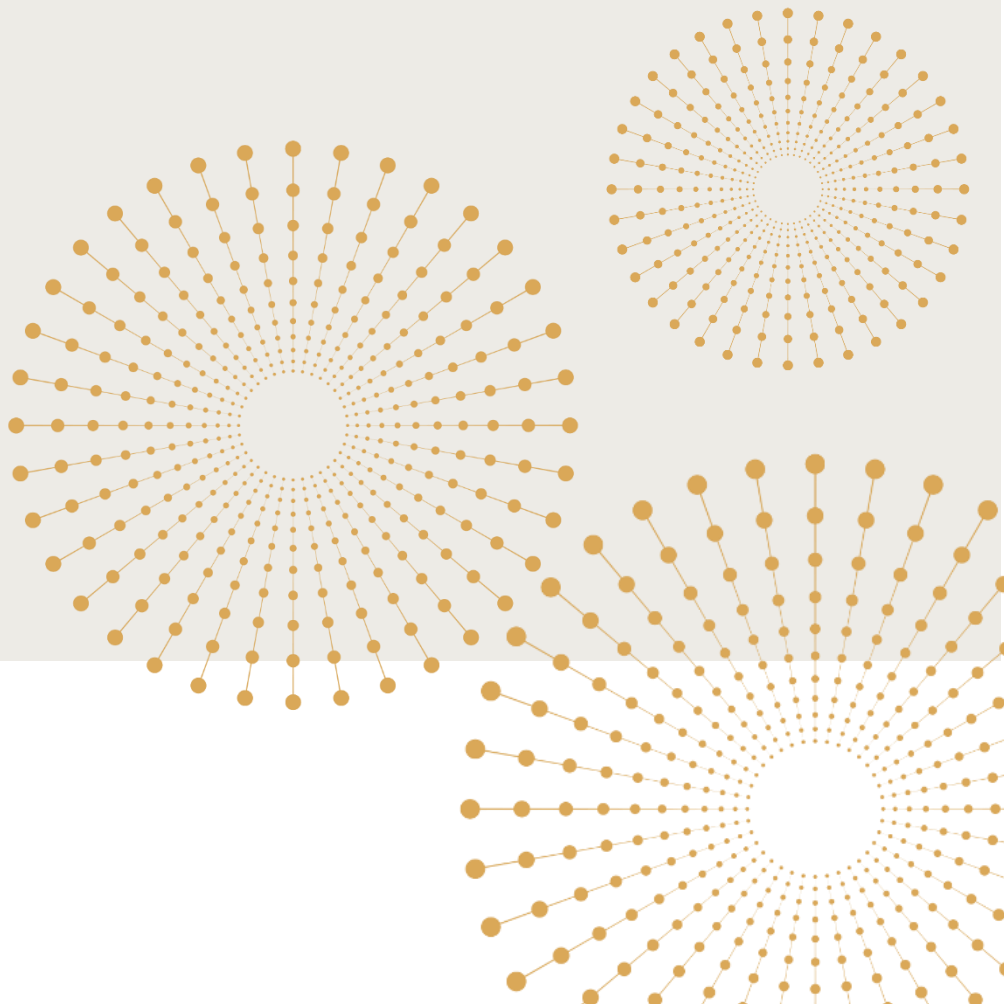
#### **Material Presented**

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	<i>Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits</i>
Agenda item 9.3	Signing Memorandum

# Amendments to Professional and Ethical Standard 1 (PES 1)

## Revisions to the Definition of Engagement Team and Group Audits

**Applicable from 15 December 2023**



Issued



**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1  
AS A RESULT OF UPDATED DEFINITION OF ENGAGEMENT  
TEAM AND GROUP AUDITS**

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].

An auditor that is required to apply this Standard is required to apply the Standard in accordance with the application date which is set out in Part C.

This standard has been issued to reflect the amendments necessary to Professional and Ethical Standard 1 as a result of the updated definition of engagement team and group audits.

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**ISBN**

**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS**

*Issued by the New Zealand Auditing and Assurance Standards Board*  
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## **A: INTRODUCTION**

This Standard is amendments to Professional and Ethical Standard 1 (PES 1) relating to the revisions to the Definition of Engagement Team and Group Audits.

Section B includes amendments relating to the revision of the Definition of Engagement Team indicated using underlines and strike through and a new section 405 for Group Audits.

Section C of this document sets out conforming amendments to other sections of extant PES 1. Section C uses underlines and strike through to indicate changes to existing sections of PES 1.

## **B: AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (PES 1) RELATING TO THE REVISIONS OF THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS**

### **SECTION 400**

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

##### **Introduction**

##### **General**

400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

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400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group audit.

400.7 This Part describes:

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

## **Engagement Team and Audit Team**

400.8 This Part applies to all audit team members, including engagement team members.

400.9 An engagement team for an audit engagement includes all partners and staff in the firm who perform audit work on the engagement, and any other individuals who perform audit procedures who are from:

(a) A network firm; or

(b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

400.10 In PES 3, a service provider includes an individual or organisation external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organisations in the network.

400.11 An audit engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor firm outside a group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialised area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor audit team members.

400.12 If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit team members but not engagement team members.

## **Public Interest Entities**

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



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

| 400.914 (...)

## **SECTION 405** **GROUP AUDITS**

### **Introduction**

405.1 Section 400 requires a firm to be independent when performing an audit engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group audit engagement.

### **Requirements and Application Material**

#### **General**

405.2 A1 ISAs (NZ) apply to an audit of group financial statements. ISA (NZ) 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA (NZ) 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in ISA (NZ) 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (NZ) (Revised), are those specified in this section.

405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons.

### **Communication Between a Group Auditor Firm and a Component Auditor Firm**

**R405.3** ISA (NZ) 600 (Revised) requires the group engagement partner to take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the group audit engagement. When making the component auditor firm aware of the relevant ethical requirements, the group auditor firm shall communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the group auditor firm might communicate include:

- Whether the group audit client is a public interest entity and the relevant ethical requirements applicable to the group audit engagement.
- The related entities and other components within the group audit client that are relevant to the independence considerations applicable to the component auditor firm and the group audit team members within, or engaged by, that firm.
- The period during which the component auditor firm is required to be independent.

- Whether an audit partner who performs work at the component for purposes of the group audit is a key audit partner for the group audit.

**R405.4** ISA (NZ) 600 (Revised) also requires the group engagement partner to request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement. For the purposes of this section, such a request shall include the communication of:

- (a) Any independence matters that require significant judgement; and
- (b) In relation to those matters, the component auditor firm's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

405.4 A1 If a matter comes to the attention of the group engagement partner that indicates that a threat to independence exists, ISA (NZ) 220 (Revised) requires the group engagement partner to evaluate the threat and take appropriate action.

### **Independence Considerations Applicable to Individuals**

#### *Members of the Group Audit Team Within, or Engaged by, a Group Auditor Firm and Its Network Firms*

**R405.5** Members of the group audit team within, or engaged by, the group auditor firm and its network firms shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

#### *Other Members of the Group Audit Team*

**R405.6** Members of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm's network shall be independent of:

- (a) The component audit client;
- (b) The entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component audit client,

in accordance with the requirements of this Part that are applicable to the audit team.

