

## NZAuASB Board Meeting Agenda

7 June 2023

9:00 am to 5.00 pm, XRB offices, Wellington

Apologies:

Est.Time	Item	Topic	Objective		Page	Supplementary
	<b>PUBLIC SESSION</b>					
9.40am	<b>1</b>	<b><u>Board Management</u></b>				
	1.1	Action list	Approve	Paper	3	
	1.2	Chair's report	Note	Verbal		
	1.3	AUASB Update	Note	Verbal		
	1.4	Update from CE	Note	Verbal		
10.25am	<b>2</b>	<b><u>Environmental scanning</u></b>			<i>Nimash</i>	
	2.1	International Update	Note	Paper	5	
	2.2	Domestic Update	Note	Paper	14	
	2.3	Update for XRB	Note	Paper	17	
10.45am	<i>Morning tea</i>					
11:00am	<b>3</b>	<b><u>GHG assurance</u></b>				
	3.1	Summary paper	Note	Paper	33	
	3.2	Issues paper	Consider	Paper	35	
	3.3	Clean version NZ SAE 1	Approve	Paper	47	
	3.4	Marked up version NZ SAE 1	Note	Paper		3
	3.5	Detailed analysis of submissions	Note	Paper		32
1.00pm	<i>Lunch</i>					
1:45pm	<b>4</b>	<b><u>Service Performance Information</u></b>			<i>Lisa</i>	
	4.1	Summary paper	Approve	Paper	71	
	4.2	Issues paper	Consider	Paper	73	
	4.3	Marked up NZ AS 1 (Revised)	Note	Paper	79	
	4.4	Submission Analysis	Note	Paper		47
	4.5	Outreach Poll Results	Note	Paper		52
	4.6	CAANZ/CPA Australia Submission	Note	Paper		54
	4.7	KPMG Submission	Note	Paper		61
	4.8	OAG Submission	Note	Paper		64
	4.9	Phillip Major Submission	Note	Paper		73
	4.10	Draft accounting guidance PBE FRS 48	Note	Paper		76
2.45pm	<b>5</b>	<b><u>Amendments to PES-1:</u></b>			<i>Bruce</i>	
		<b><u>Technology-related revisions</u></b>				
	5.1	Summary paper	Note	Paper	134	
	5.2	Amending standard	Approve	Paper	136	

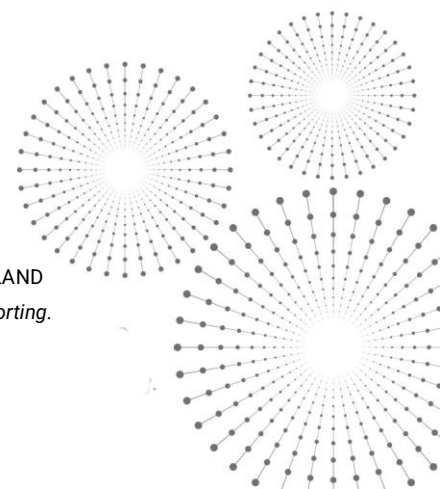
Est.Time	Item	Topic	Objective		Page	Supplementary
	5.3	Signing Memorandum	Approve	Paper	181	
		<b><u>Audit client and group audit client</u></b>				
	5A	Summary paper	Approve	Paper	184	
3.15pm	<i>Afternoon tea</i>					
3:30pm	<b>6</b>	<b><u>IESBA strategy and work plan</u></b>			<i>Tracey</i>	
	6.1	Summary paper	Note	Paper	191	
	6.2	Submission to the IESBA	Approve	Paper	195	
	6.3	IESBA consultation paper	Note	Paper		80
4:00pm	<b>7</b>	<b><u>National standard setters meeting</u></b>				
	7.1	Summary paper	Note	Paper	204	
	7.2	Slides to consider	Consider	Paper	206	
	7.3	Fraud flowchart	Note	Paper		113
4:30pm	<b>8</b>	<b><u>NZAuASB work plan update for 2023</u></b>				
	8.1	Summary paper			212	
	8.2	Prioritisation plan update 2022/23			215	
	8.3	Prioritisation plan 2023/24				114

Next meeting: 9 August 2023, Virtual

### NZAuASB Action list

Following April 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
Feb 2023	Separate environmental scan into immediately relevant and longer-term issues	April 2023	To discuss when the Board meets in person
April 2023	Mark Babington, FRC and IESBA sustainability chair to visit New Zealand mid-November	Aug 2023	Planning for stakeholder outreach
April 2023	Explore in more detail which entities are considered to be publicly traded, as defined by the IESBA	June 2023	Refer agenda item 5
April 2023	Commission research on audit committee chairs perceptions on trust and confidence	June 2023	Verbal update



## **Commencement and application date of assurance standards**

We have recently been reviewing our gazetting processes and wording in light of queries raised by the Regulation Review Committee around the effective date and application date of the standards.

In line with the Financial Reporting Act 2013 requirements, a standard has legal effect on the 28<sup>th</sup> day after the date of the publication of the standard. (i.e. it takes effect)

A standard commences to apply in relation to the accounting period or interim accounting period that the Board specifies in the standard.

Those periods—

(a) may be accounting periods or interim accounting periods that have commenced or that commence before the date on which the standard, authoritative notice, amendment, or revocation takes effect (28 days after publication); but

(b) must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect (28 days after publication).

In addition to specifying the application date the Board should consider whether it will allow early adoption. Early adoption can be for periods that commence before the application date, but have not ended before the effective date. If the Board is going to permit early adoption for the window of time available before application date it must specify that permission.

On the matter of permitting early adoption, the NZAuASB will need to determine on a case-by-case basis whether to permit early adoption. There are several additional paragraphs that would need to be included within the standard in the instance that the NZAuASB determines that it is necessary to permit early adoption. This is a new question that will be included in all consultation documents going forward, and is something that is considered in the agenda papers for the June meeting in four different standards.

For this reason, we have not yet gazetted the revisions to the Code which was approved in principle at the April meeting, but we recommend not allowing early adoption at agenda item 5A. We explore a similar recommendation for the technology revisions to the Code in agenda item 5. The board will also note different wording in the draft GHG assurance standard at agenda 3 and the draft standard on service performance information at agenda item 4 to reflect more closely the wording of the legislation.

The IESBA standards permit early adoption. The IAASB standards are silent in this regard, but the IAASB's drafting convention notes that early adoption is permitted unless otherwise specified.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	2.1
<b>Meeting date:</b>	7 June 2023
<b>Subject:</b>	International Update
<b>Date:</b>	23 May 2023
<b>Prepared By:</b>	Nimash Bhikha

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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 20 March 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 board meeting summary paper 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 –Monitoring Group Welcomes Important Step in Implementing its Recommendations with the Establishment of the International Foundation for Ethics and Audit, 27 March 2023 – [Monitoring Group Welcomes Important Step in Implementing its Recommendations with the Establishment of the International Foundation for Ethics and Audit \(iosco.org\)](#)***

In December 2022, the Monitoring Group (MG) [reported](#) on the progress made to implement the MG Recommendations and today, the MG is pleased to recognize the [announcement](#) of the establishment of the International Foundation for Ethics and Audit (IFEA or Foundation). One of the MG Recommendations is that “the standard-setting Boards should be housed in a separate legal entity outside of and independent from” the accounting profession.

The creation of the Foundation marks a significant milestone in implementing the MG recommendations in order to create a more independent and inclusive standard-setting structure that

is responsive to the public interest in the development of timely, high-quality audit, assurance, ethics, and independence standards. The International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) (collectively the Standard-Setting Boards) will now be housed in a separate, independent legal entity as outlined in the MG recommendations.

***Hot Topic #2 – IAASB Advances Timeline for Consultation for Proposal on Sustainability Assurance - Public Consultation to Begin in July to Ensure Timely Delivery in 2024, 24 April 2023 – [IAASB Advances Timeline for Consultation for Proposal on Sustainability Assurance | IAASB](#)***

At its April meeting, the IAASB confirmed its intention to advance the consultation on its proposed new standard for sustainability assurance, International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. Subject to the expected IAASB approval of the Exposure Draft in June, stakeholders can now expect the public consultation on the proposed standard to open in the latter part of July or early August 2023 and extend into December 2023. The consultation was originally scheduled to commence in October 2023.

The advanced consultation will support two objectives. First, the earlier publication, accompanied by a comprehensive and global outreach strategy, will enable the IAASB to gain broad and early input into the development of ISSA 5000. Second, the advanced consultation period will better ensure the completion of the final standard in 2024.

***Hot Topic #3 – IOSCO sets out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting, 28 March 2023 – [IOSCO sets out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting](#)***

The International Organization of Securities Commissions (IOSCO) has published a [report](#) on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting. The report elaborates on IOSCO's support for the on-going work of the international standard setters – IAASB and IESBA – to develop profession-agnostic assurance and ethics (including independence) standards over sustainability-related information and references the XRB and the actions taken in New Zealand.

IOSCO has observed growing demand among investors for high-quality assurance over sustainability-related information. The global regulatory landscape for assurance over sustainability-related information today relies mainly on voluntary use of assurance, with practices widely varying. Investors emphasised the importance of globally consistent and comparable assurance and ethics (including independence) standards.

Both IAASB and IESBA aim to issue exposure drafts in the second half of 2023, approving the standards on a timeframe that should allow for issuers and assurance providers to familiarize themselves with the content ahead of the end-2024 reporting period.

## 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) & Chartered Institute of Management Accountants (CIMA)
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

### 1. Monitoring Group

None noted beyond Hot Topic #1.

### 2. Public Interest Oversight Body (PIOB)

**Updated PIOB's Public Interest Issues:** IAASB projects, 11 May 2023, [IAASB Public Interest Issues](#)

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

#### Pronouncements

- The PIOB certifies the IESBA approval of the Technology-related Revisions to the Code, 11 April 2023 – [Technology Certification Announcement.docx \(ipiob.org\)](#)
- The PIOB Certifies the IESBA Approval of The Revisions To The Code Relating To The Definition Of Engagement Team And Group Audits, 2 March 2023 – [ET-GA Certification Announcement.docx \(ipiob.org\)](#)

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

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

**IAASB Completed projects:** [IAASB Completed Projects \(iaasb.org\)](#)

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

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

**IEASB Completed projects:** [IESBA Completed Projects \(ethicsboard.org\)](#)

#### Pronouncements

- IESBA staff releases database of public interest entity definitions by jurisdiction to support local adoption and implementation efforts, 27 April 2023 – [IESBA Staff Releases Database of Public Interest Entity Definitions by Jurisdiction to Support Local Adoption and Implementation Efforts | Ethics Board](#)
- IESBA strengthens global ethics standards to respond to transformative effects of technological innovation, 11 April 2023 – [IESBA Strengthens Global Ethics Standards to Respond to Transformative Effects of Technological Innovation | Ethics Board](#)
- IESBA and IAASB highlight commitment to deliver on recommendations in new IOSCO report on a global assurance framework for sustainability-related corporate reporting, 28 March 2023 – [IESBA and IAASB Highlight Commitment to Deliver on Recommendations in New IOSCO Report on a Global Assurance Framework for Sustainability-related Corporate Reporting | Ethics Board](#)

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

#### Pronouncements

- IFRS for SMEs Accounting Standard educational material: the effects of climate-related matters on financial statements, 16 May 2023 – [IFRS - IFRS for SMEs Accounting Standard educational material: the effects of climate-related matters on financial statements](#)



- ISSB prepares to consult on future priorities and international applicability of the SASB Standards, 19 April 2023 – [IFRS - ISSB prepares to consult on future priorities and international applicability of the SASB Standards](#)

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

### Meetings

- International Forum of Independent Audit Regulators (IFIAR) holds 2023 Plenary Meeting in Washington D.C., US, 27 April 2023 – <https://www.ifiar.org/?wpdmdl=15589>

## 7. International Organisation of Securities Commissions (IOSCO)

### Pronouncements

- IOSCO Commits to Deliver on Sustainability Disclosures and Crypto Exchanges in 2023, 5 April 2023 – [IOSCO Commits to Deliver on Sustainability Disclosures and Crypto Exchanges in 2023 - IOSCO publishes Work Program for 2023-2024](#)

## 8. International Federation of Accountants (IFAC)

### Pronouncements

- New IFAC Publication Equips Accountancy Organizations to Lead the Fight Against Corruption, 16 May 2023 – [New IFAC Publication Equips Accountancy Organizations to Lead the Fight Against Corruption | IFAC](#)
- ACCA, Accountancy Europe & IFAC Host Interactive Discussion on Developing Green Skills and Capacity Building, 10 May 2023 – [ACCA, Accountancy Europe & IFAC Host Interactive Discussion on Developing Green Skills and Capacity Building | IFAC](#)
- Public Sector Needs a Holistic Approach to Sustainability, 25 April 2023 – [Public Sector Needs a Holistic Approach to Sustainability | IFAC](#)

## 9. Association of Chartered Certified Accountants (ACCA)

### Pronouncements

- Organisations urged to improve risk culture following unique global research, 27 April 2023 – [Organisations urged to improve risk culture following unique global research | ACCA Global](#)

## 10. Australian Auditing and Assurance Standards Board (AUASB)

### News/Insights

- AASB-AUASB Dialogue Series – Navigating Going Concern Disclosures in Financial Reports and the Relevant Auditor's Responsibilities. 19 May 2023 – [AASB Dialogue Series](#)
- AASB-AUASB Joint Research Report: Australian Listed Entities: Recognised intangible assets and key audit matters, 11 May 2023 – [AASB-AUASB Joint Research Report: Australian Listed Entities: Recognised intangible assets and key audit matters](#)
- Sustainability Assurance Update, 20 April 2023 – [AUASB Sustainability Assurance Update](#)

## 11. Australian Accounting Professional & Ethical Standards Board (APESB)

### Meetings

- APESB held its quarterly Board meeting - Approval of 5 revised pronouncements relating to Quality Management, an exposure draft relating to the definition of Engagement Team and Group Audits in the Code, and newly Compiled Code incorporating 6 amending standards (to be issued in April 2023), 23 February 2023 – [APESB eNews Issue 37 \(Mar 23\)](#)

## 12. CPA Australia

- None noted.

## 13. European Parliament and Council

### Pronouncements

- Parliament backs new rules for sustainable, durable products and no greenwashing, 11 May 2023 – [Parliament backs new rules for sustainable, durable products and no greenwashing | News | European Parliament \(europa.eu\)](#)

## 14. Accountancy Europe

### Pronouncements

- Accountancy Europe calls for an ambitious EU Corporate Sustainability due diligence framework, 26 April 2023 – [Accountancy Europe calls for an ambitious EU due diligence framework - Accountancy Europe](#)

## 15. Financial Reporting Council (FRC)

### Publications

- FRC publishes minimum standards for Audit Committees, 22 May 2023 – [FRC publishes minimum standards for Audit Committees](#)
- FRC concludes annual review of FRS 101 Reduced Disclosure Framework, 19 May 2023 – [FRC concludes annual review of FRS 101 Reduced Disclosure Framework](#)
- FRC publishes conversation starters to boost Investor-Audit Committee engagement, 19 April 2023 – [FRC publishes conversation starters to boost Investor-Audit Committee engagement](#)
- FRC updates 'Our Approach to Audit Supervision', 31 March 2023 – [FRC updates 'Our Approach to Audit Supervision'](#)

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

### Publications

- ICAEW Regulatory and Conduct Annual Report published, 27 April 2023 – [ICAEW Regulatory and Conduct Annual Report published | ICAEW](#)

### News/Insights

- Big Four secure top-10 positions in brand value index, 17 May 2023 – [Big Four secure top-10 positions in brand value index | ICAEW](#)
- How do audit committees perceive corporate fraud risks?, 4 May 2023 – [How do audit committees perceive corporate fraud risks? | ICAEW](#)

- Detecting AML is not just a tick-box exercise for accountants, 24 April 2023 – [Detecting AML is not just a tick-box exercise for accountants | ICAEW](#)
- Why regulations must keep pace with technology, 20 April 2023 – [Why regulations must keep pace with technology | ICAEW](#)
- How should we redefine accounting?, 14 April 2023 – [How should we redefine accounting? | ICAEW](#)
- Accounting for the circular economy in ESG reporting, 13 April 2023 – [Accounting for the circular economy in ESG reporting | ICAEW](#)

## 17. Institute of Chartered Accountants of Scotland (ICAS)

### News/Insights

- Public sector sustainability reporting: Time to step it up, 15 May 2023 – [Public sector sustainability reporting: Time to step it up | ICAS](#)
- Holding business to account – Round up of the key lessons for business, CAs, standards setters and government from our recent ICAS sustainability summit, and share expert insight on the future of sustainability reporting, 5 May 2023 – [Holding business to account | ICAS](#)

## 18. Securities and Exchange Commission (SEC)

- None noted.