**R405.7** In relation to related entities or components within the group audit client other than those covered in paragraph R405.6, a member of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm's network shall notify the component auditor firm about any relationship or circumstance the individual knows, or

has reason to believe, might create a threat to the individual's independence in the context of the group audit.

405.7 A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group audit client if the group audit client is material to that entity (see Section 510).
- A loan or guarantee involving: (see Section 511)
  - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
  - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 520).
- An immediate family member who is: (see Section 521)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's accounting records or financial statements.
- The individual serving as, or having recently served as: (see Section 522 and Section 523)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's accounting records or financial statements.

**R405.8** Upon receiving the notification as set out in paragraph R405.7, the component auditor firm shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

#### **Independence Considerations Applicable to a Group Auditor Firm**

**R405.9** A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a firm.

#### **Independence Considerations Applicable to Network Firms of a Group Auditor Firm**

**R405.10** A network firm of the group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a network firm.

## Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network

### All Group Audit Clients

**R405.11** A component auditor firm outside the group auditor firm's network shall:

- (a)** Be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;
- (b)** Apply the relevant requirements in paragraphs R510.4(a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c)** Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements the group auditor firm expresses an opinion.

**R405.12** When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance involving the group audit client, beyond those addressed in paragraph R405.11(b) and (c), is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

**R405.13** When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor firm's network with the component audit client or the group audit client creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

### Period During which Independence is Required

**405.14 A1** The references to the financial statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the group financial statements and the audit report on the group financial statements, respectively, when applied in this section.

### Group Audit Clients that are Not Public Interest Entities

**R405.15** When the group audit client is not a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are not public interest entities for the purposes of the group audit.

**405.15 A1** Where a component auditor firm outside the group auditor firm's network also performs an audit engagement for a component audit client that is a public interest entity for reasons other than the group audit, for example, a statutory audit, the independence requirements that are relevant to audit clients that are public interest entities apply to that engagement.

## Group Audit Clients that are Public Interest Entities

### Non-Assurance Services

**R405.16** Subject to paragraph R405.17, when the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to the provision of non-assurance services to the component audit client.

**405.16 A1** Where the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network is prohibited from, for example:

- Providing accounting and bookkeeping services to a component audit client that is not a public interest entity (see Subsection 601).
- Designing the information technology system, or an aspect of it, for a component audit client that is not a public interest entity where such information technology system generates information for the component audit client's accounting records or financial statements (see Subsection 606).
- Acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court (see Subsection 608).

**405.16 A2** The financial information on which a component auditor firm outside the group auditor firm's network performs audit procedures is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor firm's audit procedures are limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

**R405.17** As an exception to paragraph R405.16, a component auditor firm outside the group auditor firm's network may provide a non-assurance service that is not prohibited under Section 600 to a component audit client without communicating information about the proposed non-assurance service to those charged with governance of the group audit client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.21 to R600.24.

### Key Audit Partners

**R405.18** The group engagement partner shall determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit. If so, the group engagement partner shall:

**(a)** Communicate that determination to that individual; and

**(b)** Indicate:

**(i)** In the case of all group audit clients, that the individual is subject to

paragraph R411.4, and

(ii) In the case of group audit clients that are public interest entities, that the individual is also subject to paragraphs R524.6, R540.5(c) and R540.20.

405.18 A1 A key audit partner makes key decisions or judgements on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion in the group audit.

### **Changes in Components**

#### *All Group Audit Clients*

**R405.19** When an entity that is not a related entity becomes a component within the group audit client, the group auditor firm shall apply paragraphs R400.71 to R400.76.

### **Changes in Component Auditor Firms**

#### *All Group Audit Clients*

405.20 A1 There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements, for example due to a client merger or acquisition. A threat to the component auditor firm's independence might be created by:

- (a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work;  
or
- (b) Previous services provided to the component audit client by the component auditor firm.

405.20 A2 Paragraphs 400.31 A1 to A3 set out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements, but before the component auditor firm begins to perform the audit work for the purposes of the group audit, and the service would not be permitted during the engagement period.

405.20 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client prior to the period covered by the group financial statements.

#### *Group Audit Clients that are Public Interest Entities*

405.21 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor firm agrees to perform audit work for group audit purposes in relation to a group audit client that is a public interest entity if the component auditor firm has previously provided a non-assurance service to the component audit client.

405.21 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component auditor firm to a component audit client when the group audit client subsequently becomes a public interest entity.

### **Breach of an Independence Provision at a Component Auditor Firm**

405.22 A1 A breach of a provision of this section might occur despite a component auditor firm having a system of quality management designed to address independence requirements. Paragraphs R405.23 to R405.29 are relevant to a group auditor firm's determination as to whether it would be able to use a component auditor firm's work if a breach has occurred at the component auditor firm.

405.22 A2 In the case of a breach at a component auditor firm within the group auditor firm's network, paragraphs R400.80 to R400.89 also apply to the group auditor firm in relation to the group audit, as applicable.

#### *When a Component Auditor Firm Identifies a Breach*

**R405.23** If a component auditor firm concludes that a breach of this section has occurred, the component auditor firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit;
- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
- (d) Promptly communicate in writing the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.23 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor firm's evaluation of the significance and impact of the breach on the component auditor firm's objectivity and ability to issue an opinion or conclusion on the audit work performed at the component for purposes of the group audit, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

**R405.24** Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

- (a) Review the component auditor firm's assessment of the significance of the breach and its impact on the component auditor firm's objectivity, and any action that can be or has been taken to address the consequences of the breach;
- (b) Evaluate the group auditor firm's ability to use the work of the component auditor firm for the purposes of the group audit; and



(c) Determine the need for any further action.

**R405.25** In applying paragraph R405.24, the group engagement partner shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor firm's objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit.

405.25 A1 If the group engagement partner determines that the consequences of the breach have been satisfactorily addressed by the component auditor firm and does not compromise the component auditor firm's objectivity, the group auditor firm may continue to use the work of the component auditor firm for the group audit. In certain circumstances, the group engagement partner might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor firm's work. Examples of such action include the group auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas.

405.25 A2 ISA (NZ) 600 (Revised) sets out that if there has been a breach by a component auditor and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that component auditor. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client's financial information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client's financial information or requesting another component auditor firm to perform such audit work.

*Discussion with Those Charged with Governance of the Group Audit Client*

405.26 A1 With respect to breaches by a component auditor firm within the group auditor firm's network, paragraph R400.84 applies.

**R405.27** With respect to breaches by a component auditor firm outside the group auditor firm's network, the group auditor firm shall discuss with those charged with governance of the group audit client:

(a) The component auditor firm's assessment of the significance and impact of the breach on the component auditor firm's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether:

(i) The action will satisfactorily address, or has addressed, the consequences of the breach; or

(ii) The group auditor firm will use other means to obtain the necessary audit evidence on the component audit client's financial information.

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

**R405.28** The group auditor firm shall communicate in writing to those charged with governance of the group audit client all matters discussed in accordance with paragraph R405.27 and obtain the concurrence of those charged with governance that the action can be or

has been taken to satisfactorily address the consequences of the breach.

**R405.29** If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit.

## C: CONFORMING AND CONSEQUENTIAL AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1

### SECTION 300

#### APPLYING THE CONCEPTUAL FRAMEWORK

##### Requirements and Application Material

###### General

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###### Addressing Threats

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###### *Examples of Safeguards*

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- ...
- Using different partners and ~~engagement~~ teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- ...

### SECTION 310

#### CONFLICTS OF INTEREST

##### Conflict Identification

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##### Threats Created by Conflicts of Interest

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310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate ~~engagement~~ teams who are provided with clear policies and procedures on maintaining confidentiality.
- ...

##### Confidentiality

...

###### *When Disclosure to Obtain Consent would Breach Confidentiality*

**R310.12** *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

**NZ R310.12.1** In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall end or decline the relevant assurance engagement.

## **Documentation**

**R310.13** *[Deleted by the NZAuASB.]*

## **SECTION 320**

### **PROFESSIONAL APPOINTMENTS**

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

##### **Client and Engagement Acceptance**

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the ~~engagement~~ team does not possess, or cannot acquire, the competencies to perform the professional services.

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## **SECTION 360**

### **RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS**

#### Communication with Respect to Groups

**R360.16** *[Amended by the NZAuASB]*

**NZ R360.16.1** Where an assurance practitioner becomes aware of non-compliance or suspected non-compliance ~~in relation to a component of a group~~ in either of the following two situations in the context of a group, the assurance practitioner shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The assurance practitioner ~~is, for purposes of an audit or review of the group financial statements, requested by the group engagement team to perform~~ audit or review work ~~on financial information~~ related to ~~the~~ component for purposes of the group audit or review; or
- (b) The assurance practitioner is engaged to perform an audit or review of the ~~component's~~ financial statements of a legal entity or business unit that is part of a group for purposes other than the group audit or review, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 *[Amended by the NZAuASB]*

NZ 360.16 A1 -The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit or review, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph NZ R360.16.1 applies regardless of whether the group engagement partner's firm or network is the same as or different from the assurance practitioner's firm or network.

**R360.17** *[Amended by the NZAuASB]*

**NZ R360.17.1** Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an group audit or review ~~of group financial statements~~, the group engagement partner shall consider whether the matter might be relevant to ~~one or more components~~:

- (a) One or more components ~~Whose financial information is~~ subject to audit or review work for purposes of the group audit or review ~~of the group financial statements~~;  
or
- (b) One or more legal entities or business units that are part of the group and ~~Whose~~ financial statements are subject to audit or review for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

**R360.18** *[Amended by the NZAuASB]*

**NZ R360.18.1** If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph NZ R360.17.1(a) and legal entities or business units specified in paragraph NZ R360.17.1 ~~(a) and~~ (b), the group engagement partner shall take steps to have the matter communicated to those performing audit or review work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate enquiries to be made (either of management or from publicly available information) as to whether the relevant ~~component(s)~~ legal entities or business units specified in paragraph NZ R360.17.1(b) ~~is-are~~ subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor~~s~~.

360.18 A1 The purpose of the communication is to enable those responsible for audit or review work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit or review work at the components, legal entities or business units.

## SECTION 400

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

...

#### Requirements and Application Material

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

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous services provided to the audit client by the firm or a network firm ~~in prior financial statement periods.~~

#### Period During which Independence is Required

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

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

## SECTION 510

### FINANCIAL INTERESTS

#### Requirements and Application Material

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#### Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

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510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other ~~audit~~ engagement team members, professional judgement is needed to determine the office in which the partner practices in connection with the engagement.

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## SECTION 540

### LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

#### Requirements and Application Material

##### All Audit Clients

...

**R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement~~Provide quality control for the audit engagement~~; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

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#### Restrictions on Activities During the Cooling-off Period

**R540.20** For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or ~~provide quality control~~ perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement;

- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:
  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) Exerting direct influence on the outcome of the audit engagement.

## **SUBSECTION 605 – INTERNAL AUDIT SERVICES**

### **Introduction**

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### **Requirements and Application Material**

...

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs (NZ) require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This might create a self-review threat because it is possible that the audit engagement team will use the results of the internal audit service for purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit client, and evaluating the level of such a threat include:

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



- The degree of reliance that the ~~engagement~~audit team will place on the work of the internal audit service.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R605.6 applies.

## SECTION 800

### REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

#### Requirements and Application Material

##### General

#### Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

**R800.10** When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) ~~Those who provide quality control for the engagement, including those who perform the engagement quality control review~~Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

## SECTION 900

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

...

#### Requirements and Application Material

...

#### Period During which Independence is Required

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

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

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

...

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

## SECTION 940

### LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

#### Requirements and Application Material

##### General

**R940.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) ~~Provide quality control for the assurance engagement~~Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

## **SECTION 990**

### **REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)**

#### **Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships**

**R990.7** When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) ~~Those who provide quality control for the engagement, including those who perform the engagement quality control review~~Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

## CHANGES TO THE GLOSSARY

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
  - (b) All others within, or engaged by, at the firm who can directly influence the outcome of the assurance engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
    - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
    - (iii) Those who ~~provide~~perform an engagement quality control review, or a review consistent with the objective of an engagement quality review, for the ~~assurance engagement, including those who perform the engagement quality control review for the assurance engagement.~~

[NZ] Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a **FMC reporting entity** considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.20.)*

*In the case of a group audit, see the definition of group audit client*

- Audit team
- (a) All members of the engagement team for the audit engagement;
  - (b) All others within, or engaged by, at the firm who can directly influence the outcome of the audit engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who ~~provide~~perform an engagement quality ~~control for the engagement, including those who perform the review, or a review consistent with the objective of an~~ engagement quality ~~control~~review, for the engagement; and

(c) ~~All these~~Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term “audit team” applies equally to “review team”. In the case of a group audit, see the definition of group audit team.*

Component An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit.

Component audit client A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

(a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control;  
or

(b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component auditor firm A firm performing audit work related to a component for purposes of a group audit.

Engagement team All partners and staff performing the engagement, and any ~~other~~ individuals ~~engaged by the firm or a network firm~~ who perform ~~assurance~~ procedures on the engagement, ~~excluding external experts and internal auditors who provide direct assistance on the engagement. This excludes external experts engaged by the firm or by a network firm.~~

~~The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), Using the Work of Internal Auditors.~~

*In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.*

*ISA (NZ) 220 (Revised) provides further guidance on the definition of*

engagement team in the context of an audit of financial statements.

ISA (NZ) 620 defines an auditor's expert as an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA (NZ)620 deals with the auditor's responsibilities relating to the work of such experts.

ISA (NZ) 610 (Revised 2013) deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.

Group A reporting entity for which group financial statements are prepared.

Group audit The audit of group financial statements.

[NZ] Group audit client The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a FMC reporting entity considered to have a higher level of public accountability, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a FMC reporting entity considered to have a higher level of public accountability, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

See also paragraph R400.20.

Group auditor firm The firm that expresses the opinion on the group financial statements.

Group audit team (a) All members of the engagement team for the group audit, including individuals within, or engaged by, component auditor firms who perform audit procedures related to components for purposes of the group audit;

(b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual

who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;

(c) Any other individuals within a network firm of the group auditor firm’s network who can directly influence the outcome of the group audit; and

(d) Any other individuals within a component auditor firm outside the group auditor firm’s network who can directly influence the outcome of the group audit.