## 19. Public Company Accounting Oversight Board (PCAOB)

### Pronouncements

- PCAOB Revises Standard-Setting Agenda and Adds Rulemaking Projects to Enhance Investor Protection, 16 May 2023 – [PCAOB Revises Standard-Setting Agenda and Adds Rulemaking Projects to Enhance Investor Protection | PCAOB \(pcaobus.org\)](#)
- PCAOB Enhances Transparency of Inspection Reports With New Section on Auditor Independence and More, 2 May 2023 – [PCAOB Enhances Transparency of Inspection Reports With New Section on Auditor Independence and More | PCAOB \(pcaobus.org\)](#)

## 20. American Institute of Certified Public Accountants (AICPA) & Chartered Institute of Management Accountants (CIMA)

### Publications

- Enhancing Audit Quality 2022 Highlights Report, 3 May 2023 – [Enhancing Audit Quality 2022 Highlights Report | Professional Insights | AICPA \(aicpa-cima.com\)](#)

## 21. Center for Audit Quality (CAQ)

### Publications

- May 2023 Audit Partner Survey, 19 May 2023 – [theCAQ.org | May 2023 Audit Partner Survey](#)

## 22. Canadian Public Accountability Board (CPAB)

### Publications

- Canadian Public Accountability Board Publishes 2022 Regulatory Oversight Report, 3 April 2023 – [2022-annual-inspections-results-en.pdf \(cpab-ccrc.ca\)](#)

## 23. Canadian Auditing and Assurance Standards Board (AASB)

### News/Insights

- The AASB's Sustainability Assurance Committee is Established, 16 May 2023 – [Sustainability Assurance Committee \(fracanada.ca\)](#)

## 24. Chartered Professional Accountants Canada (CPA Canada)

### News/Insights

- Disclosures on the “S” in ESG: where do we stand?, 5 April 2023 – [Disclosures on the “S” in ESG: where do we stand? \(cpacanada.ca\)](#)

## 25. Insights from practitioners

- Spring 2023 BDO Board Pulse Survey – Expanding Roles, Risks and Opportunities for Boards in Another Disruptive Year, 8 May 2023 – [Spring 2023 BDO Board Pulse Survey](#)

## 26. Other articles

### *Audit Market*

- PwC tax leaks scandal an ‘example’ for anti-corruption body: Pezzullo, 22 May 2023 – [PwC tax leaks: Home Affairs secretary Mike Pezzullo ‘not confident’ in firm \(afr.com\)](#)
- EY is shredding its plan to split its consulting and auditing businesses, 12 April 2023 – [EY won't split consulting and audit units after US backlash \(qz.com\)](#)
- EY banned by German audit watchdog over Wirecard work, 3 April 2023 – [EY banned by German audit watchdog over Wirecard work | Financial Times \(ft.com\)](#)

### *Audit Requirements*

- Single Audits Are Not What They Used to Be, 23 May 2023 – [Single Audits Are Not What They Used to Be - The CPA Journal](#)
- Professional scepticism requires ‘right’ culture, 4 May 2023 – [Professional scepticism requires ‘right’ culture \(accountancyage.com\)](#)
- KPMG’s global ESG boss backs tougher climate audit rules, 4 May 2023 – [KPMG’s global ESG boss backs tougher climate audit rules - Financial News \(fnlondon.com\)](#)

### *Auditing – Emerging technologies*

- Application of artificial intelligence in green building concept for energy auditing using drone technology under different environmental conditions, 21 May 2023 – [Application of artificial intelligence in green building concept for energy auditing using drone technology under different environmental conditions | Scientific Reports \(nature.com\)](#)
- PwC bets big on AI, climate and audit technology, 9 May 2023 – [PwC bets big on AI, climate and audit tech | Accounting Today](#)
- Get Ready for the Future of Auditing - Technology, ESG, and Next-Generation Skills, 30 March 2023 – [Get Ready for the Future of Auditing - The CPA Journal](#)

### *Carbon Offsetting*

- Adverts claiming products are carbon neutral by using offsetting face UK ban, 15 May 2023 – <https://www.theguardian.com/environment/2023/may/15/uk-advertising-watchdog-to-crack-down-on-carbon-offsetting-claims-aoe>
- Quality standards to hold carbon offsetting industry to account, 30 March 2023 – [Quality standards to hold carbon offsetting industry to account | Greenhouse gas emissions | The Guardian](#)

### *Overseas Carbon Credit Trading*

- Zimbabwe looks to revamp carbon credit trade, wants more revenues, 17 May 2023 – <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/agriculture/051723-zimbabwe-looks-to-revamp-carbon-credit-trade-wants-more-revenues>
- Before Collapse, Credit Suisse Quietly Conquered the Obscure Debt-for-Nature Market, 21 March 2023 – [Credit Suisse Collapse Throws Climate Debt Market Into Turmoil - Bloomberg](#)

### *Emissions Reporting*

- Inside the art and science of banks' 'financed emissions', 1 May 2023 – [Inside the art and science of banks' 'financed emissions' | Greenbiz](#)
- How the new EU directive will rewrite ESG reporting – 1 May 2023 – [How the new EU directive will rewrite ESG reporting | Greenbiz](#)

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 2.2  
**Meeting date:** 7 June 2023  
**Subject:** Domestic Update  
**Date:** 23 May 2023  
**Prepared By:** Nimash Bhikha

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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 20 March 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. The following articles are of the most relevance for the NZAuASB.

***Hot Topic #1 – Climate risks and the impact on financial statement audits, 5 April 2023 – [Climate risks and the impact on financial statement audits | Financial Markets Authority \(fma.govt.nz\)](https://fma.govt.nz)***

The FMA released guidance to provide clarity for auditors about the expectations for information about climate risks in audit files. It will also be useful for preparers of financial statements and anyone else involved in climate risk and reporting for businesses with financial reporting obligations. The FMA has outlined what climate-related risks they expect auditors to consider, focus on and document in the audit file – particularly for entities that are large emitters or have significant exposures to large emitters, which include:

- Consideration of laws and regulations;
- Identifying and assessing the risks of material misstatement;

- Materiality;
- Response to assessed risks;
- Accounting estimates;
- Auditor's experts;
- Misstatements;
- Going concern;
- Audit report;
- Key Audit Matters;
- Other information; and
- Communication with Those Charged with Governance

***Hot Topic #2 – Key findings for New Zealand from PwC's Global Investor Survey, PwC, 12 May 2023 – [Investor views of sustainability reporting and assurance \(pwc.co.nz\)](https://www.pwc.co.nz)***

PwC's recent investor survey report reveals that 78% of July to December NZX50 reporters provided some level of non-financial, climate-related information either in the 'front half' of their annual report, or in a separate sustainability report. This falls below the 90% of June NZX50 reporters in their earlier report, but still a notable increase from 60% of NZX50 March reporters outlined in their original report.

The survey also set out to understand where trust and confidence in reporting was falling short, and the value that assurance brings to closing the effectiveness gap. A significant majority of investors (95%) have concerns that the company's sustainability reporting contains at least some level of 'greenwashing', but many investors (70%) say assurance would give them confidence. The survey showed a preference for independent reasonable assurance (65%), which ranked higher than limited assurance (54%). It was also clear that independent assurance is more highly favoured than assurances provided by the internal audit function (38%).

## The Financial Markets Authority (FMA)

None noted beyond Hot Topic #1.

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

**CA ANZ launches Carbon Accounting FAQs, 17 May 2023** – [CA ANZ launches Carbon Accounting FAQs | CA ANZ \(charteredaccountantsanz.com\)](#)

A new Chartered Accountants Australia and New Zealand (CA ANZ) publication addresses frequently asked questions (FAQs) arising in the evolving area of carbon accounting, and links to practical resources to assist climate-related accounting activities.

**Key audit matters in Australia, 31 March 2023** – [Key audit matters in Australia | CA ANZ \(charteredaccountantsanz.com\)](#)

Insights into Australian Securities Exchange (ASX) listed entities key audit matters (KAMs) in 2022 Key findings were:

- Overall, 58% of audit reports have the same number of KAMs as last year,
- Of the 42% of audit reports that had a different number of KAMs, this is mostly due to an increase (decrease) of a single KAM 17%; and
- The primary subject matter explaining both the increase and decrease is business combinations.

## The Institute of Directors (IoD)

None noted.

## Other publications

**Do the financial statements of the NZX50 reflect the impact of climate change? An analysis of NZX50 July to December 2022 reporters, PwC, 30 March 2023** – [Do the financial statements of the NZX50 reflect the impact of climate change? \(pwc.co.nz\)](#)

PwC look at NZX50 companies reporting between 1 July and 31 December 2022 and examine how climate-related impacts on the financial statements were disclosed and how auditors considered climate-related impacts in key audit matters (KAMs). Key findings were:

- 13 businesses on the NZX50 with July-December year ends have completed their financial reporting.
- 8 reporters discussed the impact of climate-related risks in their financial statements.
- 0 businesses included a quantification of the impacts of climate risk (physical or transition risks) in their financial statements.
- 10 reporters included some non-financial climate-related information outside of the financial statements.
- 3 reporters mentioned upcoming climate-related financial disclosures in their financial statements while 8 mentioned this in the front-half of their annual report or in a separate sustainability report (outside the financial statements).
- 4 businesses noted the use of green finance.
- 1 audit report included mention of climate change in KAMs.



**Note: This is Environmental Update prepared for XRB Board. It is attached for NZAuASB Board information purposes.**

## Memorandum

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Date: 14 April 2023  
To: XRB Board Members  
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 9 February 2023 to 14 April 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 sustainability reporting landscape of strategic interest to the XRB.
3. Items with strategic impact on the XRB:

#### **International - Connectivity and Nature are the two key themes:**

- (a) The ISSB, which is about to launch an Agenda Consultation, is considering the best way to establish a [connectivity project](#) with the IASB, whose Agenda Consultation spanned 2021.
- (b) The IASB Chair introduced the [IASB's new project on Climate-related Risks in the Financial Statements](#).
- (c) IOSCO is contemplating its potential future endorsement of [IFRS Sustainability Standards](#), and has also published a report setting out its vision for a [global assurance framework for sustainability](#)-related corporate reporting.
- (d) The TNFD has released the final draft of its [Risk Management and Disclosure Framework](#).

#### **Trans-Tasman – Digital reporting**

- (e) The CA ANZ report explores how [digital reporting](#) can help overcome the

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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® Standards, IFRIC® Interpretations and IASB® papers). It also refers to the work of the International Sustainability Standards Board (ISSB).

increasing complexity of financial reports and enable users to access information more effectively and efficiently.

**Domestic – Climate change and the macro-economic outlook is important; Service performance assurance study**

- (f) The increased focus of the NZ government on climate change is exemplified by the release of the Treasury report Ngā Kōrero Āhuarangi me te Ōhanga – the [Climate Economic and Fiscal Assessment](#) which provides a macro-economic assessment of the future effects of climate change on NZ, and the need to transition to a low-emissions economy.
- (g) The [NZ banking sector](#) report by John Kensington which expects a difficult two years ahead.  
  
An academic survey of Tier 3 charities' performance reports is cause for concern.
- (h) Research by Xu and Yang shows that the auditors of Tier 3 registered charities are reluctant to qualify audit reports for below standard [Service Performance Reporting](#), and highlights a problematic section in the Tier 3 standard.

**International**

IFAC: Global regulatory report

- 4. The February 2023 report: [IFAC Global Regulatory Report February 2023](#)

ISSB Update: Connectivity project with IASB

- 5. The ISSB met in March 2023 to discuss the potential connectivity project to be included in the ISSB's first Agenda consultation.
- 6. At its December 2022 meeting, the ISSB tentatively decided to seek stakeholder feedback on four potential projects in the request for information. One of the four potential projects was focused on connectivity in reporting and was described as a joint project with the IASB that would build on the IASB's Management Commentary project and the Integrated Reporting Framework.
- 7. At this meeting, the ISSB tentatively decided that, within its request for information, it would:
  - (a) expand the scope of the potential project on connectivity in reporting to:
    - (i) focus on integration in reporting; and
    - (ii) consider integrated disclosures beyond the requirements related to connected information in IFRS S1 General Requirements for

Disclosure of Sustainability-related Financial Information (S1) and IFRS S2 Climate-related Disclosures (S2);

- (b) include a discussion of the requirements in S1 and S2 related to connected information to provide the necessary context for the potential project on integration in reporting;
- (c) present the potential project on integration in reporting as an ISSB project that could be pursued jointly with the IASB, rather than presenting it as a formal joint project; and
- (d) frame the questions asked in a manner that elicits input about how the project on integration in reporting should be pursued.

[IFRS - ISSB Update March 2023](#)

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IASB: IASB's new project on Climate-related Risks in the Financial Statements

8. At its March 2023 meeting, the IASB started a [project to explore whether and how companies' financial statements can provide better information about climate-related risks](#).
9. Despite IFRS Accounting Standards requiring companies to consider climate-related matters in their financial statements, respondents to the Third Agenda Consultation in 2021 highlighted that climate-related risks may not be appropriately considered in the financial statements, and that investors need better qualitative and quantitative information about the effect of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements.
10. In response to stakeholder feedback, the IASB decided to undertake a maintenance project on Climate-related risks in the Financial Statements to determine whether it should do more in this area. IASB will start this project by exploring, through research and outreach, the nature and causes of stakeholder concerns about the reporting of climate-related risks in the financial statements.
11. The outcomes of this project will depend on the causes of stakeholder concerns. This is a maintenance project, so any outcomes will be narrow in scope (for example minor amendments to IASB Standards, limited new application guidance or new illustrative examples).

[IFRS - Connectivity in practice: the IASB's new project on Climate-related Risks in the Financial Statements](#)

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IFRS Foundation: 2022 Annual Report

12. The IFRS Foundation has published [its annual report and audited financial statements](#) for the year ended 31 December 2022.
13. The report lists the NZ contribution of £82,187 on page 93.

IFRS Advisory Council: Update on ISSB's activities

14. The IFRS Foundation is working closely with IOSCO to ensure timely progress towards assessment of S1 and S2, noting that IOSCO can only develop its view to recommend adoption once it had the opportunity to review the Standards when issued.
15. How the ISSB has embedded the industry-based approach used by the SASB Standards in developing S1 and S2. This includes the distinction between a number of sources referenced in the Standards that companies **can** consider for disclosure purposes, as opposed to the SASB Standards that companies **shall** refer to and consider.
16. It was noted that whilst companies shall refer to the SASB Standards, the SASB Standards are not mandatory. Although the SASB Standards have been subject to rigorous due process, they have not been through the IFRS Foundation due process and more time is needed to bring SASB Standards in the ISSB's literature.
17. The Council noted the ongoing work with the EU to identify where there are disclosures on common areas and how the wording of these disclosures can be aligned. It was reported that both parties are hoping to give more clarity on where common disclosures exist in June 2023, ahead of publication of S1 and S2. It was further noted that there is an intention to ensure interoperability with the EU on digital taxonomy, once the common disclosures have been identified.
18. The Advisory Council was advised that the IFRS Foundation should consider how it publicly defines terms like proportionality, interoperability, capacity building and scalability, to ensure they are used in a consistent way that is understood by the public.

[IFRS AC Report February 2023.pdf](#)

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ISSB: Transition relief for IFRS S1 and S2

19. The ISSB met in April 2023 to discuss the transition relief to be provided in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.
20. The full package of reliefs means, for the first year they use the ISSB Standards, companies need not:
  - (a) provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
  - (b) provide annual sustainability-related disclosures at the same time as the related financial statements;
  - (c) provide comparative information;
  - (d) disclose Scope 3 greenhouse gas emissions; and
  - (e) use the Green House Gas Protocol to measure emissions, if they are currently using a different approach.
21. This one-year transition relief would not change the effective date of IFRS S1 and S2 which has been tentatively decided to be for annual reporting periods beginning on or after 1 January 2024.

[IFRS - ISSB decides to prioritise climate-related disclosures to support initial application](#)

IFASS meeting: Connection between financial and sustainability reporting

22. This topic had a number of presenters, with the UKEB staff paper is most relevant to the XRB with a set of connectivity themes identified. The thematic areas identified in the paper include:
  - (a) Differences and connectivity between the IASB and ISSB Standards;
  - (b) Conceptual framework related themes;
  - (c) Assets recognition;
  - (d) Liabilities recognition;
  - (e) Fair value measurement;
  - (f) Disclosures; and
  - (g) Management commentary.

23. Elaborating on some of the identified themes, the presenter proposed that the IASB could either consider developing a separate conceptual framework or the IASB and ISSB could work together to amend the existing one to incorporate sustainability-related definitions and concepts.
24. The presenter noted that the IASB and ISSB had agreed to use the same definition of materiality, but several national standard setters considered it important to ensure that the concept of materiality explicitly clarified this situation, especially as double materiality was already embedded in the EU's sustainability reporting regime, which could be problematic as a number of UK companies would report under both the European and UK frameworks.
25. Responses to polling questions showed that:
  - (a) 95% of participants (95%) considered connectivity between sustainability disclosures and financial reporting to be of high importance.
  - (b) 61% of the participants considered it most appropriate for the connectivity themes to be addressed before the development of new sustainability disclosure standards. A significant minority (29%) considered that this should be done as each new sustainability disclosure standard was developed.

[Meeting summary IFASS January 2023](#); pp 4-6.

#### IASB: Disclosure Requirements

26. As part of the IASB's [Targeted Standards-level Review of Disclosures project](#), the IASB issued a Project Summary and Feedback Statement and summarised the improved approach in [Guidance for developing and drafting disclosure requirements in IFRS accounting standards](#).
27. The IASB decided to use the proposed approach to developing disclosure requirements in future standard-setting activities but decided against doing any further work on the disclosure requirements in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*. XRB staff assisted the IASB on this project with developing the new approach back around 2015.

[Disclosure Initiative - March 2023.pdf](#)

#### UKEB: Accounting for Intangibles: UK Stakeholders' Views

28. UK stakeholders are concerned that IAS 38 is no longer wholly aligned with the principles in the *Conceptual Framework (2018)* and is not reflective of new types of intangibles. UK stakeholders considered that any new approach to

accounting should be principle-based and be able to capture both intangibles that exist today and those that may emerge in the future.

29. More disclosures about intangible assets were identified as a potential improvement to accounting for intangibles. Users called for more granular reporting of expenditure related to individual intangibles (e.g. advertising, training, research). Stakeholders also wanted more qualitative information about intangibles that were integral to a company's business model, or information about KPIs affected by intangibles.
30. Investors appear not to put significant weight on the recognition of intangibles in the balance sheet, as they are not convinced it will always give reliable information. They would rather have detailed disclosures of expenditure on intangibles to allow them to make their own assessment of the potential value that may be created.

[Accounting for intangibles: UK Stakeholders' Views March 2023](#)

[Harvard Law School Corporate Governance Forum: Balancing ESG and key stakeholders](#)

This article looks at ESG in the US from a Director perspective, with a section on ESG Reporting at the end of the article. It suggests that the US SEC will be looking towards enhanced disclosures on human capital after they release climate disclosures this year. The following excerpt looks at the competing challenges of ESG disclosures:

The use of ESG as an umbrella term for so many topics has led to misperceptions and, at times, controversy about whether focusing on certain risks and opportunities violates duties to investors. Activist investors, environmental groups and others have challenged companies to do more to combat climate change. On the other hand, various state attorneys general have raised concerns about how ESG factors, like climate, are used by asset managers in the proxy voting process, by pension plan managers when making investment decisions and in financial institutions' lending to the energy sector. As companies come under greater pressure to provide ESG disclosures, the information they publish and the story they tell has, in some cases, been conflated by some to assume that those companies "have an agenda." This has been an area of concern in some boardrooms.