Group engagement partner

The engagement partner who is responsible for the group audit.

Group financial statements

Financial statements that include the financial information of more than one entity or business unit through a consolidation process.

Key audit partner

The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, ~~audit engagement~~ partners ~~responsible~~ for certain components in a group audit such as significant subsidiaries or divisions.

Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within ~~a firm, or engaged by, the firm~~ who can directly influence the outcome of the review engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);

- (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
- (iii) Those who ~~provide~~ perform an engagement quality review, or a review consistent with the objective of an engagement quality review, quality control for the engagement, ~~including those who perform the engagement quality control review for the engagement;~~ and
- (c) ~~All these~~ Any other individuals within a network firm who can directly influence the outcome of the review engagement.

**Changes to the Glossary Arising from the Approved Revisions to Definition of Listed Entity and Public Interest Entity**

**Audit Client<sup>1</sup>**

An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability or is a publicly traded entity, in accordance with paragraphs R400.2217 and R400.2318, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability or is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.272.)*

*In Part 4A, the term “audit client” applies equally to “review client.”*

*In the case of a group audit, see the definition of group audit client.*

**Group audit client**

The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a FMC reporting entity considered to have a higher level of public accountability or is a publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a FMC reporting entity considered to have a higher level of public accountability or is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

*See also paragraph R400.272.*

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<sup>1</sup> The proposed conforming amendments will come into effect with the changes to the audit client definition in the Final Pronouncement, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, issued on April 11, 2022.



## **D: APPLICABLE DATE**

- The changes to Section 400 relating to the revision to the definition of engagement team and the new provisions in Section 405 relating to group audits will be applicable for audits and reviews of the financial statements and audits of group financial statements for periods beginning on or after December 15, 2023.
- The following conforming and consequential amendments will be applicable as of December 15, 2023:
  - The conforming amendments to Section 360 to align with ISA (NZ) 600 (Revised) terminology.
  - The conforming amendments to the revised non-assurance services provisions in Section 400.
  - The conforming amendments to Sections 300, 310, 320, 400, 510, 605 and 900 resulting from the revisions to the definitions of engagement team.
  - The quality management-related consequential amendments to Sections 540, 800, 940, and 990.
- The changes to the Glossary will be applicable:
  - For audits and reviews of financial statements and audits of group financial statements for financial statement periods beginning on or after December 15, 2023.
  - For assurance engagements other than audit and review engagements with respect to underlying subject matter covering periods beginning on or after December 15, 2023; otherwise, as of December 15, 2023.

### *Changes to the Glossary Arising from Approved Revisions to the Definition of Listed Entity and Public Interest Entity*

- The changes to the Glossary arising from the approved revisions to the definitions of listed entity and public interest entity will be applicable for audits of financial statements and group financial statements for periods beginning on or after December 15, 2024.  
Early adoption will be permitted.

## **TRANSITIONAL PROVISION**

For non-assurance services engagements a component auditor firm outside the group auditor firm's network has entered into with a component audit client before December 15, 2023 and for which work has already commenced, the component auditor firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

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**Memorandum**

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**Date:** [Date]  
**To:** Michele Embling, Chair External Reporting Board  
**From:** Marje Russ, Chair NZAuASB  
**Subject: Certificate Signing Memorandum:**  
*Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits*

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**Introduction**

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits* which amends PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

**Background***International process*

2. The International Ethics Standards Board for Accountants (IESBA) issued Exposure Draft *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* in February 2022.
3. The exposure draft had two main objectives:
  - To align the definition of the term “engagement team” in the Code with the revised definition of the same term in ISA 220 (Revised)<sup>1</sup> while ensuring that the independence requirements were clear and appropriate and apply only to those individuals within the scope of the revised definition who must be independent in the context of the audit engagement; and
  - To revise the independence requirements so that they are robust, comprehensive, and clear when applied in a group audit context, including with respect to independence for non-network component auditors.
4. Forty-nine comment letters were received from respondents across a wide range of stakeholder groups. Respondents were generally supportive of the proposed changes to the definition of engagement team. In finalising the standard, the key changes were made to address stakeholder concerns raised on the independence requirements for group audits. The IESBA had originally proposed to align the independence requirements of individuals from a component audit firm regardless of whether they are within or outside of the network firm. Following consultation, the IESBA concluded that the requirements for individuals from component audit firms from outside of the group audit firms network would be disproportionate to the likelihood of threats created. Therefore, a more targeted approach was approved for this group.

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<sup>1</sup> ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*

5. The IESBA unanimously approved the revisions to the Code relating to the definition of engagement team and group audits at its December 2022 meeting and issued the standard at the end of February 2023. The standard is applicable periods beginning on or after 15 December 2023, which aligns with ISA (NZ) 600 (Revised)<sup>2</sup>.
6. The IESBA acknowledged the complex nature of the standard and included illustrative diagrams in the Basis for Conclusion and will commission IESBA staff to develop FAQs in some of the more complex areas.

#### *Domestic process*

7. The XRB consulted its constituency on the proposals using polls at an Ethics Webinar in April 2022 and received one submission from the Chartered Accountants Australia and New Zealand to inform its submission to the IESBA.
8. The XRB's submission was generally in support of the proposals. The following key areas were raised:
  - The complexity of the proposals. The XRB submission encouraged the IESBA to simplify the drafting and include illustrative examples and/or flowcharts due to the complexity and technical nature of the proposals.
  - The potential for unintended consequences, i.e., expanding the independence requirements may result in some firms not undertaking component audit work or discourage the group auditor from utilising component auditors outside of their network.
  - The need for guidance on how the role of experts fits within the definition of engagement team or audit team member and to consider the impact of the use of experts more broadly in the context of reporting Environmental, Social and Governance information and assurance.
9. The NZAuASB considered the IESBA revisions to the exposure draft at its February 2023 meeting. Many Board members raised concerns at the complexity of the provisions, especially relating to the independence requirements for individuals on group engagement team from a non-network component audit firm. Given the complexity, some members were of the view that the requirements may lead to the unintended consequence of audit concentration. However, the Board determined that the XRB should adopt these requirements without compelling reason changes, as changes to the requirements would only add further complexity, particularly for global group audits.
10. In April 2023 the NZAuASB Board approved the standard for issue in New Zealand. The adoption of New Zealand (NZ) spelling and naming conventions were applied in preparing the amending standard.
11. The following NZ changes are included in the amending standard and the relating conforming and consequential amendments, consistent with extant compelling reason changes:

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<sup>2</sup> ISA (NZ) 600 (Revised) Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)

### 11..1. Definition of Group Audit Client – listed entity to FMC HLPAs

The IESBA definition of “group audit client” uses the term “listed entity” which is consistent with the IESBA definition of “audit client”.

The XRB have adopted a NZ definition for “audit client” that increases the scope from “listed entity” to “FMC reporting entity considered to have a higher level of public accountability” (FMC HLPAs). To be consistent with the NZ definition of “audit client”, we have replaced the term “listed entity” with FMC HLPAs in the NZ definition of “group audit client”.

### 11..2. Definition of Audit Client and Group Audit Client

For periods beginning on or after 15 December 2024, the definition of public interest entity has been revised to include “publicly traded entity” instead of “listed entity”. This revision will also be incorporated into the definition of “audit client” and “group audit client” which will refer to the term “publicly traded entity” instead of “listed entity”.