[What boards should know about balancing ESG critics and key stakeholders](#)

IFAC, AICPA & CIMA Study: Report on ESG Disclosure and Assurance

31. According to a new report from IFAC, AICPA & CIMA (IFAC), the largest global companies continue to show momentum in reporting and related assurance involving ESG issues. However, significant hurdles remain when it comes to providing consistent, comparable, and high-quality sustainability information for investors and lenders.
32. The study finds, that some 95% of large companies reported on ESG matters in 2021, the latest, which is up from 91% in 2019. 64% of companies obtained assurance over at least some ESG information in 2021, up from 51% in 2019. However, the inability to coalesce around agreed upon global standards continues to create challenges.
33. Key findings were:
  - (a) The use of SASB<sup>2</sup> Standards and the TCFD framework has increased significantly between 2019 and 2021, being a 29% increase in SASB Standards usage and a 30% increase in the TCFD framework.
  - (b) While accounting firms conduct more engagements, their market share, 57% of sustainability/ESG assurance engagement, has declined from 63% in 2019.
  - (c) When companies obtained assurance from a professional accountant, they chose their statutory auditor 70% of the time.
  - (d) Globally, the IAASB's International Assurance Engagement Standard 3000 (Revised) remains the most popular standard when providing assurance:
    - (i) 95% of firms providing assurance use ISAE 3000, an increase from 88% in 2019; and
    - (ii) 38% of non-accountant service providers use ISAE 3000, an increase from 34% in 2019.

[The State of Play in Sustainability Assurance | IFAC](#)

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<sup>2</sup> Sustainability Accounting Standards Board.



IOSCO Report on Auditing of Sustainability Disclosures

34. The IOSCO has published a report setting out its vision for a global assurance framework for sustainability-related corporate reporting. This report summarises the insights from IOSCO’s fact-finding work on assurance over sustainability-related information, elaborating on the priority areas for the international assurance and ethics (including independence) standard setters’ consideration highlighted in IOSCO’s September 2022 statement. The report also sets considerations for other stakeholders.

[FR04/23 Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting \(iosco.org\)](#)

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Manifest Climate: What is TNFD and how does it fit into Climate reporting?

35. This article provides an overview of the two frameworks, and explains how the TNFD framework is based on the TCFD framework, see table below:

	Governance	Strategy	Risk Management*	Metrics and Targets
TCFD	Disclose the organization's governance around climate-related risks and opportunities	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	Disclose how the organization identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
TNFD	Disclose the organization's governance around nature-related dependencies, impacts, risks, and opportunities	Disclose the actual and potential impacts of nature-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	Disclose how the organization identifies, assesses, and manages nature-related dependencies, impacts, risks and opportunities	Disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks and opportunities where such information is material
* "Risk & Impact Management" in the TNFD.				

[TCFD vs TNFD: climate and biodiversity reporting frameworks \(manifestclimate.com\)](#)

TNFD: Final Draft of Risk Management and Disclosure Framework

36. The Task Force on Nature-related Financial Disclosures (TNFD) has released the final draft of its Framework which proposes 3 tiers of disclosure metrics being Core Global, Core Sector and Additional Disclosures which relate to the entity's business model and nature-related issues.
37. The TNFD has also adapted the Scopes 1-3 of TCFD to the nature context, being direct, upstream, downstream and financed. The final framework will be published in September 2023.

[TNFD releases final beta framework](#)

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More Task forces on Financial Disclosures

[Task Force on Inequality-related Financial Disclosures \(TIFD\) \(thetifd.org\)](#)

38. TIFD was conceived in 2020 to meet the market need for a systemic risk management framework that can help reduce inequality created by the private sector. TIFD will provide guidance on thresholds, targets, and metrics for companies and investors to measure and manage their inequality-related risks, including a focus on how inequality affects company performance, how inequality contributes to market-wide system-level risks and therefore affects investor performance, and how private sector activity can exacerbate inequality.

[TDFD – TDFD Taskforce on Digital-related Financial Disclosures \(tdfd-global.org\)](#)

39. The TDFD Guidelines are on page 29-39 of the white paper and are based on the TCFD model.

[DESG Whitepaper 11Jan23.pdf \(tdfd-global.org\)](#)

The White House: National Strategy to Develop Statistics for Environmental-Economic Decisions

40. Current national economic statistics measure the U.S. economy in a manner that does not account for the role and value of underlying natural assets, such as land, water, minerals, animals, and plants.
41. The [National Strategy to Develop Statistics for Environmental-Economic Decisions](#) (Strategic Plan) presents a pathway to bring nature into the national economic accounts by developing natural capital accounts supported by

environmental-economic statistics with an emphasis on better data to understand nature's critical contributions to the U.S. economy and to guide policy and business decisions moving forward.

[Biden Administration Releases National Strategy to Put Nature on the Nation's Balance Sheet](#)

AASB: Consultation on simplified accounting requirements for small NFPs

42. The AASB is consulting on its proposals to develop simplified accounting requirements for smaller not-for-profit private sector entities. Comments on the [Discussion Paper](#) are open until 31 March 2023. A 12-page [Snapshot](#) and an online survey are also available.

**Trans-Tasman**

CA ANZ Report: Digital reporting

43. This report by Well, Ghandar and Mehmood provides an overview of what digital financial reporting involves, and the issues requiring redress if digital reporting is to be expanded to corporate reporting more broadly. It also looks at international experiences that provide important insights relevant to the adoption of digital financial reporting, and digital reporting more generally.

[Can Digital Reporting Tame the Corporate Reporting Beast - Report](#)

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**Domestic**

OAG – New Deputy Auditor-General

44. Andrew McConnell has been appointed as the new Deputy Auditor-General by Parliament and commences the role on 1 May 2023. This follows the retirement of Greg Schollum on 30 April 2023.
45. Andrew joins OAG from the Ministry for Primary Industries where he is currently Acting Deputy Director-General Te Uru Rākau – New Zealand Forest Service, having previously been its Deputy Director-General Compliance and Governance and Director Māori Agribusiness. Before this, he held senior roles at the Department of Internal Affairs and the Ministry of Justice. Andrew also worked at the Office of the Auditor-General as a Sector Manager from 2000 to 2010. Andrew's iwi affiliation is Ngāti Porou.

[New Deputy Controller and Auditor-General – OAG](#)

Treasury report: Ngā Kōrero Āhuarangi me te Ōhanga – the Climate Economic and Fiscal Assessment (CEFA)

46. Both climate change itself, and how New Zealand responds to the risks and opportunities it presents will have material economic and fiscal implications. The CEFA report brings together available information on these implications in one document to better inform decisions by government, businesses, communities and households. It adds to a growing body of reporting on climate-related impacts, risks and opportunities.
47. Effectively mitigating and adapting to climate change will require adaptability and flexibility on the part of both decision-makers and the economy as a whole. The greater the ability of the economy and decision-makers to recognise and act on opportunities to reduce net emissions or adapt to the physical impacts of climate change in a timely way, the more efficient the overall climate response, with benefits for aggregate economic growth and broader wellbeing. For example, the more effectively the economy reallocates resources and adopts productivity-enhancing technologies and practices, the more resilient New Zealand's economy is likely to be, and the smaller the impact on GDP.
48. Māori are especially vulnerable to impacts from the transition to a low-emissions economy and the physical risks of climate change. Māori are over-represented among low-income households and account for around 23% of the workforce in emissions-intensive industries (compared to being 17% of the national population). However, a number of businesses in the Māori economy are likely to be well placed to leverage economic opportunities from the transition (for example, expanding businesses that are already low-emitting, such as in forestry and low-emissions horticulture).

[Ngā Kōrero Āhuarangi Me Te Ōhanga: Climate Economic and Fiscal Assessment 2023 \(treasury.govt.nz\)](https://www.treasury.govt.nz)

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Scientific Report on February 2023 Floods in the North Island caused by Cyclone Gabrielle

49. Although the report was very technical, the graphic below shows the impacts of the floods across the community, and its effect on various sectors of the

economy. It is a good example of the wide-ranging effects of one weather event attributed to climate change.

[Scientific report New Zealand Floods.pdf \(imperial.ac.uk\)](#)

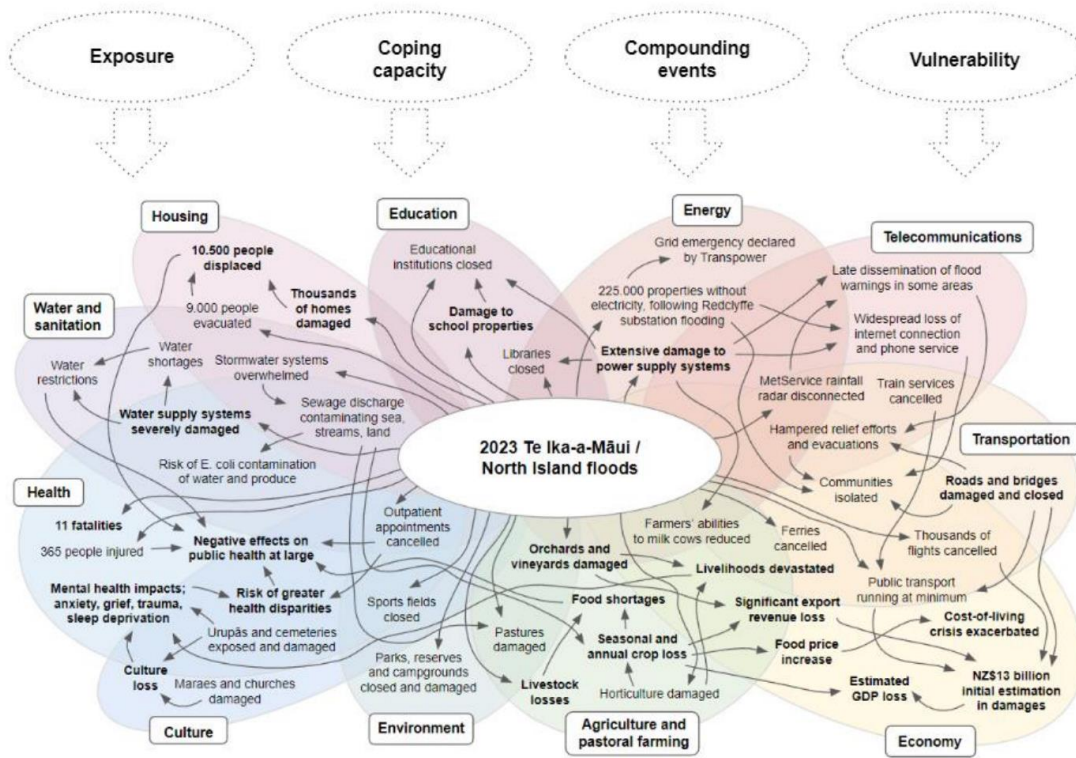


Figure 15. Impacts pathways among sectors affected by the 2023 Te Ika-a-Māui floods. Exposure, vulnerability, coping capacity and compounding events make out the context in which the flooding occurred and shape the disaster risk along with the main hazard subject to the study's attribution analysis. Long-term impacts are emphasised in bold.

KPMG: 2022 Review of NZ Banking Sector

50. 2022 was a profitable year for the Banking Sector, as shown in Table 1:

Table 1: Largest 2022 increases in Net Profit after tax (NPAT) for NZ Banks:

	Bank	NPAT \$m	% Increase in NPAT	\$m Increase in NPAT
1.	ANZ	2,299	19.8%	380
2.	Westpac	1,298	22.8%	241
3.	ASB	1,453	15.59%	196
4.	BNZ	1,414	6.96%	92
5.	Rabobank	209	72.51%	88

51. Comments from John Kensington, KPMG Head of Banking and Finance:

*The banks have enjoyed a very good year, on the back of controlled loan growth and margin expansion. They have positioned their businesses to benefit in a rising interest rate market, and their prudent lending policies have continued to allow them to report very low loan losses.*

*All banks understand that the next two years are going to be difficult, and that they have a very important role to play to help customers through these times, demonstrating their social licence as they use their strength to assist their customers.*

*From a bank profit point of view, going forward we do expect to see flatter earnings and higher impairment growth than we've seen for some time.*

[FIPS Banks: Review of 2022 - KPMG NZ](#)

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Simpson Grierson: Greenwashing trends and risks

52. Greenwashing is a term used to refer to marketing that conveys a false or misleading impression about the “green” or ESG credentials of a service, product or organisation. Some common examples include: “net zero carbon”, “environmentally friendly”, “ethically sourced”, “100% recyclable”, “locally sourced”, “fair trade”, or “ethical investments”.
53. Businesses advertising their ESG credentials need to ensure that any ESG claims can withstand scrutiny, whether legal, regulatory, or reputational. Otherwise they can face significant fines or penalties, and reputational damage. A common risk area is claims which are technically correct but give a misleading overall impression of the company’s practices and operations.
54. This article summarises the acts that NZ entities can be charged under, recent litigation and trends in “going clean and green”.

[The ESG Laundromat: Greenwashing Trends and Risks - Simpson Grierson](#)

IJA<sup>3</sup> – Research by Gina Xu and Cherrie Yang: Service performance assurance for small NZ charities

55. This study investigates small charities' assurance practices based on an analysis of the performance reports of 120 Tier 3 registered charities audited by 54 different professional accountancy firms.
56. The research found that small charities showed a high level of compliance with mandatory service performance reporting and assurance requirements. However, these charities made varied efforts to report service performance, ranging from clear performance measures aligned with specific outcomes to vague outcomes with insignificant, irrelevant, and insufficient outputs. Regardless of good or poor reporting, auditors/reviewers seemed reluctant to issue qualified reports unless for financial reasons.
57. The phrase 'to the extent practicable' [paragraph 41(b) of PBE FRS-A] allows charities and auditors to legitimately justify the limited quantifiable outputs disclosed, which, unfortunately, results in a minimum level of disclosure from some charities trying to reduce assurance costs and avoid potential scrutiny from stakeholders.

[Service performance assurance for small charities: Experiences from NZ](#)

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KPMG Taxmail: GST and Directorships

58. This article covers the recent IRD ruling and makes the following comment about deregistration for GST:

Inland Revenue has also released an Operational Statement to provide guidance on correcting GST positions previously taken. The good news is that it confirms that directors who have incorrectly registered for GST will not have to retrospectively de-register. However, they will be required to de-register by 30 June 2023. And, on deregistration, they may need to return GST on the market value of any goods and services that were acquired for use in providing directorship services that are still in use.

[Directorships - GST Update - KPMG New Zealand](#)

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<sup>3</sup> International Journal of Auditing.

CA ANZ: Updated NZ reporting guidance for Not-for-Profit Entities

59. This high-level guide was released in April 2023 and covers what is a not-for-profit entity, the reporting tier structure, legislative requirements and has some illustrative examples of the reporting requirements.

[Guidance for not for profit reporting in New Zealand | CA ANZ](#)

FMA: Guidance and expectations for keeping proper accounting records

60. This document provides guidance to help entities meet their statutory requirement to keep proper accounting records, and to address emerging and persistent issues in financial reporting such as insufficient accounting records around consideration of materiality assessment or significant judgements and critical accounting estimates.

[Guidance and expectations for keeping proper accounting records | FMA](#)

Opinion – Chris Findlayson: Co-governance

61. Chris Findlayson, Attorney-General and Minister for Treaty Negotiations under the last National Government has reflected on co-governance and suggests it instead be called “Treaty partnership”.

“Co-governance” has become a term that people don’t understand. They think it means co-government.

People who are frightened by co-governance think they’ll be locked out of access to our natural resources, for example. When what it really means is that involving iwi in a myriad of decisions can actually result in a better country.

[Chris Finlayson: Co-governance should be embraced – not feared - E-Tangata](#)

COFR<sup>4</sup>: Regulatory Calendar

62. This calendar is published quarterly and covers RBNZ, FMA, MBIE, Commerce Commission, and Treasury. It provides early notice of upcoming consultations by its members, notably there are a few in the climate space.

[Regulatory Initiatives Calendar q4-2022.pdf \(cofr.govt.nz\)](#)

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<sup>4</sup> Council of Financial Regulators.



# NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 3.1  
**Meeting date:** 7 June 2023  
**Subject:** GHG Assurance  
**Date:** 25 May 2023  
**Prepared By:** Anna Herlender, 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 for the Board is to approve changes to the draft standard NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures.

**Background**

2. The Board considered the main issues emerging from the feedback received during the consultation on the Exposure Draft NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures during April 2023 meeting. The Board agreed:
  - To continue with the approach to allow use both standards ISO 14064-3:2019 and ISAE (NZ) 3410;
  - To retain principles-based approach for ethics and quality management requirements;
  - To develop additional guidance on specific questions and concerns that we heard relating to ethics and quality management (as opposed to comprehensive guidance replicating PES 1 and PES 3);
  - To retain the key matters requirement and to explore how to minimise the risk of widening users' expectation gap in limited assurance engagements;
  - To add principles regarding continuous learning and sufficient time to complete the engagement;
  - To obtain more understanding about validation conclusion used by ISO practitioners;
  - To consider adding more guidance regarding reliance on work of others.
3. Staff considered all comments included in the submissions and informal feedback received up to date.
4. All formal submissions are posted on XRB website: [link to submissions](#). The feedback received during our discussions with stakeholders, including informal feedback received, was included in agenda item 5.1 of April 2023 meeting.
5. After considering all the comments received, staff developed recommended changes to the Exposure Draft taking into consideration the Board's guidance received during the April 2023 meeting.

6. Marked up version of the draft standard with the proposed changes is included in agenda item 3.4 (supplementary pack).

A clean version of the draft standard NZ SAE 1 is included in agenda item 3.3.

### **Matters to Consider**

7. Key matters for the Board to consider and suggested changes to the standard are further explained in the Issues Paper in agenda item 3.2.
8. An analysis of comments included formal submissions, that are not discussed in the Issues Paper, is included in agenda item 3.5 (supplementary pack) for the Board's information.

### **Recommendations**

9. The current standard setting policy of the NZAuASB is laid out in EG Au2 Overview of Auditing and Assurance Standard Setting Process. This policy recognises that the NZAuASB issues two types of standards: standards based on international standards developed and issued by two international standards-setting bodies, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) and domestic standards.
10. We acknowledge that this standard represents an exception to the current XRB policy in that it requires compliance with an international standard issued by the IAASB or cross refers to an ISO standard. It does not adopt the IAASB's quality management standard or the IESBA's ethical requirements. This standard is a temporary domestic standard that has been drafted to detail the assurance practitioner's responsibilities only when conducting an assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions (GHG) as required by the Financial Markets Conduct Act 2013 (the Act) that are subject to mandatory assurance. This standard refers to two international standards ISO 14064-3:2019 and ISAE 3410 that can both be used to provide assurance on the full GHG inventory that forms the basis of the GHG disclosures required by the XRB issued standard Climate Standard 1 and the Act and layers on requirements above these two international assurance standards. It is designed to fill a gap until more is known about the oversight and licensing regime and whether the scope of mandatory assurance will expand to the full climate statement.
11. Considering this, we recommend that the Board consider whether staff's proposed solutions are appropriate as explored in the issues paper and updated draft of NZ SAE 1. If so, we will prepare a signing memorandum following this meeting to capture the due process followed.

### **Material Presented**

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Issues Paper
Agenda item 3.3	NZ SAE 1 Clean Version
Supplementary Agenda items	
Agenda item 3.4	NZ SAE 1 Marked up Version
Agenda item 3.5	Analysis of remaining comments

## NZAuASB Board Meeting Issues Paper

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<b>AGENDA ITEM NO.</b>	3.2
<b>Meeting date:</b>	7 June 2023
<b>Subject:</b>	GHG Assurance Issues Paper
<b>Date:</b>	25 May 2023
<b>Prepared By:</b>	Anna Herlender, Karen Tipper

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### Structure of this paper

1. This Issues Paper includes the main matters emerging from the feedback received during the consultation process and staff recommendations about how to address them. These have been grouped as follows:
  - Consideration of feedback on concepts included in the published Exposure Draft that do not result in changes to the draft standard;
  - Discussion of identified issues that result in changes to the draft standard; and
  - Discussion of new considerations raised in submissions where staff do not recommend changes to the draft standard.
2. The remaining comments, not included in this Issues Paper, are included in the agenda item 3.5 in the supplementary pack.

### Main themes that do not result in changes to the draft standard

3. The main themes resulting from the consultation were presented to the Board in April 2023. They included two commonly raised concerns:
  - Allowing application of both international standards ISO 14064-3: 2019 and ISAE (NZ) 3410
  - Not requiring compliance with PES 1, PES 3 and PES 4.
4. The views on the above points were mixed and we considered stakeholders views supporting and against the approach included in the Exposure Draft. We also acknowledge that some stakeholders expressed a need for a review of the effectiveness of this standard in 2-3 years. Some supported the standard on the basis that it is a temporary standard. There was a strong theme requesting alignment with international standards once they are developed.
5. When evaluating the feedback received, we have considered requiring compliance with other ISO standards, for example 14065 (ISO standard covering requirements for assurance organisations that validate or verify environmental information) or 14066 (ISO standard covering competency

requirements for GHG verification and validation teams). However, upon further analysis we concluded that these standards include information other than quality management and ethical considerations and it would be unreasonable to expect ISO assurance practitioners to comply with these additional requirements for the purposes of this narrow scope assurance engagement.

6. Overall, we recommend no change to the draft standard is made with regard to the approach taken in relation to applicable standards and explicitly not requiring compliance with PES 1, PES 3 and PES 4 but we have added additional requirements and application material into the standard to support the ethical and quality management principles and we are also working on non- authoritative material to promote consistent application of these principles.
7. The basis for conclusions will explain that the above approaches should allow all competent assurance practitioners to perform the GHG disclosure engagements.

### Identified issues resulting with recommended changes to the standard

8. Below, the main issues that resulted with changes to the draft standard following the consultation process are explained.

### Commencement and application date

9. The commencement and application date wording has been aligned to the mandatory agreed wording.
10. We have signalled to all stakeholders that this is a temporary standard with a finite life. However, we still do not have sufficient information to indicate the end date. Given the importance of signalling the temporary nature of the standard, we recommend including a paragraph that indicates that the standard will cease upon amendments to the scope of mandatory assurance of climate statements in Financial Markets Conduct Act 2013. (Para 4)
11. An alternative would be to remain silent in the standard on this end date and to be clear in communication around the standard that the temporary nature of the standard remains our intent and will be determined when we know more.

<p>12. <b>Does the Board agree with the wording included in the draft standard to indicate that the standard will be withdrawn when the new mandatory regulatory regime comes into place?</b></p>
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### Definitions

13. Upon analysis of the feedback on definitions included in our standard we recommend the following changes:

#### *Assurance practitioner*

- Remove from the definition the words “independent and competent”. We believe that an assurance practitioner who follows the requirements of the draft standard will be independent. Regarding competency, we believe that this is the responsibility of the engagement leader to determine that the team has the required competency. (Para 7(d))

- Clarified the difference between assurance practitioner (anyone on the team) and engagement leader (assurance practitioner taking responsibility for the engagement and the report). (Para A2)

#### *Fraud*

- Upon consideration of feedback on management bias and fraud we recommend adding an additional section relating to fraud (see details in this issues paper below, paragraph 41). As fraud is not defined in ISO 14064-3:2019, we recommend adding the definition to our standard for clarity purposes. (Para 7(f))

#### *Assurance team and engagement team*

14. Some submissions raised concerns at the lack of “assurance team” and “engagement team” definitions. Given that the terms were only used a limited number of times in the Exposure Draft, we replaced the wording in the draft standard with plain English explanations.

#### *Other considerations*

15. There have been adjustments through the draft standard, which relate to the use of the defined terms in the appropriate context (for example several changes from assurance practitioner to engagement leader or assurance organisation).

16. <b>Does the Board agree with our recommendations regarding additions to the definitions?</b>
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### Ethical and Independence Requirements

#### *Independence in appearance*

17. Some feedback recommended that the independence definition, in Para 10 (a), specifically address independence in appearance.
18. The draft standard explains that independence comprises independence of both mind and in appearance in the application material (Para A7). This follows the approach in PES 1, where an explanation of independence in appearance is included in application material. The draft standard also addresses independence in appearance in Para 14 (third party test applied to conditions and relationships).
19. We propose one tweak to the wording of the independence definition to add freedom from conditions or relationships that “could be seen to compromise” integrity or objectivity (Para 10 (a)) to emphasise the importance of independence in appearance.

#### *Public interest*

20. Comments were raised that the standard could include more regarding the public interest function that assurance providers have. As this is an important aspect of assurance, we recommend adding application material and to link this to professional behaviour. (Para A8 and A9)

#### *Safeguards*

21. ISO standards do not provide specific guidance regarding possible safeguards to apply to decrease threats to fundamental principles. We reviewed examples of safeguards included in PES 1 and added

the following to the application material of the draft standard, recognising the level of public interest in climate reporting entities:

- Paragraph explaining what actions assurance practitioner can take to eliminate or reduce threats with one of the possible actions being application of safeguards (Para A13);
  - Examples of safeguards (Para A14);
  - What to do if safeguards are not available to reduce threats in relation to providing other services (Para A15 and A16).
22. Additionally, we recommend adding a clarification that safeguards are not capable to eliminate or reduce a self-review threat to an acceptable level. We recommend placing this clarification in the application material regarding self-review threat. (Para A18)
23. The clarification that safeguards are not capable to eliminate or reduce a self-review threat to an acceptable level is modelled on PES 1 para 600.15 A2 which applies to public interest entities (PIEs). This aligns with the requirement in paragraph 15 in the draft standard (self-review threat prohibition), which is built on PES 1 para R600.16 (which also applies to PIEs).

#### *Areas of FAQs*

24. A lot of feedback recommended more guidance relating to ethics. This matter was discussed by the Board in April 2023. It was agreed that “guidance light” material addressing specific concerns would be preferred. We propose that staff develop specific guidance after the approval of this standard. Based on the comments received from the stakeholders so far, the guidance could cover the following ethics related matters:
- Examples of conditions and relationships that might create threat to independence, with links to independence in appearance;
  - Self-interests threats examples and how to address the threats;
  - Familiarity threats examples and how to address the threats;
  - Advocacy threat examples and how to address these threats;
  - What constitutes conflict of interests and how to manage them;
  - Examples of business or personal relationships that might create threats to independence;
  - Explain how the self-review threat prohibition is a very high bar and that it cannot be eliminated by performing work on the same client by different teams (e.g., assurance work and advisory work carried out by the same company on the same client would be prohibited under the self-review threat);
  - Explicit encouragement to seek more guidance in PES 1, PES 3 and PES 4, if a matter is not covered by NZ SAE 1;
  - What to consider when the GHG assurance is provided by financial statement auditor; and
  - Things to think about if providing advice on the broader climate statement.

25. <b>Does the Board agree with the changes in relation to ethics and independence?</b>
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#### Competence

26. Although our intention was to give equal weighting to competences in assurance and competencies in GHG measurement/GHG subject matter expertise, some commentators raised concern that they

were not equally weighted in our draft standard. We have made some wording changes to align our requirements closer to ISAE (NZ) 3410 requirements. (Para 22)

27. To further signal the same weight on assurance and GHG measurement and reporting skills, we added further details to the examples of assurance skills in the application material. (Para A30)
28. We agree with the comments that continuous learning and keeping up to date with developments in GHG emissions knowledge will be very important. Accordingly, we added a relevant paragraph in the application material. (Para A33)
29. We also agree with the feedback that it is important to allow sufficient time to complete the assurance engagement over GHG disclosures, because the measurement of certain GHG emissions, including Scope 3 value chain emissions, could be complex in some sectors. Accordingly, we added a relevant paragraph in the application material. (Para A34)
30. We considered comments requesting more prescription regarding competencies (for example minimum number of hours spent on similar engagements). We believe that our standard should remain principles based. Any detailed competency requirements may be more suitable for the scope of the licencing regime. Therefore, we do not recommend adding detailed competency requirements.
31. Concerns were raised about the clarity of the term “sufficient” in relation to engagement competencies. Paragraph 21 requires sufficient competence by the engagement leader to accept responsibility for the assurance conclusion. As the complexity of an assurance engagement over GHG disclosures might differ, the level of competence that is sufficient will differ and will be ultimately determined based on the professional judgment of the engagement leader. This topic is discussed by Extended External Reporting (EER) Assurance Guidance. We propose to issue FAQ and direct the readers to relevant paragraphs of EER.

<b>32. Does the Board agree with the changes in relation to competence?</b>
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### Use of the work of others

33. Many submissions asked for more prescription regarding the use of the work of others, including a distinction between internal expert, external expert, management expert and assurance expert. To avoid adding complexity to the draft standard we do not recommend including a definition of any type of expert.
34. Analysing the feedback received during the consultation process, we considered that it would be appropriate to include requirements relevant to the use of individuals or organisations who have specialised expertise in matters related to GHG emissions. Therefore, we recommend rewording the requirements to add an additional requirement to determine the scope, nature and objective of the expert’s work. This approach provides a logical overview of the process an assurance practitioner shall take when they use the work of others and we believe it will be profession agnostic. (Para 23)
35. Regarding use of management’s experts, we recommend including a paragraph in the application guidance that states that the similar process can be followed for all individuals or organisations, irrespective of how they are engaged. (Para A38)
36. We also note that assurance work may be performed by other assurance practitioners (separate from the GHG assurance provider) for specific management purposes. In such situations, the GHG

assurance practitioners may end up using the work of other assurance practitioners. We recommend including a paragraph to outline additional requirements, where these are different to the use of work of other experts. (Para 24)

37. Regarding comments asking for further details, we considered that only two additional clarifications would be most relevant for the draft standard:
- That engagement leader has sole responsibility for the assurance conclusion, regardless of the use of work of others (Para A35).
  - What other work might be done, if the assurance practitioner determines the work of others is not adequate (Para A37).
38. Based on feedback received, we recommend rewording “reliance on the work of others” to the “use of the work of others”. We believe this wording highlights that the assurance practitioner takes responsibility for adequacy of the work of others as assurance evidence.
39. Recognising feedback asking for more guidance from ISAE (NZ) 3000, we recommend publishing the following FAQs:
- Pointing assurance practitioners to relevant guidance from ISAE (NZ) 3000 and relevant areas of ISO 14066 (competency) for further guidance.
  - Including considerations if assurance practitioner wants to refer to work of others in the assurance conclusion as in ISAE (NZ) 3000 Paragraph A187.

40. <b>Does the Board agree with the changes regarding use of the work of others?</b>
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### Management bias, fraud and non-compliance with laws and regulations

41. We recommend changes to the management bias wording and adding some additional application guidance. This is in recognition of comments received that consideration of management bias is an important aspect in this regime. (Para 25 and A39 – A40)
42. Further reflecting on the comments relating to management bias, we have considered explicitly including fraud considerations. Fraud is not identified specifically in ISO 14064-3:2019, although the standard talks about intentional misstatements. To ensure consistency of the assurance procedures regarding risk of fraud in GHG disclosures, we recommend additional paragraphs relating to fraud. (Para 26-29 and A41– A42)
43. We also considered comments about including requirements regarding the assurance practitioner’s responsibilities if they become aware of non-compliance with laws and regulations (NOCLAR). As this is recognised in ISO 14064-3:2019 but not further explained, we recommend adding possible actions that shall be taken by the assurance practitioner. (Para 30 and A43)

44. <b>Does the Board agree with the additions relating to fraud, changes to the management bias paragraph and additions relating to NOCLAR?</b>
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### Comparative information

45. The wording in the exposure draft created confusion regarding material misstatements in comparative information.



46. ISAE (NZ) 3410 paragraph A118 explains: *“A key difference between financial statements and a GHG statement is that the amounts presented in a GHG statement measures emissions for a discrete period and are not based on cumulative amounts over time. As a result, the comparative information presented does not affect current year information”*. We note that uncorrected misstatements in comparatives impact comparability of information presented. Aotearoa New Zealand Climate Standards require presentation of GHG disclosures for two preceding years (with some exceptions for the first years of the standards application).
47. We recommend that the draft standard follows the approach outlined below in respect of uncorrected material misstatements in comparative information:
- If the comparative information was not assured, the assurance practitioner shall include Other Matter paragraph in the assurance report; or
  - If the comparative information was assured, the assurance practitioner qualifies the assurance conclusion in respect of the comparatives (due to possible issues with comparability of the disclosures between the periods presented in the climate statement).
48. The proposed wording is included in paragraph 32 (b)(i) and (ii) of the draft standard.
49. Additionally, we recommend that application material encourages an assurance practitioner to include an Emphasis of Matter paragraph in the assurance report, if the comparative information has been properly restated and appropriate disclosures were made. (Para A45)
50. To address feedback received, we also recommend requiring an Other Matter paragraph if the comparative information was assured by an assurance practitioner from another assurance organisation (Paragraph 34 in the draft standard). We consider that this requirement will add transparency to the assurance work.
51. Due to the fact, that Aotearoa New Zealand Climate Standards require comparatives for two periods, we consider it to be useful for assurance practitioners to include clarification in the application material that comparative information includes information for all prior periods required by NZ CSs (Para A44).
52. We recommend addressing the remaining comments on comparative information through FAQs, including clarification:
- On work effort required in relation to comparative information if comparative information is unassured;
  - On work effort required when material misstatement in comparative information is identified;
  - That unassured comparative information might occur in the second year of climate statements prepared by climate related entities, if they decide to include GHG information in the first-year climate statements; and
  - That other matter paragraphs might be used to communicate by the assurance practitioner that comparative information was assured to a different level of assurance.

53. <b>Does the Board agree with the recommended changes relating to comparative information?</b>
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## Other information

54. Feedback suggested that more guidance is required on what constitutes “other information”. This is a complex area given the possible variation (i.e., in the scope of the GHG assurance engagement, and where a climate reporting entity reports its climate statement). We recommend that non-authoritative guidance is developed separately for this topic.
55. Submissions also requested more guidance about what actions should be taken when inconsistencies or misstatements are identified. As there are different scenarios to consider, we propose to respond to this request in the FAQs.

<b>56. Does the Board agree that no further changes are included in relation to other information?</b>
--

## Reporting requirements, assurance conclusions and illustrative reports

### *Communication tools*

57. We acknowledge that many stakeholders asked for more guidance regarding Key Matters, Emphasis of Matter, Inherent Uncertainty Statement and Other Matter paragraph. We have launched an [animation video](#) to introduce these terms. We recommend that we consider more guidance, by issuing FAQs, when more examples or specific concerns are known. At the current stage we identified that a FAQ on Inherent Uncertainty could be useful.
58. Staff further considered the feedback that Key Matters might be inappropriate for limited assurance engagements. At the April 2023 meeting the Board discussed what could be done to prevent this perceived expectation gap, which included changing the name of Key Matters. Upon further reflection on the feedback received from the stakeholders, it seems that despite changing the name, this communication tool will be always compared to Key Audit Matters used in financial statement audits. Therefore, instead of changing the name, we recommend preparing guidance targeted at users to explain what to expect from communication tools including Key Matters and to highlight the differences between Key Matters, Emphasis of Matter, Other Matters and Inherent Uncertainty.
59. We considered the feedback that there are no actual requirements regarding the Other Matter paragraph, other than a mention in comparative information section. We propose to introduce requirements for an Other Matter paragraph. (Para 46 and 47)
60. We also recommend moving the encouraged disclosures of materiality and qualification and experience of the engagement leader and others involved in the engagement to application material, as examples of other matters. (Para A46)

### *Other communication responsibilities*

61. The communication of applicable standards, including professional or accreditation standards created some confusion. We recommend a requirement that states clearly that the assurance report shall identify standards applied to the assurance engagement (which will be NZ SAE 1 and either ISAE (NZ) 3410 or ISO 14064-3:2019) and standards that are applied at assurance organisation level and assurance practitioner level (which might be PES 1, PES 3, PES 4, ISO 14066, ISO 14065 and ISO 17029 etc). (Para 49)

### *Assurance conclusions*

62. Almost all stakeholders expressed concerns on possible differences in assurance conclusions resulting from the fact that the wording for assurance conclusion might differ for future oriented information under the ISAE (NZ) 3410 and ISO 14064-3:2019 standards, as future emissions need to be validated under ISO 14064:3-2019. We heard this concern and have explored this with ISO practitioners and standard setters to see whether we can align the wording. Overall, we confirmed that we cannot align the wording and that there will be differences in the wording of the assurance conclusion if ISO practitioners include validation within their conclusions.
63. We do not wish to interpret the ISO standards and we do not want to create a situation where the XRB is requiring a practitioner to breach the requirements of the underlying assurance standard that the draft standard requires compliance with.
64. To respond to the concerns on the differences in assurance conclusions, we recommend guidance material targeted at users of assurance reports. This guidance would illustrate the spectrum of assurance between reasonable and limited assurance, including ISO “validation” conclusions.
65. Currently assurance practitioners applying ISAE (NZ) 3410 and ISO 14064-3:2019 have sufficient clarity regarding their assurance conclusions wordings. We recommend removing the examples of assurance conclusions from the draft standard, as these examples do not provide more clarity or guidance than what is currently in the applicable standards.