The NZ definitions for “audit client” and “group audit client” have replaced the term “listed entity” with “FMC HLPAs”. To avoid the risk of any unintended consequence of a publicly traded entity not being captured as a FMC HLPAs, both terms FMC HLPAs and “publicly traded entity” have been adopted in the NZ definitions.

### 11..3. Non-Compliance with Laws and Regulations

Some of the conforming amendments relate to NZ paragraphs in the Code on “Non-Compliance with Laws and Regulations” (NOCLAR). Extant NZ paragraphs expand on the IESBA NOCLAR requirements to be applicable for review engagements as well as audit engagements and for assurance practitioners rather than professional accountants.

Any conforming amendments for revisions to the definition of engagement team and group audits that impact these NZ paragraphs, have been updated to be applicable to both audit and review engagements and assurance practitioners.

## Australian process and harmonisation with Australia

12. The Auditing and Assurance Standards Board Accounting Professional & Ethical Standards Board (APESB) have issued an exposure draft relating to the *Proposed Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Relating to the Definition of Engagement Team and Group Audits* proposals in March 2023, with a 60-day comment period.

- The APESB have proposed to amend the term “Engagement Team” in Part 3 of the Code to refer to both assurance and non-assurance engagements. The APESB has the term “engagement team” in a quality management standard to apply to teams who provide services that are not assurance related. Therefore, they are retaining the term in Part 3 of the Code to be consistent across their pronouncements.

13. These changes are beyond the mandate of the XRB of assurance engagements and therefore it would not be appropriate to include within the XRB’s standards.

**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 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 adoption of *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits* is consistent with one of the key strategic objectives of the XRB Board, to adopt international auditing and assurance standards, as applying in New Zealand unless there are compelling reasons not to.

**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.

**Recommendation**

18. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

**Attachments**

- *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits*
- Certificate of determination

**Marje Russ**

Chair NZAuASB

## NZAuASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	10.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	IAASB Strategy & Work Plan 2024-2027
<b>Date:</b>	20 March 2023
<b>Prepared By:</b>	Sharon Walker

	<b>Action Required</b>	X	<b>For Information Purposes Only</b>
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### Agenda Item Objectives

1. The objective of this agenda item is for the Board to APPROVE the XRB submission on the IAASB's Strategy and Work Plan 2024-2027.

### Background

2. The NZAuASB discussed the IAASB's proposed strategy and work plan consultation document at its February meeting ([refer agenda item 5.3, February 2023](#)).
3. The IAASB's proposed strategy seeks to accelerate the actions laid out in the 2020-2023 strategy with a focus on standard setting that supports the performance of high quality audit and assurance engagements but focusing on four strategic objectives:
  - Support the consistent performance of quality audit engagements by enhancing auditing standards in areas where there is the greatest public interest need.
  - Establish globally accepted standard(s) for assurance on sustainability reporting.
  - Strengthen coordination with the IESBA and other leading standard setters and regulators to leverage better collective actions in the public interest.
  - Create more agile, innovative ways of working in line with the Monitoring Group's reform vision.
4. The proposals describe the standard setting work required to support the strategy, focussing on developments that best contribute to meeting the needs of stakeholders in the external reporting ecosystem, while balancing timeliness with quality.
5. Extracts from the agenda discussion from February minutes include:

The general view of the Board is that the IAASB strategy and work plan says the right things. The test will be in the application. The Board agreed with the key themes identified and made the following suggestions and observations about the challenges that the IAASB may face:

- Encourage the IAASB to be inclusive:
  - in terms of regulators, think more broadly than financial regulators and regarding producing profession agnostic standards on sustainability assurance;
  - work with other leading standard setters should be both in the financial and non-financial space.

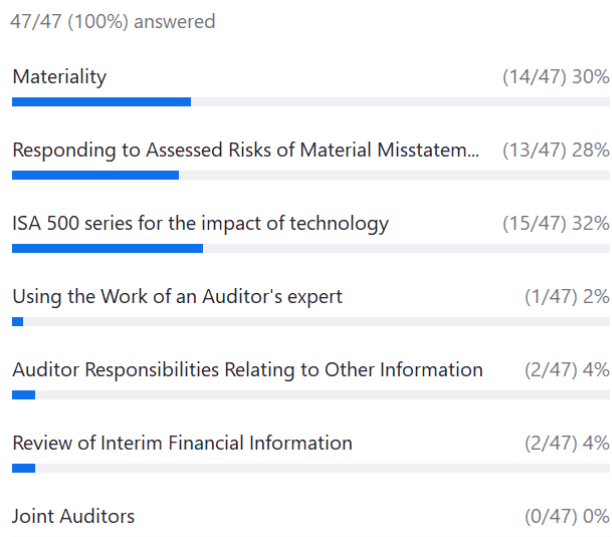
- Encourage the IAASB to develop performance metrics against which to self-assess its performance. For example, proposed strategic objective 4 is to create more agile, innovative ways of working in line with the monitoring group’s reform vision. How will the Board measure its agility?

The Board agreed that following the agenda discussion, a submission would be circulated to board members for final comments.

6. Comments on the proposed strategy and work plan are to be submitted to the IAASB by 11 April 2023. Due to the level of interest of the Board in this submission, and time available on our April agenda, staff determined to bring this matter back to the Board for discussion rather than for approval via circular resolution.

### **Matters to Consider**

7. We have prepared the draft response at agenda item 10.2 based on the key themes presented in February 2023<sup>1</sup> NZAuASB board meeting papers and based on the subsequent Board discussion. In our draft, we have also stressed the importance of performing post implementation reviews on key standards, especially ISA 315 (Revised 2019) given that standard is critical to the overall conduct of the audit.
8. We continue to monitor discussions of the AUASB and are connecting with other like-minded national standard setters with the view to identifying potential opportunities for consistent messaging, where views are aligned.
9. Results of polling at our 14 March “Need to Know” series indicates the following projects are of highest importance to stakeholders:



### **Recommendations**

10. We recommend that the Board APPROVE the XRB submission to the to the IAASB on its strategy and work plan 2024-2027.

<sup>1</sup> Refer agenda item [5.2 of the February 2023 NZAuASB board](#) papers.

**Material Presented**

Agenda item 10.1 Board Meeting Summary Paper

Agenda item 10.2 Draft response – for approval



11 April 2023

Tom Seidenstein  
IAASB Chair  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear Tom,

***The IAASB's Proposed Strategy and Work Plan for 2024-2027***

Thank you for the opportunity to comment on the IAASB's Proposed Strategy and Work Plan (SWP) for 2024-2027. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB), of the External Reporting Board (XRB).

The XRB is a Crown Entity responsible for developing and issuing accounting, climate and auditing and assurance standards, including professional and ethical standards, in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards.

The XRB agrees with, and supports, the IAASB's proposed Strategy for 2024-2027 as outlined in section II of the consultation paper. We encourage the IAASB to develop performance-based metrics against which its success can be measured, for example, how will the IAASB assess whether it is achieving more agile, innovative ways of working? As part of this self-assessment, we also encourage the IAASB to perform timely post implementation reviews following revision of key standards such as ISA 315 and ISA 540.