<p>66. <b>Does the Board agree with the recommended changes relating to reporting requirements and assurance conclusions?</b></p>
---

### Documentation requirements

67. In considering feedback highlighting the importance of documentation requirements, we have compared relevant ISO 14064-3:2019 and ISAE (NZ) 3410 requirements. Overall, we conclude that the area covered by the documentation would be similar under both standards. However, we agree that it would be helpful for ISO practitioners to highlight the concept of the assurance documentation included in XRB assurance standards that assurance documentation should enable an experienced assurance practitioner to understand the procedures performed, evidence obtained, and conclusions reached. Similarly, it is important to highlight the importance of timely documentation. We recommend adding these aspects to our standard for transparency purposes. (Para 53 and 54)
68. Comments raised that application of professional scepticism should be emphasised. We note that professional scepticism is covered by ISAE (NZ) 3000 but not by ISO 14064-3:2019 (as this is covered in ISO 14066-2011). Those applying ISAE (NZ) 3410 will be complying also with ISAE (NZ) 3000. For those applying ISO 14064-3:2019, we have included professional scepticism in our standard as part of the requirements relating to fraud (Para 26).
69. We also considered if additional requirements regarding the retention of assurance files are relevant. Overall, we believe that assurance practitioners would include retention as part of their quality management system. We have added that the assurance documentation shall be prepared on a timely basis and retained for a period in line with the firm’s quality management system. (Para 54)

<p>70. <b>Does the Board agree to add the recommended documentation requirements?</b></p>
---

## Quality management

71. Many submissions queried the sufficiency of the quality management requirements in the exposure draft. Reflecting on these comments, we have identified additional areas that might be useful for overall understanding of how the quality management system should be designed and documented. We recommend adding:
- That the design and implementation of the risk assessment process should be done through “exercising professional judgement, taking into account the nature and circumstances of the assurance organisation and its engagements”. (Para 57)
  - Description of the areas that should be covered by the risk assessment process. (Para 58)
  - What should be taken into account in the monitoring and remediation process. (Para 60)
72. Overall, we recommend that the requirements in the standard are high-level requirements, in recognition that assurance organisations undertaking GHG assurance engagement would already have quality management systems set up under either PES 3 or those applicable to ISO practitioners.
73. Many comments pointed out that the exposure draft does not include application material on quality management. Due to the fact, that the comments were usually high level and did not relate to specific concerns, we recommend that no application material is added at this stage. If we become aware of specific problems, we would be able to add relevant guidance to FAQs.

<b>74. Does the Board agree with the additions to system of quality management?</b>
---

## Independent reviewer

75. We recommend the change of the wording to from Independent Reviewer to “Quality Reviewer” to further signal the role of the reviewer in ensuring high quality assurance engagement.
76. We recognise that the scope of the review required for the “quality reviewer” in the draft standard is broader than in PES 4. PES 4 requires the engagement quality reviewer to exercise professional judgement in identifying what to review and the review is focused mainly on significant judgements. We consider that it is important in this new regime, that the quality reviewer evaluates other aspects of the assurance engagement, therefore the requirements in the proposed standard are aligned with requirements included in ISO 14064-3:2019. (Para 68)
77. In responding to the feedback requesting definition and more details on quality reviewer, we recommend clarifying the following:
- That quality reviewer is required for all GHG assurance engagements (Para 66);
  - Competency and independence of the quality reviewer should be the same as of the engagement leader (Para 69); and
  - The quality reviewer shall have sufficient authority and sufficient time to complete the review. (Para 69).
78. Further reflecting on request for a definition of a quality reviewer, we considered how to communicate that our intention was that assurance organisations follow their usual processes for appointment of a reviewer. In the case of ISO practitioners, it would be Independent Reviewer meeting requirements of ISO 14064-3:2019, in case of assurance practitioners following ISAE, this

would be engagement quality reviewer as in PES 4. We recommend including this clarification in FAQs.

79. Some comments in the submissions noted that the draft standard should include requirements regarding timely review. We note that similar requirements are both in ISO 14064-3:2019 and in PES 4. We considered that this requirement is sufficiently covered by PES 4 and ISO 14064-3:2019 and the requirements in the draft standard (Para 70).

<b>80. Does the Board agree with the additions to the quality reviewer section?</b>
---

### Illustrative reports

81. There have been many requests for more illustrative reports. Some requested that illustrative reports should be mandatory for everyone to include the same wording to ensure consistency. Some asked for illustrative reports catering for different circumstances: unqualified, qualified, adverse opinions. Some asked how specific requirements of the draft standard interfere with illustrative reports included in ISAE (NZ) 3410. There were also requests for illustrative reports for mixed level of assurance. After considering all the comments, we believe that it is impractical to develop illustrative reports for all possible circumstances, especially considering the short life of this temporary standard.
82. Adding all of these in the standard would also make the standard significantly longer.
83. We recommend that no mandatory illustrative report is developed or attached to the standard. We have therefore deleted the illustrative report that were included in the ED. Instead, we recommend developing only parts of illustrative reports that address specific concerns raised and to do so in non-authoritative guidance. So far, we identified that guidance on an assurance report that includes mixed levels of assurance would be useful for assurance practitioners.

<b>84. Does the Board agree that mandatory illustrative reports are not included in the standard?</b>
---

### Comments raised in submissions resulting with no recommended changes to the draft standard

#### Written representations

85. Written representations are required by ISAE (NZ) 3410 but not required by ISO 14064-3:2019. We have considered if the standard should require mandatory written representations. We noted that:
- Written representations should not replace audit evidence; therefore they do not impact the extent of, and design of procedures performed and conclusions reached;
  - If we would require this for the ISO practitioners, this would be accompanied by comprehensive guidance to explain why it is required, but at the same time why assurance practitioners cannot place reliance on the representations to the same extent as sufficient audit evidence;
  - To make the requirement for written representation equal to what is required under ISAE (NZ) 3410 would result with unproportional length of this requirement in comparison to other requirements in our standard; and
  - Written representations are considered to be more akin to risk management tools for assurance practitioners to ensure that the management and those charged with governance provide relevant formal acknowledgments.

86. We concluded that it is not necessary to require ISO practitioners to obtain written representations. We recommend not including written representations into the standard.

87. <b>Does the Board agree that written representations are not required in the standard.</b>
--

### ISO referencing

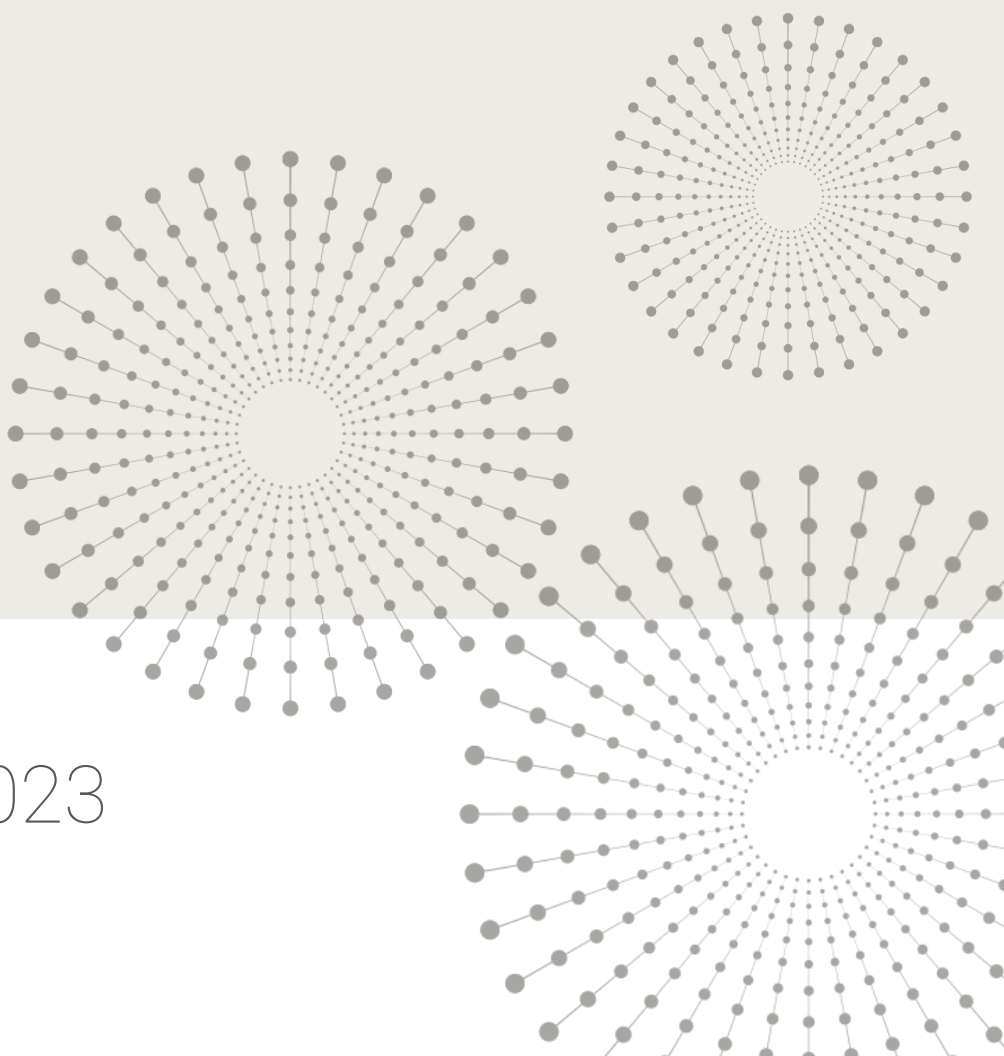
88. We have further investigated if cross referencing to an ISO in the standard complies with section 64(1) Legislation Act 2019 and is “otherwise appropriate” and complies with principles of good law making.
89. The XRB must do the following to meet the requirements of section 64 and Schedule 2 of the Legislation Act:
- give public notice that the standard incorporates ISO 14064-3 by reference, and state in the public notice how ISO 14064-3 is publicly available (clause 2(a))
  - provide information on the XRB website about how to purchase ISO 14064-3 (clause 3(1)(b)).

We recommend that we can retain this cross reference for the purposes of the temporary standard but recognise that this is not a long-term solution and continue to explore alternatives.

# Assurance Engagements over Greenhouse Gas Emissions Disclosures

Commencement and application date: refer to **XXX**

Issued July 2023



# NZ SAE 1 ASSURANCE ENGAGEMENTS OVER GREENHOUSE GAS EMISSIONS DISCLOSURES

## Legal status of Standard

This Standard was issued on [date] 2023 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board (XRB) pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019. An assurance practitioner, 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 A.

This Standard has been issued to be applied by an assurance practitioner when conducting an assurance engagement for the parts of the climate statements relating to greenhouse gas emissions (GHG) required by the Financial Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.

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# NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

## Commencement, Application and Cessation

### When standard takes effect (section 27 Financial Reporting Act 2013)

1. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019<sup>1</sup>.

### Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

2. The accounting periods in relation to which this standard commences to apply are, —
  - (a) for an early adopter, those accounting periods following, and including, the early adoption accounting period;
  - (b) for any other assurance practitioner, those accounting periods that commenced before, but ends on or after 27 October 2024 or accounting periods that commence on or after 27 October 2024.

3. In paragraph 2—

**early adopter** means an assurance practitioner that applies this standard for an early adoption accounting period.

**early adoption accounting period** means the accounting period of the climate reporting entity—

- (a) that begins before 27 October 2024 but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- (b) for which the early adopter—
  - (i) first applies this standard in an assurance engagement; and
  - (ii) discloses in the assurance report for that accounting period that this standard has been applied for that period.

### Accounting period in relation to which standards cease to apply (section 28 Financial Reporting Act 2013)

4. This standard shall be revoked if and when the scope of mandatory assurance required by the Financial Markets Conduct Act 2013 is amended.

## Scope

5. This standard deals with the assurance practitioner's responsibilities when conducting an assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions (GHG) required by the Financial Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.

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<sup>1</sup> The standard was published on [date].

6. This standard does not set requirements, or provide guidance, for assurance engagements over the whole, or other parts, of the climate statements. (Ref: Para. A1)

## Definitions

7. For the purposes of this standard, the following terms have the meaning attributed below:
  - (a) Assurance client: A climate reporting entity as defined in the Financial Markets Conduct Act 2013.
  - (b) Assurance organisation: An organisation performing a GHG assurance engagement. An assurance organisation can be a sole assurance practitioner, partnership, company or other entity of assurance practitioners, or public sector equivalent.
  - (c) Assurance practitioner: An individual involved in performing the assurance engagement. (Ref: Para A2)
  - (d) Engagement leader: The assurance practitioner who takes overall responsibility for the assurance engagement, including the assurance report.
  - (e) Emphasis of Matter: A paragraph in the assurance report that refers to disclosures in the GHG disclosures, that in the assurance practitioner's judgement, are fundamental to users' understanding of the information.
  - (f) Fraud: An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
  - (g) GHG disclosures: The disclosure of a climate reporting entity's GHG emissions as required by Aotearoa New Zealand Climate Standards (NZ CSs) which are subject to mandatory assurance.
  - (h) Key Matters: A paragraph in the assurance report that relates to matters which, in the engagement leader's professional judgement, were of most significance in the assurance engagement in the current period, are relevant to user's understanding of the assurance engagement and enhance the communicative value of the assurance report. (Ref: Para. A3 – A5)
  - (i) Other information: Information (other than the GHG disclosures and the assurance report thereon) which is included in a document containing the GHG disclosures and the assurance report thereon.
  - (j) Other Matter: A paragraph in the assurance report that refers to matters not disclosed in the GHG disclosures, relevant to users' understanding of the assurance practitioner's responsibilities or the assurance report.
  - (k) System of Quality Management: A system to support the assurance organisation and demonstrate that:
    - (i) The assurance organisation and assurance practitioners fulfil their responsibilities and conduct the assurance engagement in accordance with applicable standards and legal and regulatory requirements; and
    - (ii) Assurance reports issued are appropriate in the circumstances.

## Objectives

8. The objectives of the assurance practitioner are:
  - (a) To obtain assurance about whether the GHG disclosures are free from material misstatement;
  - (b) To report their findings in an assurance report; and
  - (c) To communicate as otherwise required by this NZ SAE.

## Requirements

### Applicable Assurance Standards

9. When conducting the assurance engagement required by the Financial Markets Conduct Act 2013, the assurance practitioner:
  - (a) Shall comply with either ISO 14064-3:2019 *Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* or ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements*. (Ref: Para. A6)
  - (b) Is not required to comply with PES 1<sup>2</sup> but shall comply with the ethical and independence requirements set out in paragraphs 10 to 20 of this standard.
  - (c) Is not required to comply with PES 3<sup>3</sup> but shall comply with the quality management requirements set out in paragraphs 55 to 65 of this standard.
  - (d) Is not required to comply with PES 4<sup>4</sup> but shall comply with the quality reviewer requirements set out in paragraph 66 to 71 of this standard.

### Ethical Requirements

#### *Fundamental Principles*

10. Assurance organisations and assurance practitioners shall comply with each of the following fundamental principles:
  - (a) Independence – freedom from conditions or relationships which would compromise, or could be seen to compromise, integrity or objectivity. (Ref: Para. A7)
  - (b) Integrity – to be straight forward and honest; complying with the spirit as well as the letter of applicable principles.
  - (c) Objectivity – to be impartial, to be free from bias, conflict of interest or influence from others.
  - (d) Professional Competence and Due Care – to:
    - (i) Attain and maintain knowledge and skills necessary to perform the GHG assurance engagement; and
    - (ii) Act diligently and in accordance with applicable standards, laws and regulations.

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<sup>2</sup> PES 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))

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

<sup>4</sup> PES 4, Engagement Quality Reviews

- (e) Confidentiality – to respect the confidentiality of information acquired as a result of undertaking the assurance engagement.
- (f) Professional Behaviour – to:
  - (i) Comply with relevant laws and regulations;
  - (ii) Behave in a manner consistent with the responsibility to act in the public interest; and
  - (iii) Avoid any conduct that the assurance practitioner knows, or should know, might discredit the assurance profession. (Ref: Para. A8 – A9)
- 11. Assurance organisations and assurance practitioners shall identify, evaluate and address threats to compliance with the fundamental principles. (Ref: Para. A10)
- 12. All threats to the fundamental principles shall be eliminated or reduced to an acceptable level. (Ref: Para. A11 – A16)

#### *Documentation*

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

### **Independence Requirements**

#### *Conditions and Relationships*

- 14. The assurance organisation and the assurance practitioners shall remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence. (Ref: Para. A17)

#### *Self-review Threat Prohibition*

- 15. The assurance organisation and the assurance practitioners shall not:
  - (a) Prepare the GHG information, including comparative information, and then assure the GHG disclosures;
  - (b) Assure their own work; or
  - (c) Provide any other services to the assurance client that might possibly create a self-review threat in relation to the GHG disclosures on which the assurance practitioner will express an assurance conclusion. (Ref: Para. A18 – A21)

#### *Prohibition on Assuming Management Responsibilities*

- 16. The assurance organisation and the assurance practitioners shall not assume a management responsibility for an assurance client. (Ref: Para. A22 – A23)

### *Financial Interest Prohibition*

17. A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
  - (a) The assurance organisation;
  - (b) An assurance practitioner; or
  - (c) An assurance practitioner's immediate family member. (Ref: Para. A24 – A28)
18. A direct financial interest or a material indirect financial interest in an entity that has a material controlling interest in the assurance client shall not be held by:
  - (a) The assurance organisation;
  - (b) An assurance practitioner; or
  - (c) An assurance practitioner's immediate family member. (Ref: Para. A24 – A28)

### *Addressing Familiarity Threat due to Long Association*

19. The assurance organisation, the assurance practitioners and the quality reviewer shall address familiarity threats that arise due to long association with an assurance client.

### *Independence Period*

20. Independence shall be maintained during both:
  - (a) The engagement period; and
  - (b) The reporting period covered by the GHG disclosures.