While supportive of the direction, we recognise the significant challenges ahead for the IAASB in achieving its strategy:

- It is critical that the IAASB is, and is seen to be, an independent standard setter, transparent and operating free from bias. We consider this is particularly important in the context of developing profession agnostic, globally accepted standards for assurance on sustainability reporting. The challenge is to think broadly and recognise the other international assurance standard setters in this space. The XRB have been developing a standard for assurance over mandatory GHG emissions disclosures, taking care to take an inclusive approach that can learn from others, recognizing that assurance practitioners in this area is broader than professional accountants.
  - To be the recognised leader, we encourage the IAASB to explore what can be learnt from other established assurance practices and collaborate with a far broader range of stakeholders to gain wider acceptance. For standards to be globally accepted they should not alienate other players in the market, rather must be curious to learn from their experiences, and ensure practitioners can see themselves in the standards.
  - We encourage the IAASB to ensure its due process is profession agnostic, including non-accountants in the membership of the board and task forces and in broad consultation from the project proposal stage.
  - There will also be significant challenges ahead in linking the sustainability assurance standard to a quality management standard built by the accounting profession that is not adopted by broader assurance practitioners who use different standards.

- These same challenges apply in linking the assurance standard to ethical standards for professional accountants. Global support of an international sustainability standard that makes this link, may be dependent on the IESBA's ability to develop an ethics standard that is truly profession agnostic.
- Regulators and oversight bodies are increasingly asking for more specificity of requirements in standards for increased enforceability to help drive improved performance. We challenge the premise that more specificity in auditing standard requirements will improve audit quality.
- We urge the IAASB not to underestimate the value of implementation support to achieve consistent application of the standards. We consider that providing implementation support that provides for clear and consistent application of the standards will go a long way to allaying regulator concerns around the specificity of requirements. We consider that the IAASB is best placed to develop this implementation guidance, but as a national standard setter welcome the opportunity to collaborate more closely.
- Like the IAASB, firms are facing resourcing pressures. It is important for firms to be given space and time to implement new standards and to train their staff to use those standards. Providing the time and resource to support firms to implement new standards will drive towards improved audit quality.

Our detailed comments regarding the new standard setting projects are included in the attachment.

Should you have any queries concerning our submission please contact Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,

**Marje Russ**  
Chair

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

### ***The IAASB's Proposed Strategy and Work Plan (SWP) for 2024-2027***

Question 4: Do you support the identified possible new standard setting projects as set out in Table B within the area of audits and reviews (A to K)? Please share your views on the individual topics, including, if relevant why certain topics may be relatively more important to you, your organization or within your jurisdiction?

The XRB supports the identified possible new standard setting projects as set out in Table B within the areas of audits and reviews (A to K). Our views on the specific topics are set out below:

- *Responding to the Risks of Material Misstatement (ISA 330)* – given the revision of ISA 315 (Revised 2019), we consider it would be beneficial to enhance the coherence of the suite of ISAs, making the standard more relevant. We consider revision to ISA 330 is the highest priority among the identified possible new projects.
- *ISA 500 series (501, 505, 520, 530)* - Technology is changing the way the audit is performed. It is important that these standards remain current, either through targeted updates or issuing of non-authoritative material that addresses the use of technology. A benefit of issuing non-authoritative material is that it does not require the same amount of board time and could be developed in partnership with NSS.
- *Using the Work of an Auditor's Expert (ISA 620)* - we consider the use of experts to be a high priority across all assurance, not just limited to the audit of historical financial statements and ISA 620.
- *Auditor Responsibilities Relating to Other Information (ISA 720 (Revised))* - we support targeted revisions to ISA 720 to address issues arising from the auditor reporting post implementation review.
- *Review of Interim Financial Information (ISRE 2410)* - we consider ISRE 2410 is long overdue for revision by the IAASB. A key matter that has raised questions is around the auditor's responsibilities related to going concern for interim review engagements. With further proposed changes to the going concern auditing standard, these same questions will emerge again for interim reviews.
- *Joint audits* are not prevalent here. Clarifying practice in this area has very little relevance for our jurisdiction.

Question 5: Do you support the identified possible new standard setting projects as set out in Table B within the area of sustainability and other assurance engagements (L and M)? Topic L further standards for assurance on sustainability reporting would involve addressing multiple topics (as part of possible multiple projects). Please provide your views about likely candidate topics for further standards.

Use of XBRL is not prevalent in NZ, however, we would support a project on assurance over XBRL if there is demand from other jurisdictions, given the increasing focus on digital reporting of financial information under various reporting frameworks, and the international efforts to standardise this.

Looking forward, we would like to see the IAASB working towards a set of standards that can be used across various subject matters (financial, non-financial, sustainability) presented together in the same report. We do not believe that it will serve global markets to perform assurance engagements on different types of subject matter in accordance with different standards and to report in separate assurance reports in the long term.

Question 6: Are there other topics that we should consider as new standard-setting projects? If so, please indicate whether any such topics are more important than the topics identified in Table B and the needs and interests that would be served by undertaking work on such topics.

The IAASB has identified in its proposed work plan possibly performing reviews of some recently issued standards, e.g., ISA 540 (Revised), ISA 315 (Revised 2019) and the quality management standards. We urge the IAASB to commit to a timely and effective post implementation review of ISA 315 (Revised 2019). ISA 315 is critical to the

overall conduct of the audit. We consider that understanding whether the desired response has been achieved is critical before embarking on a revision to ISA 330.

Question 7: Our draft strategy and work plan emphasizes throughout the importance of close coordination with our sister- Board, the IESBA. What are your views about whether and, if so, how coordination could be enhanced in terms of opportunities for ongoing or complementary actions that would better serve the public interest? Suggestions could entail standard-setting work, engagement with stakeholder groups, and improved ways of working, among others.

As both the auditing/assurance and the ethical standards setter in New Zealand, we are very aware of the need for coordination between the IFAC standards setting boards and the challenges encountered when there are differences/conflicts in the standards. We are fully supportive of close coordination with the IESBA.

It will be challenging for the IAASB to develop profession agnostic standards that link to the IESBA Code in its current form, i.e., the IESBA sets ethical standards for professional accountants.

We have found the joint IAASB/IESBA NSS sessions to be very useful in the past.

DRAFT

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	11.1
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	IESBA ED – Tax Planning and Related Services
<b>Date:</b>	22 March 2023
<b>Prepared By:</b>	Tracey Crookston

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objectives of this agenda item are to:
  - (a) CONSIDER the IESBA Exposure Draft: *Tax Planning and Related Services* (the ED); and
  - (b) AGREE that we will not include the proposals within PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* (PES 1) and therefore will not expose the ED because it is not within the XRB's mandate to do so.

### Background

#### *Proposed revisions*

2. The proposed revisions to the IESBA Code address tax planning and related services and are a response to public interest concerns about tax avoidance and the role played by consultants, including professional tax advisers (e.g., paradise and pandora papers).
3. The proposals strengthen the ethical expectations for professional accountants in business and in public practice when performing tax planning activities for employing organisations or providing tax planning services to clients.
4. The revisions are a principles-based framework leveraging the fundamental principles and conceptual framework. It is proposed that a new section will be added in Part 2 (Professional Accountants in Business) and Part 3 (Professional Accountants in Public Practice) of the IESBA Code. The two new sections contain many common elements.

#### *Overarching objective of the IESBA*

5. The IESBA's objective is to serve the public interest by setting ethics standards (including auditor independence requirements) for ethical conduct and practice for all professional accountants through a globally operable International Code of Ethics for professional accountants.

#### *XRB's standard setting mandate*

6. The XRB's standard setting mandate is set out in the Financial Reporting Act 2013. The Act states that one of the functions of the XRB is the issuing of auditing and assurance standards and that

these standards may include professional and ethical standards that govern the professional conduct of audit or assurance practitioners.

**Matters to Consider**

7. The XRB's role in relation to professional ethical standards is narrower than the IESBA's and relates only audit and assurance practitioners.
8. The changes to the IESBA Code relate to professional accountants in business (PAIB) and professional accountants in public practice (PAPP) involved in tax planning and related services. They do not relate to ethics (including independence requirements) for assurance practitioners. (i.e., it would not be appropriate to rephrase the requirements in the proposed new section for assurance practitioners).
9. As the amendments proposed by the ED are not within the mandate of standards issued by the XRB we do not propose exposing them for comment and we will not be incorporating these amendments in PES 1.
10. The New Zealand Institute of Chartered Accountants (NZICA), which has a broader mandate for ethics standards for New Zealand members of CA ANZ, will likely include these revisions in the *NZICA Code of Ethics*.

**Recommendation**

11. We recommend that the Board AGREES that we will neither expose the ED nor incorporate the proposals within PES 1, because it is not within the XRB's mandate to do so.

**Material Presented**

Agenda item 11.1	Board Meeting Summary Paper
Agenda item 11.2	IESBA Exposure Draft: Tax Planning and Related Services (supplementary paper)

## Memorandum

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**AGENDA ITEM NO.** 12.1  
**Meeting date:** 5 April 2023  
**Subject:** Implementation and Awareness Raising  
**Date:** 21 March 2023  
**Prepared By:** Tracey Crookston

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Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. For the Board to NOTE the implementation and awareness raising materials prepared by staff.

### Background

2. In support of the XRB's Statement of Intent 2022-2027, the NZAuASB's planned actions for the 2022–2027 period are built around four pillars. The fourth pillar is to “respond to stakeholder input and a fast-changing external reporting landscape to ensure our standards and guidance are robust and sustainable”. Each of the initiatives below relate to this fourth pillar.

#### *Post Implementation Review (PIR) – SAE 3100 Compliance Engagements*

3. The Feedback Statement for the PIR of SAE 3100 (Revised) *Compliance Engagements* is included at **agenda item 12.2**. The PIR has provided a valuable insight into the use and operability of the standard. Overall, we have heard that the standard is operating as intended. Therefore, we do not propose to make any changes to SAE 3100 (Revised).

#### *Group Audits Revisions – Q&A*

4. The XRB issued ISA (NZ) 600 (Revised)<sup>1</sup> in June 2022. We have developed a Q&A to assist users to understanding the revisions. See **agenda item 12.3**.

#### *Capital Raising Feedback Statement*

5. The XRB issued SAE 3450<sup>2</sup> in December 2022. The feedback statement has been prepared to assist users to understand the key decisions made by the NZAuASB in response to the feedback received on the exposure draft. See **agenda item 12.4**.

#### *Next Steps*

6. We will publish the Feedback Statements and Group Audits Revisions Q&A on our website and let stakeholders know about these via our normal communication channels. We will send a thank you email to those who participated in the PIR with a website link to the Feedback Statement.

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<sup>1</sup> *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>2</sup> *Standard on Assurance Engagements (SAE) 3450, Assurance Over Financial Information Prepared in Connection with a Capital Raising*

## Feedback Statement

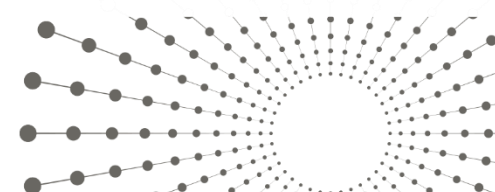
# Post Implementation Review

SAE 3100 (Revised)

Compliance Engagements



April 2023







## About this Post Implementation Review

The XRB recently undertook a narrow scope post implementation review (PIR) of the standard on compliance engagements. A PIR helps to ensure a standard remains current and operational. It is a regular part of standard setting and usually carried out once a standard has been applied for a few years.

## About SAE 3100 (Revised) Compliance Engagements

The standard deals with assurance engagements undertaken on whether an entity has complied in all material respects with identified compliance requirements, throughout the specified period or as at a specified date, using specified criteria. The standard sits under the umbrella standard: ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.



## What we did

We identified targeted stakeholders (e.g., those from the private and public sector, regulatory and professional bodies) and asked a series of open questions about the standard. These questions were designed to understand whether the standard was operating as intended.



## Key Finding

Overall, we heard that the standard is operating as intended.



## When is the standard used?



### What we heard

- The standard is used in many different circumstances.
- The use of SAE 3100 (Revised) is sometimes explicitly required by a regulatory or professional body.
- The examples in Appendix 3 of the standard about engagements where the standard can be used are very helpful.
- For some stakeholders there is an open question as to when the standard should be used, and for which specific engagements, especially as there is no international equivalent standard.



### XRB FAQs

The Reserve Bank of New Zealand recently asked the XRB to clarify the use of the standard in relation to an assurance engagement required by the Reserve Bank Orders in Council.

For this specific type of engagement, we developed [FAQs](#) to provide clarity on the use of SAE 3100 (Revised).

**The following table has further details about when we heard the standard is used**



## When is the standard used?

We heard the standard is used for assurance engagements relating to:

<b>Real Estate Authority (REA) Trust account audits</b> <a href="#">REA Website</a> requires the use of SAE 3100. Example in Appendix 3 of SAE 3100.	<b>Commerce Commission determinations (electricity, telecommunications, gas)</b> <a href="#">Electricity Distribution Information Disclosure Determination (2012)</a> refers to SAE 3100. Example in Appendix 3 of SAE 3100.
<b>AML/CFT Audits</b> CAANZ requires the use of SAE 3100.	<b>Electoral Act returns</b> CAANZ requires the use of SAE 3100.
<b>Private training establishment (PTE) audits</b> <a href="#">NZQA</a> refers to SAE 3100 (Revised) for an audit of fee protection arrangements.	<b>Reserve Bank of New Zealand – Bank disclosure statements</b> XRB <a href="#">FAQs</a> clarify the use of SAE 3100.
<b>Non-bank deposit takers (NBDT) – risk management framework</b> Example in Appendix 3 of SAE 3100.	<b>Unique emissions factors for use in the NZ Emissions Trading Scheme (ETS)</b>
<b>School liquidation statements (required by the Ministry of Education when a school is closed)</b>	<b>Tertiary Education Institutes’ Performance Based Research Fund – External research income return</b>
<b>Trust deed compliance</b>	<b>Insurer’s solvency returns</b>
<b>Securities register compliance</b>	<b>Grant funding</b>
<b>Joint venture governance arrangements</b>	<b>Application of internal policies</b>
<b>GRI (sustainability)</b>	<b>Public sector funding arrangements</b>
<b>Registers of Funds</b>	<b>Long Term Plans of Local Authorities</b>



## What we also heard

- The requirements enable the auditor to meet the objectives of the standard and the engagement.
  - There were no Covid-specific challenges, however respondents did have to adapt to the pandemic environment and receive supporting evidence in electronic form.
  - There were no significant/disproportionate costs identified to apply the standard. It was noted that for AML/CFT audits not all assurance providers are required to use SAE 3100. As such, those applying the standard may have more costs compared to others.
  - The requirement for assessing the elements of an entity's compliance framework is clear.
- The tables in the standard are helpful –especially for planning purposes.
  - The requirements specific to determining, evaluating, and communicating material deficiencies and breaches in an entity's compliance framework are adequate.
  - The example assurance opinion/report clearly communicates the conclusion. In practice, there is often further communication via an accompanying letter and/or report.
  - The concepts of materiality and assessment of compliance engagement risk are adequately explained. However, it was noted that there are inevitably materiality challenges and professional judgement is applied when using the standard for the various types of assurance engagements.