### **Competence**

21. An engagement leader shall have sufficient competence in assurance skills and techniques and sufficient competence in the measurement and reporting of GHG emissions to accept responsibility for the assurance conclusion. (Ref: Para. A29 – A35)
22. An engagement leader shall be satisfied that assurance practitioners who are to perform the assurance engagement over GHG disclosures collectively have the appropriate competence and capabilities, including in the measurement and reporting of GHG emissions and in assurance, to perform the GHG assurance engagement. (Ref: Para. A29 - A35)

### **Use of the Work of Others**

23. If the assurance practitioner intends to use the work of other individuals or organisations who have expertise in matters related to GHG emissions, the assurance practitioner shall:
  - (a) Evaluate whether that individual or organisation has the necessary competence, capabilities and objectivity for the assurance practitioner's purposes;
  - (b) When evaluating objectivity, enquire with the individual or organisation regarding interests and relationships that may create a threat to that individual or organisation's objectivity; (Ref: Para. A36)
  - (c) Obtain a sufficient understanding of the field of expertise of the individual or organisation to determine the nature, scope and objectives of that individual or organisation for the assurance practitioner's purposes;

- (d) Agree with the individual or organisation the nature, scope and objectives of their work; and
  - (e) Evaluate the adequacy of the work performed by the individual or organisation for the assurance practitioner's purposes. (Ref. Para. A37 – A38)
24. If the engagement leader intends to use the work of another assurance practitioner, who is not subject to their organisation's system of quality control, the engagement leader shall follow the requirements of paragraph 23, where relevant, and shall perform the following steps:
- (a) Ensure the other assurance practitioner is independent of the assurance client and GHG disclosures;
  - (b) Evaluate the other assurance practitioner's system of quality management related to the assurance work; and
  - (c) Communicate with that practitioner about the findings from their work.

### **Management bias**

25. The assurance practitioner shall consider, and respond to, the risk of management bias in relation to the GHG disclosures when developing a plan of assurance procedures to be performed during the assurance engagement. This shall be documented and updated throughout the engagement if new information comes to light. (Ref: Para. A39 – A40)

### **Fraud**

26. The assurance practitioner shall maintain professional scepticism throughout the engagement and identify how and where the assurance entity's GHG disclosures may be susceptible to material misstatement due to fraud. The assessment shall occur setting aside the assurance practitioner's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A41)
27. The assurance practitioner shall determine appropriate responses to address any identified risks of material misstatement due to fraud within the GHG disclosures, in order to allow for an appropriate assurance report to be issued. (Ref: Para A42)
28. The assurance practitioner shall make enquiries of management, those charged with governance, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity's GHG disclosures. Where responses to the enquiries are inconsistent, the assurance practitioner shall investigate the inconsistencies.
29. The assurance practitioner shall respond appropriately to actual, suspected or alleged fraud affecting the entity's GHG disclosures identified during the assurance engagement.

### **Non-compliance with Laws and Regulations**

30. An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance by the assurance client in the course of carrying out professional activities. If such matters are identified, the assurance practitioner shall:
- (a) Gain an understanding of the matter and discuss this with the assurance client;
  - (b) Depending on the nature and significance of the matter, perform additional assurance procedures to evaluate the impact on the GHG disclosures; and

- (c) Consider the need to report this matter to other internal and external parties, in line with relevant laws and regulations. (Ref: Para A43)

### **Comparative Information**

- 31. The assurance practitioner shall evaluate whether: (Ref: Para. A44-45)
  - (a) All comparative information presented in the GHG disclosures agrees with the disclosures presented in the prior periods or, when appropriate, has been properly restated, if required by NZ CSs, and that restatement has been adequately disclosed; and
  - (b) The GHG methods and assumptions reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.
- 32. If the assurance practitioner becomes aware that there may be a material misstatement in the comparative information presented, the assurance practitioner shall:
  - (a) Discuss the matter with the assurance client and perform procedures appropriate in the circumstances; and
  - (b) If the comparative information presented contains a material misstatement, and the comparative information has not been restated:
    - (i) Where the comparative information was not subject to assurance in previous periods, the assurance practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting this information,
    - (ii) Where the comparative information was subject to assurance in previous periods, the assurance practitioner shall express a qualified conclusion or adverse conclusion in the assurance report.
- 33. The assurance practitioner shall include an Other Matter paragraph in the assurance report identifying which GHG disclosure comparatives have not been subject to assurance, when appropriate.
- 34. If the comparative information was assured by a predecessor assurance practitioner, the assurance practitioner shall state in an Other Matter paragraph in the assurance report:
  - (a) That the GHG disclosures of the prior period were assured by the predecessor assurance practitioner;
  - (b) The type of conclusion expressed by the predecessor assurance practitioner and, if this was modified, the reasons therefore; and
  - (c) The date of that report.

### **Other Information**

- 35. The assurance practitioner shall read other information included in the documents containing the GHG disclosures that are subject to the assurance engagement, to identify material inconsistencies, if any, with the GHG disclosures or the assurance report. If the assurance practitioner:
  - (a) Identifies a material inconsistency between the other information and the GHG disclosures or the assurance report; or



- (b) Becomes aware of a material misstatement of fact in the other information that is unrelated to matters appearing in the GHG disclosures or the assurance report;

the assurance practitioner shall discuss the matter with the assurance client and take further action as appropriate, before issuing the assurance report.

## **Independent Assurance Report**

### *Identifying Information Subject to Assurance*

- 36. The assurance report shall clearly identify the information within the climate statement that is excluded from the assurance engagement, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion is expressed on it.
- 37. When the assurance engagement covers the whole climate statements or other disclosures in addition to the GHG disclosures, the assurance report shall separately identify the parts of the climate statements relating to GHG disclosures, as required by the Act.

### *Form and Level of the Conclusion*

- 38. The first section of the independent assurance report shall include the assurance practitioner's conclusion unless the applicable standards require otherwise.
- 39. When some GHG disclosures are subject to reasonable assurance and others are subject to limited assurance, the assurance report shall clearly identify the GHG disclosures that are subject to each level of assurance and the related conclusion.
- 40. The level of assurance shall be specified prior to the start of the assurance engagement and conclusions shall be formed in relation to that level of assurance, Assurance practitioners shall not change the level of assurance once an assurance engagement has begun. If a change in level of assurance is justified, the assurance practitioner shall:
  - (a) Document the reasons for the change; and
  - (b) Start a new assurance engagement at a different level of assurance.

### *Key Matters*

- 41. If the assurance practitioner identified key matters during the assurance engagement, a Key Matters section shall be included in the assurance report if in the assurance practitioner's professional judgement such reporting will enhance the communicative value of the assurance report.
- 42. The Key Matters section shall:
  - (a) Be included under a separate heading "Key Matters";
  - (b) State that key matters are those matters that in the assurance practitioner's professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures;
  - (c) Include an explanation of why the matter is a key matter; and
  - (d) Outline what the assurance practitioner has done to address the matter.
- 43. The assurance practitioner shall consider whether to include findings for the key matters identified. The description of the findings shall not imply that a separate assurance conclusion on the individual key matter was reached.

### *Emphasis of Matter*

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

### *Other Matter*

46. If the assurance practitioner considers it necessary to communicate a matter other than those that is included in the GHG disclosures, that is not reported as a key matter but that, in the assurance practitioner's judgement, is relevant to users' understanding of the engagement, the assurance practitioner's responsibilities or the assurance report, the assurance practitioner shall include an Other Matter paragraph in the assurance report. (Ref: Para. A46)
47. The Other Matter paragraph shall:
  - (a) Be included in a separate section of the report under the heading "Other Matter".
  - (b) Clearly reflects that the matter is not required to be disclosed in the GHG disclosures.

### *Inherent Uncertainty in Preparing GHG Disclosures*

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

### *Other Communication Responsibilities*

#### Identification of Applicable Standards

49. The assurance report shall identify the applicable standards applied to the assurance engagement and, any professional or accreditation standards that are applied by the assurance organisation and assurance practitioners.

#### Existence of Relationships with the Assurance Client or the GHG disclosures

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

#### Name of Engagement Leader

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

## **Documentation**

53. The assurance practitioner shall prepare documentation that is sufficient to enable an experienced assurance practitioner, having no previous connection to the assurance engagement, to understand:
  - (a) The nature, timing and extent of the procedures performed and applicable legal and regulatory requirements;
  - (b) The results of the procedures performed, and the evidence obtained; and
  - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
54. The assurance documentation shall be prepared on a timely basis and retained in line with the assurance organisation's quality management policies.

## **Quality Management Requirements**

55. The assurance organisation shall design, implement and operate a system of quality management that is appropriate for the conduct of GHG disclosures assurance engagements. This includes both quality management processes at the assurance organisation level, as well as on individual assurance engagements.

## *Risk Assessment*

56. The assurance organisation shall apply a risk-based approach in designing, implementing and operating the system of quality management in an interconnected and coordinated manner such that the assurance organisation proactively manages the quality of GHG disclosures assurance engagements they perform.
57. The assurance organisation shall design and implement a risk assessment process, exercising professional judgement, taking into account the nature and circumstances of the assurance organisation and its engagements, to:
  - (a) Establish objectives relating to quality (quality objectives);
  - (b) Identify and assess risks relating to quality (quality risks); across inputs, controls, processes and outputs; and
  - (c) Design and implement responses to address the quality risks (risk responses).
58. When designing and implementing a risk assessment process, the assurance organisation shall consider the following areas:
  - (a) Governance and leadership – Including the ultimate responsibility, accountability and operational responsibility for the system of quality management and the internal culture of the assurance organisation around quality;
  - (b) Relevant ethical requirements – Including awareness of requirements, and the accumulation and communication of relevant information to and from personnel within the assurance organisation;
  - (c) Acceptance and continuance of client relationships and specific engagements – Including competence, capabilities and resources available to complete assurance engagements, and the integrity of the assurance client;
  - (d) Engagement performance – Including the responsibility for individual engagement performance, structure, supervision and training of assurance practitioners;

- (e) Resources – Including the availability of human resources, technological resources, intellectual resources and service providers relevant to the performance of assurance engagements; and
- (f) Information and communication – Including information necessary to the system of quality management and the communication of information within the assurance organisation and external parties.

#### *Monitoring and Remediation*

- 59. The assurance organisation shall establish, and document, a monitoring and remediation process to:
  - (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management; and
  - (b) Take appropriate action to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
- 60. In determining the nature, timing and extent of the monitoring activities, the assurance organisation shall take into account:
  - (a) The reasons for the assessments given to the quality risks;
  - (b) The design of the responses;
  - (c) The design of the assurance organisation’s risk assessment process and monitoring and remediation process;
  - (d) Changes in the system of quality management, and changes in external and internal issues that are relevant to the system of quality management;
  - (e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the assurance organisation’s system of quality management and whether remedial actions to address previously identified deficiencies were effective; and
  - (f) Other relevant information, including feedback, complaints and allegations about failures to perform work in accordance with professional standards, applicable legal and regulatory requirements or non-compliance with the assurance organisation’s policies or procedures established in accordance with this standard and information from service providers.

#### *Documentation of Quality Management*

- 61. The assurance organisation shall prepare and maintain documentation of its system of quality management that is sufficient to:
  - (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of the roles and responsibilities with respect to the system of quality management and the performance of GHG disclosures assurance engagements; and
  - (b) Support and evidence the design, consistent implementation and operation of the responses.

### *Engagement Performance*

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

### *Engagement Leader Responsibilities*

63. The engagement leader shall take overall responsibility for:
  - (a) Acceptance and continuance of the assurance engagement;
  - (b) Direction, supervision and review of assurance practitioners, and quality of the assurance evidence obtained to support the assurance report;
  - (c) Undertaking adequate consultation during the engagement;
  - (d) Satisfactory completion of the quality review, and resolving any differences of opinion; and
  - (e) Adequately addressing any independence or quality management matters arising.
64. The engagement leader shall ensure that the following matters are adequately documented:
  - (a) Issues identified, relevant discussions with personnel, and conclusions reached with respect to:
    - (i) Fulfilment of relevant ethical and independence requirements; and
    - (ii) The acceptance and continuance of the client relationship and assurance engagement;
  - (b) Sufficient appropriate assurance evidence to be able to draw conclusions; and
  - (c) The nature and scope of, and conclusions resulting from, consultations undertaken during the assurance engagement and how such conclusions were implemented.

### *Consultation*

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

### *Quality Reviewer*

66. A quality reviewer shall be appointed for each assurance engagement.
67. The quality reviewer shall review the quality of the assurance engagement and shall not have any involvement in the performance of the assurance engagement.

68. A quality reviewer shall perform a review to evaluate:
  - (a) The appropriateness of the engagement leader and assurance practitioners competencies to complete the assurance engagement;
  - (b) The basis for the engagement leader's determination that relevant ethical and independent requirements have been met;
  - (c) Whether the assurance engagement has been planned and designed appropriately to achieve the intended level of assurance over the GHG disclosures;
  - (d) The reasonableness of the significant judgements made throughout the assurance engagement;
  - (e) Whether sufficient and appropriate evidence was obtained to support the conclusions proposed by the engagement leader; and
  - (f) The appropriateness of the GHG disclosures and assurance report.
69. The quality reviewer shall be competent and independent from the assurance client and the GHG disclosures, to the same level as the engagement leader, and have appropriate authority and sufficient time to perform the quality review.
70. The quality review shall be completed throughout the engagement as appropriate, and the engagement leader shall address concerns raised by the quality reviewer, before the assurance report is issued.
71. The results of the quality review shall be documented on the assurance engagement file.

## **Application Material**

### **Scope**

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

### **Definitions**

#### Assurance Practitioner

- A2. Assurance practitioner is the engagement leader or other members performing the assurance engagement. Where this standard intends a requirement to be fulfilled by the engagement leader, the term engagement leader rather than assurance practitioner is used.

#### Key Matters

- A3. The purpose of communicating key matters is to enhance the communicative value of the assurance report. Key matters provide additional information to assist users in understanding those matters that, in the assurance practitioner's professional judgement, were of most significance in the assurance engagement. Communicating key matters may assist users in understanding the areas of significant management judgement in the GHG disclosures, any areas where there was significant estimation or inherent uncertainty involved, data quality issues, issues in obtaining the assurance evidence required or issues in determining the GHG reporting boundary.
- A4. When determining key matters, an assurance practitioner may consider areas that required significant attention during the engagement and were communicated with those charged with governance, for example due to:
- Complexity
  - Significant management judgement
  - Nature and severity of difficulties in applying assurance procedures
  - Consultations on difficult matters
  - Assessed risk of material misstatement.
  - High degree of estimation and/or uncertainty
- A5. A matter that results in a modified conclusion is not communicated as a key matter. A key matter is not used if the assurance practitioner disclaims a conclusion.

## **Requirements**

### **Applicable Assurance Standards**

- A6. Assurance practitioners may also be required to comply with accreditation requirements or professional body requirements. Where this is the case, these requirements continue to apply.

### **Ethical Requirements**

#### Independence

- A7. Independence comprises:
- (a) The state of mind that enables reaching conclusions without being affected by influences that compromise professional judgement (independence of mind); and

- (b) The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that the assurance practitioner's integrity and objectivity has been compromised (independence in appearance).

#### Professional behaviour

- A8. Professional behaviour requires assurance practitioners to act in the public interest.
- A9. In acting in the public interest, an assurance practitioner considers not only the preferences or requirements of an assurance client or assurance organisation, but also the interests of other stakeholders when undertaking an assurance engagement.

#### Threats

- A10. Threats to compliance with the fundamental principles fall into one or more of the following categories:
  - (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner's judgement or behaviour;
  - (b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made, or an activity performed by the assurance practitioner, or by another individual within the assurance organisation, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;
  - (c) Advocacy threat – the threat that an assurance practitioner will promote a client's position to the point that the assurance practitioner's objectivity is compromised;
  - (d) Familiarity threat – the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and
  - (e) Intimidation threat – the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.

#### Reducing Threats to an Acceptable Level

- A11. An acceptable level is a level when a reasonable and informed third party, having access to all relevant facts, could conclude that the assurance practitioner has complied with the fundamental principles.

#### Reasonable and informed third party

- A12. A reasonable and informed third party means that the third party would have the knowledge and experience to understand the relevant facts and would be able to evaluate the assurance practitioner's conclusions in an impartial manner.

#### Safeguards

- A13. The assurance practitioner eliminates or reduces threats to an acceptable level by:
  - (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
  - (b) Applying safeguards to reduce the threats to an acceptable level; or
  - (c) Declining or ending the GHG assurance engagement.



A14. Safeguards are actions that effectively reduce threats to compliance with the fundamental principles to an acceptable level. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time to required tasks and rotating qualified personnel on an engagement might address familiarity threats.
- Involving another assurance organisation to perform or re-perform part of the engagement might address self-interest, advocacy, familiarity or intimidation threats.
- Having an appropriate reviewer, who was not involved in the GHG assurance engagement, or panel, review the assurance work and assess the conclusions, might address self-interest threats.

Safeguard to threats created by provision of other services

A15. Threats to fundamental principles created by providing other services to an assurance client vary depending on the facts and circumstances of the GHG assurance engagement and the nature of the other service. Excluding self-review threats, other threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

A16. Safeguards might not be available to reduce the threats created by providing another service to an assurance client to an acceptable level. In this situation, the assurance organisation takes further actions, for example:

- (a) Adjusting the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Declining or ending the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) Ending the GHG assurance engagement.

## **Independence Requirements**

### *Conditions and Relationships*

A17. Examples of conditions and relationships that may create threats to the fundamental principles include:

- Relative size of assurance fee.
- Accepting or offering gifts or hospitality.
- Close business relationships.
- Family or personal relationships.
- Temporary personnel assignments.
- Employment relationships.
- Recent service with an assurance client.
- Serving as a director/trustee/officer of an assurance client.

### *Self-review Threat Prohibition*

A18. Where provision of other services to an assurance client creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

A19. A service might possibly create a self-review threat where:

- (a) The results of the service will form part of, or affect the records, the internal controls over GHG emissions, or the GHG disclosures on which the assurance practitioner will express an assurance conclusion (e.g., measurement methods and estimation tools); and
- (b) In the course of the assurance engagement, the assurance practitioner will evaluate, or rely on, any judgements made, or activities performed, by the assurance organisation when providing the service, including when:
  - (i) An assurance organisation uses technology to provide a service; or
  - (ii) An assurance organisation provides, sells, resells or licenses technology to the assurance client.