### Response to what we heard

We thank the stakeholders who provided their feedback. The PiR has provided a valuable insight into the use and operability of SAE 3100.

The feedback has indicated that the standard is used in New Zealand in a wide variety of assurance engagements. Overall, we have heard that the standard is operating as intended. Therefore, we do not propose to make any changes to SAE 3100 (Revised).

# Revisions to audits of group financial statements – ISA (NZ) 600 (Revised)

## Q & A

### Is there international guidance on the revised standard?

IAASB Fact Sheet and Basis for Conclusions: [Audits of Group Financial Statements](#)

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### Why was the standard revised?

The revisions keep the standard fit for purpose in a wide range of circumstances and in a developing environment while strengthening the auditor's responsibilities related to planning and performing a group audit. For example, the revisions clarify the scope of the standard, including whether it applies to shared service centres, non-controlled entities and entities with branches or divisions and clarify how to address restrictions on access to people and information in a group audit. The revisions focus on proactive quality management, robust two-way communication between the group auditor and component auditors, documentation, and professional scepticism.

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### When is the new standard applicable?

For periods beginning on or after 15 December 2023.

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### What is the scope of the standard?

The standard refers to the existence of a 'consolidation process' when defining group financial statements. In addition to group financial statements prepared under an applicable accounting framework, the definition captures combined financial statements of entities or business units under common control and aggregated financial information of entities or business units (e.g., branches or divisions).

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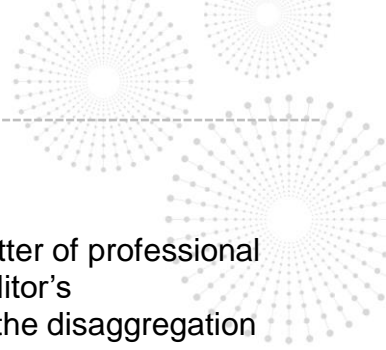
### Who is responsible for the group audit?

The group engagement partner has ultimate responsibility for compliance with the standard. For some requirements, the group engagement partner or group auditor can assign the design or performance of procedures, or tasks to other appropriately skilled or experienced members of the engagement team, including component auditors. The standard has enhanced responsibilities for the direction, supervision, and review of the work of component auditors.

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### Has the definition of a component changed?

Yes. For example, a shared service centre may be a component when such centralised activities are relevant to a group's financial reporting process.



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## Has the concept of 'significant components' been retained?

No. The determination of components at which to perform audit work is a matter of professional judgement. The standard highlights matters that may influence the group auditor's determination at which components to perform the audit work. For example, the disaggregation of significant classes of transactions.

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## How does the standard strengthen communication?

The standard clarifies and enhances the importance of two-way communication between the group auditor and component auditors. It includes various aspects of the group auditor's interaction and communication with component auditors. For example, communicating relevant ethical requirements and determining competence and capabilities of the component auditor.

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## What about documentation in a group audit?

The standard has expanded documentation requirements. For example, documentation of how significant matters related to restrictions on access to people or information within the group were addressed and how the group auditor has determined components when planning and performing the group audit.

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## What are the changes to materiality for group audits?

The standard focuses on component performance materiality (previously component materiality) for planning and performing audit procedures on component financial information. There is a new definition of aggregation risk.

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## What about professional scepticism?

The exercise of professional scepticism by the group auditor includes remaining alert for inconsistent information from component auditors, component management and group management about matters that may be significant to the group financial statements. The group auditor's direction and supervision of engagement team members, including component auditors, and the review of their work, helps the group auditor assess whether the engagement team has appropriately exercised professional scepticism.

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## Does the standard have linkages with other standards?

Yes, the standard has linkages with several standards. For example, revised standards relating to quality management, assessing the risk of material misstatement and forming an opinion and reporting on financial statements.

## Contact us

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## *SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising*

### Explanations for decisions made

In December 2022, the XRB issued *SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising* in response to calls from practitioners in New Zealand. Assurance over financial information prepared in connection with a capital raising is not required by regulation, but is often voluntarily sought by the engaging entity and there is no international standard specific to this subject matter. SAE 3450 was developed, based on ASAE 3450<sup>1</sup>, adapted as necessary to reflect the NZ environment.

The exposure draft and accompanying consultation document can be accessed [here](#).

The XRB received detailed feedback from three respondents (two via formal written submissions and 1 via interview). In addition, a virtual feedback event was held which was attended by around 15 participants. The exposure draft received a high level of support. The XRB would like to thank those involved in the development of this standard.

This explanations for decisions made provides a high-level overview of the changes made following consultation and the reasons therefor.

### *Scope of the Standard*

While there was general support for the narrow scope of the standard, feedback highlighted that the standard contains a valuable framework for broader application for assurance over financial information that has been prepared for a purpose other than capital raising. Accordingly, the scope of SAE 3450 permits application of the standard, adapted as necessary, to financial information prepared for another purpose.

### *Scope of the engagement*

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).

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

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<sup>1</sup> ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* issued by the Auditing and Assurance Standards Board in Australia.

individual line items are ordinarily extracted or derived from the published financial statements (prospective or historical) but do not represent full primary statements.

Given the voluntary nature of this type of assurance engagement, with the scope of the engagement determined by the engaging party and the assurance practitioner, and to reflect various market practices, in finalising the standard, we included an additional illustrative report demonstrating the scope of the engagement based on a review of the full set of financial information.

#### *Consistency with the Equivalent Australian Standard (ASAE)*

We were encouraged to align the final standard more closely with the ASAE. Where possible we have done so, however, there remain a number of differences between SAE 3450 and the ASAE that reflect differences in the regulatory environment, differences in the financial reporting framework and the XRB's efforts not to duplicate requirements and application material contained in the base standards<sup>2</sup>.

#### *Interaction with Other Standards*

To respond to concerns that the interaction between the proposed standard and the base standards is not clear, in finalising the standard, we redrafted a number of paragraphs to clearly place the requirement on the practitioner to perform the requirement, while maintaining the link with the base standards.

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<sup>2</sup> When performing the assurance engagement, the assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised), *Assurance Engagements other than Audits and Reviews of Historical Financial Information*, and the applicable Review Engagement Standard and SAE 3450. For purposes of this explanation for decisions made, the term "base standards" is used to refer to ISAE (NZ) 3000 (Revised) and the applicable review engagement standards.