A20. A self-review threat might possibly be created when IT services are provided to an assurance client. Providing IT services might possibly create a self-review threat when the IT system forms part of, or affects, the assurance client's records or systems of internal control over GHG measurement or disclosures. Examples of such IT services include:

- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
- Supporting an assurance client's IT systems, including network and software applications.
- Implementing GHG measurement or reporting software, whether or not this was developed by the assurance organisation.

A21. A self-review threat might possibly be created by services provided at the same time as an assurance engagement is performed or by services provided before the start of the assurance engagement period.

*Prohibition on assuming management responsibilities*

A22. When an assurance organisation or assurance practitioner assumes a management responsibility for an assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the assurance organisation or assurance practitioner may become too closely aligned with the views and interests of management.

A23. Examples of management responsibilities include:

- Setting policies and strategic direction.
- Directing and taking responsibility for the actions of employees.
- Deciding which recommendations of the assurance practitioner or third parties to implement.
- Taking responsibility for designing, implementing, monitoring and maintaining internal controls relating to GHG emissions.
- Taking responsibility for the preparation of the GHG disclosures.
- Taking responsibility for the methods and calculations relating to measurement of GHG emissions.

### *Financial Interest Prohibition*

A24. A financial interest is an interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest. Financial interests are classified as either a:

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

A25. Examples of a direct interest are:

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

A26. Examples of an indirect interest are:

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

A27. When determining whether an indirect financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

A28. Immediate family members are spouse (or equivalent) or dependents.

### **Competence**

A29. Skills and competence in assurance are developed through extensive training and practical application of assurance techniques, including performance of assurance engagements in accordance with relevant standards and applicable legal and regulatory requirements.

A30. Skill and competence in assurance necessary to undertake an assurance engagement include:

- Risk assessment methodologies.
- Linking the assessed risk and materiality to the nature, timing and extent of assurance procedures.
- Applying appropriate procedures (including enquires, inspection, recalculation, reperformance, observation, confirmation, analytical procedures and sampling techniques).
- GHG information systems and internal controls (how data is initiated, recorded, collated and reported in a GHG disclosures).
- Documentation of procedures performed and evidence obtained.
- Application of professional scepticism and professional judgement.

A31. Skills and competence in GHG emissions are gained through significant experience or training in measuring, analysing, reporting and/or attesting GHG emissions.

A32. Skills and competence in GHG emissions necessary to undertake an assurance engagement include:

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

A33. Measurement and reporting of GHG emissions is a fast-evolving field. Continuous learning to keep up to date with changes will be important aspect of the assurance practitioner competencies.

A34. Assurance engagements over GHG emissions disclosures might be complex for entities in some sectors. The assurance organisation and engagement leader determine that sufficient time is allowed to complete the assurance engagement.

A35. An assurance practitioner may use the work of another individual or organisation, who has expertise in one or more underlying subject matters related to GHG reporting, if they conclude that the work of that individual or organisation is adequate for the assurance practitioner's purposes. However, the assurance practitioner has sole responsibility for the engagement. That responsibility is not reduced by the work of another individual or organisation. The assurance practitioner needs to have sufficient understanding of the GHG emissions to be able to:

- (a) When needed, ask appropriate questions of the individual or organisation and evaluate whether the answers make sense in the engagement circumstances;
- (b) Evaluate the individual or organisation's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
- (c) Take responsibility for the conclusions reached.

### **Use of Work of Others**

A36. When using the work of others, it is important to ensure that objectivity is not compromised. As such, it is important to consider whether others involved in the engagement have any interests or relationships that might create a self-review, self-interest, familiarity, intimidation or advocacy threat. Such considerations would normally include whether the individual or organisation has any relevant:

- Financial interests
- Business and personal relationships; or
- Provides any other services to the assurance client.

A37. If the assurance practitioner determines that the work performed by the individual or organisation is not adequate for the assurance practitioner's purposes, options available to the assurance practitioner include:

- (a) Agreeing with that individual or organisation on the nature and extent of further work to be performed by that individual or organisation; or
- (b) Performing additional assurance procedures appropriate to the circumstances.

A38. The paragraphs 23 and A36 – A37 have been written in the context of using work of the individual or the organisation engaged by the assurance practitioner. However, the paragraphs 23 and A36 – A37 may also provide helpful guidance with respect to using work of others, for example an individual or organisation engaged by the assurance client.

### **Management Bias**

A39. When considering the risk of management bias, the assurance practitioner gains understanding of the management's ability to measure scope 1, 2 and 3 GHG emissions, and whether management's remuneration is linked to GHG emissions numbers.

A40. Examples of indicators of possible management bias include:

- The selection of assumptions, measurement methods or input data that result in GHG emissions numbers favourable to management's key performance indicators, targets or objectives; or
- Favourable changes in the quantification of GHG emissions due to management's subjective assessment that there has been a change in circumstances.

### **Fraud**

A41. Maintaining professional scepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as assurance evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the assurance practitioner's professional scepticism is particularly important when considering the risks of material misstatement due to fraud.

A42. Fraud may include both the intentional under-reporting of emissions to meet key performance indicators and targets used to measure personal performance or achieve personal targets, and the intentional over-reporting of emissions in order to allow for downward trends in future emissions to be reported when this has not occurred, depending upon the circumstances of the assurance client. Assurance practitioners designs and executes appropriately tailored procedures which respond to the specific fraud risks which have been identified.

### **Non-compliance with Laws and Regulations**

A43. Non-compliance with laws and regulations comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations. Non-compliance might result in fines, litigation or other consequences for the assurance client, potentially materially affecting its GHG disclosures. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public.

### **Comparative Information**

A44. Comparative information covers GHG disclosures in respect of one or more prior periods in accordance with Aotearoa New Zealand Climate Standards.

A45. When the corresponding figures have been properly restated or appropriate disclosures have been made to GHG disclosures in the current reporting period, the assurance practitioner may include an Emphasis of Matter paragraph describing the circumstances and referring to the GHG disclosures in the climate statements.

## **Independent Assurance Report**

### *Other Matter*

A46. The engagement leader applies professional judgment to consider whether there are engagement-specific matters, useful for the users of the assurance report, for inclusion in Other Matter section of the assurance report. Examples of such matters include:

- (a) Information about materiality considerations so that it is transparent to the users what tolerance for misstatement has been applied in conducting the assurance engagement;  
or
- (b) Details of the qualifications and experience of the engagement leader and others involved with the engagement.

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 4.1

**Meeting date:** 7 June 2023

**Subject:** NZ AS 1 (Revised) *The Audit of Service Performance Information*

**Date:** 24 May 2023

**Prepared By:** 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 for the Board to CONSIDER the feedback and APPROVE revisions to NZ AS 1 (Revised) *The Audit of Service Performance Information* based on feedback received from consultation.

### Background

2. The [exposure draft](#) and the [consultation document](#) for NZ AS 1 (Revised) *The Audit of Service Performance Information* were issued in December 2022. A short walkthrough [video](#) of the main features of the revisions to the standard was created to promote engagement with the key matters. The submission period closed on 17 March 2023.
3. During the consultation period, outreach included:
  - a. A virtual feedback forum targeting the not-for-profit sector, attended by 45 people. An overview of the consultation document was provided, and polls were conducted that largely mirrored our consultation questions. The polling results are at agenda item 4.5.
  - b. An in-person feedback session with staff from Audit New Zealand and the OAG.
4. Submissions were received from The Office of the Auditor-General (OAG), CAANZ&CPA, KPMG and a practitioner. These are included in the supplementary papers.
5. Staff have considered the feedback received at the feedback forums and in written submissions. A detailed analysis of this feedback is included in the supplementary papers at agenda item 4.4.
6. Overall, the feedback we heard was that there was general support for one auditing standard for service performance information in both the not-for-profit and public sector. The OAG found the exposure draft to be an improvement on extant NZ AS 1. Other practitioners did not necessarily agree that the revisions were simpler to understand, queried why we are departing from established assurance standard terminology and raised concern at adding compliance costs.
7. The OAG noted the exposure draft is a substantial improvement on the existing NZ AS 1, and were confident they could use the standard subject to amendments to address issues raised in their submission. These issues are discussed in the issues paper at agenda item 4.2.
8. 61% of participants at our virtual feedback forum agreed in polling that the proposals strengthen the alignment between the auditing and financial reporting standards and 58% agreed that the proposals did not add compliance costs. Only 44% however felt that the revisions were simpler with the remaining 56% unsure.

9. Submissions from CAANZ/CPA and KPMG questioned whether the standard was simpler, particularly moving away from well understood auditing terms. CAANZ recommended providing justification for moving away from “suitable criteria”, a well-understood element of an assurance engagement, noting that this change made the proposals overly long and complex. Submissions also highlighted the incurrence of compliance costs associated with implementation including updating resources that already complied with extant NZ AS 1, but were willing to accept the revisions to achieve one standard for the public and not for profit sectors.
10. While there was support for sector specific material, the XRB was encouraged to use sector neutral language so not to limit the use of the material that might apply more broadly.

### **Key Matters to Consider**

11. The Board is asked to consider the matters raised in the issues paper at agenda item 4.2 and the proposed revisions to NZ AS 1 (Revised) at agenda item 4.3. The most significant matter covered in the issues paper is about the availability of the measurement bases and evaluation methods and reference to the measurement bases and evaluation methods in the auditor’s opinion.
12. We have been working with the accounting team to get the accounting and auditing standards to work together given that it is a prerequisite for an audit that the criteria to be applied in the preparation of the subject matter information will be available to the intended users<sup>1</sup>. The accounting team has developed draft guidance for preparers that are required to apply PBE FRS 48 Service Performance Reporting. The draft is included in the supplementary papers at agenda item 4.10.

### **Recommendations**

13. We recommend that the Board consider whether staff’s proposed solutions are appropriate as explored in the issues paper and updated draft of NZ AS 1 (Revised). If so, we will then update all cross references in the standard and we will prepare a basis for conclusions and signing memorandum following this meeting to capture the due process followed.
14. We recommend that the Board approves NZ AS 1 (Revised) as shown in marked up copy at agenda item 4.3.

### **Material Presented**

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Issues Paper
Agenda item 4.3	NZ AS 1 (Revised)

### **Supplementary Papers**

Agenda item 4.4	Submission Analysis
Agenda item 4.5	Outreach polling results
Agenda item 4.6	CPA/CAANZ Submission
Agenda item 4.7	KPMG Submission
Agenda item 4.8	OAG Submission
Agenda item 4.9	PM Submission
Agenda item 4.10	Draft accounting guidance for PBE FRS 48

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<sup>1</sup> EG Au1A Framework for Assurance Engagements, paragraph 22



## Issues Paper

1. This paper covers the following matters:
  - Measurement bases and evaluation method
  - Use of the term fairly stated
  - Moving away from technical audit terms
  - Increase in compliance costs
  - Other amendments
  - Application date
  - Revoke extant NZ AS 1 *The Audit of Service Performance Information*
2. Under each matter the Board is asked to confirm whether they agree with staff's recommendations and/or rationale.

### *Issue 1: Measurement bases and evaluation methods*

3. The OAG expressed support for the revised auditing standard subject to resolution of comments raised in their submission. We have subsequently met with representatives from the OAG to discuss their submission and the way forward.
4. Two of their key concerns centre around:
  - a. reference to the measurement bases or evaluation methods in the auditor's opinion, and
  - b. the availability of the measurement bases or evaluation methods to intended users.
5. The OAG does not consider that PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) requires the preparer to disclose information on the measurement bases or evaluation methods. As such the auditor would be unable to reference to it in the audit report opinion as required by the auditing standard in paragraphs 51(c) and 52.
6. The OAG also sought clarification on the intention of the requirement to make the measurement bases or evaluation method available to intended users in paragraph 26(f) and 48(b) and raised concern that it may imply the auditor is responsible for the deficiencies in disclosure in the entity's annual report through the audit report.
7. CAANZ/CPA also expressed concerns that reference to the measurement bases and evaluation methods in the audit opinion may be interpreted as creating an auditor responsibility to fill in deficiencies in disclosure by the entity. They also sought clarification on the measurement bases and evaluation methods being available to intended users.

### Reporting developments

8. We were aware of these views on PBE FRS 48 during the development of the exposure draft. In response we have been co-ordinating with the accounting team who has worked on draft guidance (supplementary papers at agenda item 4.10) for preparers of service performance information to highlight that in order to meet the disclosure principles and requirements of PBE FRS 48 it is expected that an entity will provide sufficient information to enable the user to understand how each performance measure and/or description has been measured or evaluated.
9. The OAG has provided feedback on the guidance. While, in their view, it is preferable for the accounting and auditing standard to match together, we have confirmed that the draft non-authoritative guidance is a pragmatic interim solution until the issue can be considered as part of a post implementation review of PBE FRS 48.

Auditing standard adjustments related to available to intended users

10. It is a prerequisite for an audit that the criteria are available to intended users<sup>1</sup>.
11. In their submission, the OAG was of the view that paragraphs 26(f) and 48(b) should be adjusted or removed and the wider implications on the illustrative reports be considered.
12. Application guidance has been added for paragraph 48(b) to both explain why this is needed and how the measurement bases or evaluation method can be made available to users ensuring that the guidance and requirement reflect the language and messaging of the accounting guidance.

*Para A79: The measurement bases or evaluation methods used to assess a performance measure and/or description need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.*

*Para A80 The measurement bases or evaluation methods can be made available to the intended users in one or more of the following ways:*

- (a) *Publicly, for example, readily available documents such as a published external assessment framework on a website.*
  - (b) *Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.*
  - (c) *Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.*
  - (d) *By general understanding, for example, the method of measuring time in hours and minutes. The auditor may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.*
13. We believe that this application material shows the intent of the requirement is to make the service performance information understandable to users and provides context as to how this might be achieved. This guidance does not create an onus on the auditor to fill the gap, rather clarifies that in some instances no additional disclosure is needed, as the measurement method will be understood from the measure itself (i.e., if you count things, or measure things in hours).
  14. Adjustments have been made to paragraph 26(f), to recognise that this requirement does not only relate to the measurement bases and evaluation methods, but to all layers of the service performance information. An adjustment has also been made to paragraph 17, for the auditor to gain an understanding of how the entity will make the measurement bases or evaluation methods available to users.

Auditing standard adjustments to the opinion

15. The OAG was also concerned that the audit opinion focused on “the entity’s measurement bases or evaluation methods” but no specific reference to the entity’s “selection of elements/aspects of service performance” or “performance measures and/or descriptions”. This was seen to create an imbalance, with no specific reference to step 1 of the audit, i.e., whether the measures to be reported where appropriate and meaningful.
16. To address this concerned we have worked with the OAG to agree on the following revised wording for the opinion:

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<sup>1</sup> International Framework for Assurance Engagements, paragraph 17 (b) (ii)

*In our opinion, the accompanying [financial report...] presents fairly, in all material respects:*

- *[the entity information as at December 31, 20X3;]*
- *the financial position of the [entity] as at December 31, 20X3, and its financial performance, and its cashflows for the year then ended; and*
- *the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods*

*in accordance with [the applicable financial reporting framework (e.g., PBE Standards)] issued by the New Zealand Accounting Standards Board*

*Issue 2: Fairly stated*

17. The OAG felt the overall objective at paragraph 7 should include the term “presents fairly” or “fairly reflects”. Although this term is used in the illustrative opinions for the audit of a fair presentation framework later in the standard, the term was deliberately not used in the objective as the auditing standard was developed to be framework neutral i.e., Tier 4 is a compliance framework. The wording in the exposure draft aligns with the language in ISA (NZ) 200.<sup>2</sup>
18. To address the OAG’s concerns the wording has been updated as per below, with a footnote of how this objective is different when auditing service performance information prepared under a compliance framework.

*The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information presents fairly, in all material respects the service performance in accordance with the applicable financial reporting framework.*

*Issue 3: Moving away from technical audit terms which potentially makes the draft complex*

19. CAANZ/CPA and KPMG both questioned moving away from the use of audit technical terms, in particular “service performance criteria” and “suitable criteria” which are well known and, in their view, well understood audit terms.
20. The OAG, in their [submission](#) to the XRB when extant NZ AS 1 was being developed, said the term “service performance criteria” was confusing, recommending it be removed and replaced with terminology consistent with PBE FRS 48. They recommended requiring the auditor’s evaluation of the suitability of the criteria to be against the qualitative characteristics and pervasive constraints in PBE FRS 48.
21. To address one of the OAG’s key concerns, finding an alternative way to describe “suitable criteria” was a key focus of the project to revise NZ AS 1. In developing extant NZ AS 1, the XRB had been mindful to be framework neutral however given recent changes to the tier 3 reporting standard, introducing the term “appropriate and meaningful”, there was an opportunity to align with the language in the financial reporting standards, and amend the auditing standard to address one of the OAG’s key concerns.
22. We recognise that in doing so the auditing standard is no longer framework neutral and does not use the audit terminology. We also recognise that this means the language in the revised NZ AS 1 does not align with the tier 4 reporting requirements, however there is no statutory obligation for an audit of tier 4 charities. We also note that the IAASB is progressing its project to finalise a standard on audits of less complex entities (LCE). There may be an opportunity to

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<sup>2</sup> ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 11.

think about if and how we deal with service performance information for tier 4 entities when the Board discusses adoption of the LCE standard for New Zealand.

*Issue 4: Increase in Compliance Costs*

23. At our virtual feedback event, 58% of participants agreed that the proposals did not add costs. Submissions from CAANZ/CPA, KPMG and a practitioner questioned the premise that the revised standard did not increase compliance costs compared to extant NZ AS 1. Extant NZ AS 1 has in some cases already been incorporated into implementation resources and methodologies by auditors.
24. We acknowledge that this is an unfortunate consequence of revising NZ AS 1. However, having one standard for both the public and not for profit sector to audit service performance information, will avoid additional costs in future.

*Other proposed amendments*

25. Other concerns raised in the submissions are included in the submission analysis spreadsheet at agenda item 4.4. A marked-up copy of the standard, showing amendments recommended by staff to address concerns raised, is at agenda item 4.3.

26. In summary, the other changes made to the exposure draft are summarised as follows:

- a. The sector specific paragraphs should be able to be applied to either sector where it is relevant (CAANZ/CPA, Virtual forum).

This is a minority view we heard at the virtual feedback forum. The majority view in polls and the KPMG submission was that the sector specific guidance is useful.

We recommend making the language in the relevant paragraphs sector neutral, so that it is applied where relevant rather than limiting the guidance to a particular sector. The OAG has confirmed they are happy with the recommended changes to the public sector paragraphs. Paragraphs A13 and A27 have been amended and sector specific heading have been removed.

- b. There was concern from CAANZ/CPA and at the virtual forum around a lack of definition for appropriate and meaningful.

The term 'appropriate and meaningful' is a term drawn from the financial reporting standards. It is not the role of the auditing standard to define it. To make this connection a footnote reference has been added (para 26) referencing to the relevant paragraphs in PBE FRS 48 *Service Performance Reporting* and the tier 3 standards *Reporting Requirements for Tier 3 Not-for-Profit Entities* and *Reporting Requirements for Tier 3 Public Sector Entities*.

- c. It was cautioned and recommended to remove reference to current legislation as it is subject to change (CAANZ/CPA, Virtual forum).

Our drafting convention is to not directly reference legislation to avoid needing to adjust the standard if legislation changed. These paragraphs were based on paragraphs and references to legislation included in the current auditing standard used for service performance information in the public sector. The OAG has subsequently agreed that the recommended changes are workable for the public sector, therefore paragraphs A20 and A21 have been deleted.

- d. CAANZ/CPA disagreed with the use of prescribed specific wording for the auditor's opinion in paragraph 52 instead of being principled based supported by guidance.

This paragraph has been removed to enable the potential for variation of wording for opinions over service performance information however the requirement to comply with ISA (NZ) 700 has been retained.

- e. The definition of a misstatement should include the omission of service performance information that is appropriate and meaningful (CAANZ/CPA, OAG).

The definition of misstatement has been updated to include an omission of appropriate and meaningful information at paragraph 8. Application guidance for the omission of appropriate and meaningful information has been added at paragraph A54.

- f. The standard reads like a standalone standard but is required to be applied in addition to the ISAs (NZ). It is unclear which requirements and guidance are new, adapted from or duplicated from ISAs (NZ) (CAANZ/CPA).

To address these concerns the following changes are recommended:

- i. Remove of duplication of ISA (NZ) requirements and make more SPI specific (para 18, A28)
  - ii. Greater cross referencing to ISAs (NZ)
  - iii. Alignment to ISAs (NZ) (para 26)
- g. The requirement for key audit matters (KAM) reads as though there must always be a KAM for service performance information. (CAANZ/CPA).

We have redrafted paragraph 52 so not to imply that there should always be a KAM for service performance information.

- h. Additional guidance on 'attribution to the entity' is needed for the auditor to consider service performance information where there is indirect attribution to the entity (OAG).

New application guidance has been added at paragraph A38.

- i. An illustrative example audit report for when SPI is not appropriate and meaningful (OAG, CAANZ/CPA).

A new illustrative audit report has been added in appendix 5.

### **Does the Board approve all marked up amendments to NZ AS 1 (Revised) The Audit of Service Performance Information at agenda item 4.3.?**

#### *Application date*

- 27. In addition to specifying the application date the Board should consider whether it will allow early adoption. Early adoption can be for periods that commence before the application date, but have not ended before the effective date. If the Board is going to permit early adoption for the window of time available before application date it must specify that permission.
- 28. Staff recommend that early adoption is permitted and have included recommended wording at paragraphs 0. The intent of permitting early adoption is to enable transition to a stable platform as soon as possible, but to not mandate it for those who need time to transition. If we gazette this standard sometime in July 2023 (the effective date), it will enable auditors to voluntarily adopt this standard for the first mandatory audits of tier 1 and tier 2 not-for-profit entities (i.e., PBE FRE 48 is applicable for periods commencing 1 January 2023).

### **Does the Board support early adoption of NZ AS 1 (Revised) The Audit of Service Performance Information?**

#### *Revoking of NZ AS 1 The Audit of Service Performance Information*

- 29. Consultation on the exposure draft proposed to defer the effective date of extant NZ AS 1 to 1 January 2024 (aligning it to NZ AS 1 (Revised)). The effect of this proposal was that extant NZ AS 1 would never be mandatory to apply.

30. In light of recent work to enhance our gazetting processes and wording around the application of standards, it is now recommended that rather than defer extant NZ AS 1, we revoke NZ AS 1 to make it clear in secondary legislation that the standard is not mandatory for periods commencing 1 January 2023. We intend to repackage extant NZ AS 1 as non-authoritative guidance, so that those who wish to voluntarily apply it can do so (noting that some practitioners had voluntarily early adopted the extant standard).
31. In revoking the standard, we will clarify that until NZ AS 1 (Revised) becomes effective for periods beginning on or after 1 January 2024, practitioners will be able to either:
  - a. Voluntarily apply the repackaged non-authoritative guidance in extant NZ AS 1; or
  - b. early adopt NZ AS 1 (Revised); or
  - c. apply ISAE (NZ) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Auditors in the public sector are required to follow the standards of the Auditor-General.

**Does the Board support revoking NZ AS 1 *The Audit of Service Performance Information*?**

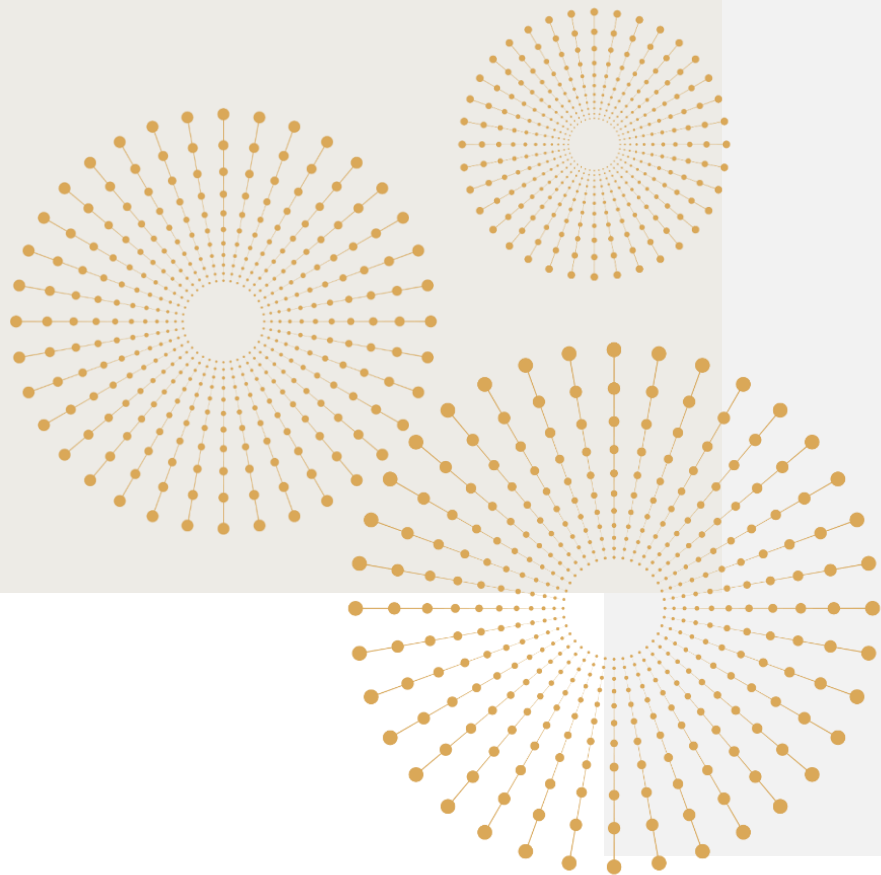


Te Kāwai Ārahi Pūrongo Mōwaho  
EXTERNAL REPORTING BOARD

# New Zealand Auditing Standard 1 (Revised)

## The Audit of Service Performance Information

**Commencement and application dates: refer to  
Paragraphs 0.1-0.3 of this standard**



Issued



**NEW ZEALAND AUDITING STANDARD 1 (REVISED) THE AUDIT OF SERVICE PERFORMANCE INFORMATION**

**Legal status of standard**

This Standard was issued on [date] 2023 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board (XRB) pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019. 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 paragraphs 0.1-0.3.

This Standard has been issued as a result of the issue of financial reporting requirements in New Zealand that require the inclusion of service performance information within general purpose financial reports that are subject to audit.

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NEW ZEALAND AUDITING STANDARD 1 (REVISED)  
**THE AUDIT OF SERVICE PERFORMANCE INFORMATION**

*Issued by the New Zealand Auditing and Assurance Standards Board*

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**New Zealand Auditing Standard (NZ AS) 1 (Revised), *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.**

**Commencement and application**

*When standard takes effect (section 27 Financial Reporting Act 2013)*

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019.<sup>1</sup>

*Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)*

0.2 The accounting periods in relation to which this standard commences to apply are:

- (a) For an early adopter, those accounting periods following, and including, the **early adoption accounting period**;
- (b) For any other auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

0.3 In paragraph 0.2

**early adopter** means an auditor that applies this standard for an early adoption accounting period.

**early adoption accounting period** means the accounting period

- (a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- (b) for which the early adopter
  - (i) first applies this standard, and
  - (ii) discloses in its audit report for that accounting period that this standard has been applied for that period.

**mandatory date** means 1 January 2024.

0.4 This Standard supersedes NZ AS 1 *The Audit of Service Performance Information*

~~0.1~~

**Introduction**

1. Service performance information is information about what the entity has done and achieved during the reporting period in working towards its broader aims and objectives, together with supporting contextual information about why an entity exists, what it intends to achieve and how it goes about this, prepared in accordance with the applicable financial reporting framework. (Ref: Para. A1)

**Scope of the Standard**

2. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the service performance information concurrently with the financial statements.

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<sup>1</sup> The standard was published on DATE and takes effect on DATE. ~~Insert publication date~~

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3. This NZ AS establishes requirements and provides guidance not addressed by other International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information.
4. This standard together with the ISAs (NZ) sets out the requirements to obtain reasonable assurance over service performance information.
5. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit both the financial statements and the service performance information prepared in accordance with the applicable financial reporting framework. (Ref: Para. A2)

### Application Date

- ~~6.~~ This NZ AS shall apply for audits of service performance information for periods beginning on or after 1 January 2024. Early adoption is permitted on a voluntary basis.

### **Objective**

~~7.6.~~ The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information ~~is prepared~~ presents fairly<sup>2</sup>, in all material respects ~~the service performance~~ in accordance with the applicable financial reporting framework.

~~8.7.~~ The auditor may achieve the objective of this NZ AS by considering the following two steps:

- (a) Assess whether each of the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework: (Ref: Para. A3)
  - The elements/aspects of service performance that the entity has selected to report on.
  - The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.
  - The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.
- (b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.

### **Definitions**

~~9.8.~~ For the purposes of this NZ AS, the following terms have the meanings attributed below:

- (a) Misstatement – Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud when:
  - (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or
  - ~~(ii)~~ An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or
  - ~~(iii)~~ Incorrectly measuring or evaluating the entity's service performance.

Commented [LT1]: Comment #69 CAANZ/OAG outreach

<sup>2</sup> When the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation.

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- (b) Risk of Material Misstatement – The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:
- (i) Inherent risk – The susceptibility of an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
  - (ii) Control risk – The risk that a misstatement that could occur in an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s system of internal controls.

### **Requirements**

#### **General Requirements**

*Conduct Engagement in Accordance with the ISAs (NZ)*

~~10.9.~~ The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information. (Ref: Para. A4-A5)

~~11.10.~~ The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ) in relation to the audit of service performance information.

*Professional Judgement and Professional Scepticism*

~~12.11.~~ The auditor shall plan and perform the audit of service performance information by exercising professional judgement and with an attitude of professional scepticism. (Ref: Para. A6)

#### **Documentation**

~~13.12.~~ The auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS.<sup>3</sup> (Ref: Para. A7)

~~14.13.~~ The audit documentation shall include:

- (a) Significant professional judgements made in audit procedures performed, the audit evidence obtained, and conclusions reached. (Ref: Para. A8-A9)
- (b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

#### **Agreement on Audit Engagement Terms**

~~15.14.~~ The terms of the engagement shall include<sup>4</sup>: (Ref: Para. A10-A11)

- (a) The objective and scope of the audit. (Ref: Para. A12-A16)
- (b) The responsibilities of the auditor with respect to the service performance information:

<sup>3</sup> ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

<sup>4</sup> ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, [paragraphs NZ9.1-NZ10.1](#)

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- (i) To obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
  - (ii) To evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.
  - (iii) To evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
  - (iv) To evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework.
- (c) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
- (i) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.
  - (ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
  - (iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
  - (iv) Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.
- (d) Reference to the expected form and content of the auditor's report.

**Obtaining an Understanding**

*Understanding the Entity*

~~16.15.~~ The auditor shall obtain an understanding of: (Ref: Para. A17)

- (a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.
- (b) What activities or services the entity performs.
- (c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.
- (d) What is considered important to those stakeholders and users and what they may use the service performance information for.

*Understanding Laws and Regulations*

~~17.16.~~ The auditor shall obtain an understanding of:

- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and laws and regulations that specify the form, content,

preparation, publication, and audit of service performance information; and (Ref: Para. A18-A20~~3~~)

- (b) How the entity is complying with that framework.

*Understanding the Service Performance Information Reported*

~~18-17.~~ The auditor shall obtain an understanding of:

- (a) The applicable financial reporting framework relevant to the service performance information.
- (b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report. (Ref: Para. A21~~4~~-A23~~6~~, A26~~9~~)
- (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.
- (d) The measurement bases or evaluation methods used by the entity ~~is measuring or evaluating it to assess~~ the performance measures and/or descriptions ~~against and how these are made available to intended users.~~ (Ref: Para A78~~9~~-A79~~8~~0).
- (e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information. (Ref: Para. A27~~4~~)
- (f) Where the entity intends to report its service performance information. (Ref: Para. A28~~5~~)

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

~~19-18.~~ In accordance with ISA (NZ) 315 (Revised 2019)<sup>5</sup>, the auditor shall obtain an understanding of the entity's system of internal control over the preparation of the service performance information. (Ref: Para. A29~~7~~-A28~~3~~0):

- ~~(a) The control environment relevant to the preparation of the service performance information;~~
- ~~(b) The entity's risk assessment process to identify business risks relevant to the preparation of the service performance information;~~
- ~~(c) The entity's process for monitoring the system of internal control relevant to the preparation of the service performance information;~~
- ~~(d) The entity's information systems and communication relevant to the preparation of the service performance information;~~
- ~~(e) The control activities component. (Ref: Para. A30)~~

~~20-19.~~ Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.

Commented [LT2]: CAANZ/CPA comment #30

<sup>5</sup> ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

**Planning**

~~21.20.~~ The auditor shall develop an audit plan with a single audit approach to concurrently cover the service performance information and the financial statements.<sup>6</sup> (Ref: Para. A30~~34~~)

~~22.21.~~ In establishing the overall audit strategy, the auditor shall:

- (a) Consider the factors that, in the auditor’s professional judgement, are significant in directing the engagement team’s efforts in respect of the audit of service performance information.
- (b) ~~Determine the timing of when~~ Have the necessary skills available to evaluate ~~examine and provide comment to the entity at the time whether~~ the entity’s ~~is developing its~~ service performance information ~~on whether it is~~ appropriate and meaningful.

Commented [LT3]: CAANZ/CPA comment #54

~~23.22.~~ The auditor shall discuss with those charged with governance: (Ref: Para. A30~~2~~-A32~~4~~)

- (a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information;
- (b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance; and

~~24.23.~~ Any concerns identified shall then be communicated to those charged with governance as soon as practicable.

**Compliance With the Applicable Financial Reporting Framework**

~~25.24.~~ The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework. (Ref: Para. A33~~5~~)

*Appropriate and Meaningful*

~~26.25.~~ The auditor shall evaluate whether the service performance information is appropriate and meaningful<sup>7</sup> including whether: (Ref: Para. A34~~6~~, A394~~3~~-A43~~5~~)

- ~~(a) It relates to an element/aspect of service performance that significantly contributes to the entity’s core purpose, functions or objectives. (Ref: Para. A37)~~
- ~~(b)(a)~~ (a) It fairly reflects the auditor’s understanding of the entity’s performance from all other audit work performed on the audit. (Ref: Para. A38~~6~~)
- (b) It is likely to meet the needs of the intended user to enable an informed assessment of the entity’s service performance. (Ref: Para. A37~~9~~-A38~~40~~)
- ~~It relates to an element/aspect of service performance that significantly contributes to the entity’s core purpose, functions or objectives. (Ref: Para. A375)~~
- (c)
- (d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.

<sup>6</sup> ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7.

<sup>7</sup> ~~PBE FRS 48, *Service Performance Reporting*, paragraph 7, *Reporting Requirements for Tier 3 Public Sector Entities* paragraph A49-A50, *Reporting Requirements for Tier 3 Not-For-Profit Entities*, paragraph A46 and A47.~~



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~~(e) It is capable of measurement or evaluation in a consistent manner from period to period.~~

~~The measurement bases or evaluation methods used to assess each performance measure and/or description are: (Ref: Para. A41-A42)~~

~~Available to intended users.~~

~~Expected to be supported by audit evidence.~~

~~It is capable of measurement or evaluation in a consistent manner from period to period.~~

~~(d)(f)~~ It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.

*Compliance With Laws and Regulations*

~~27-26.~~ The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct **material** effect on the reporting of service performance information.<sup>8</sup>

**Commented [LT4]:** CAANZ/CPA comment #34 ISA (NZ) 250 "have a direct effect on the determination of material amounts ..."

**Materiality**

~~28-27.~~ The auditor shall use the understanding gained in paragraphs ~~156-2019~~ to determine the significant elements/aspects of service performance. (Ref: Para. A446-A457)

~~29-28.~~ The auditor shall determine and document materiality considerations and/or materiality for service performance information to determine the:<sup>9</sup> (Ref: Para. A468-A4951)

- a. Nature, timing and extent of further audit procedures; and
- b. The auditor's tolerance for misstatement in relation to material service performance measures and/or descriptions.

~~30-29.~~ The auditor shall apply materiality to assess whether:<sup>10</sup> (Ref: Para. A502-A5860)

- (a) The significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and (Ref: Para. A513)
- (b) The performance measures and/or descriptions, measurement bases or evaluation methods contain individual or collective misstatements, that based on the auditor's judgement, are likely to influence the decisions of the intended users based on the information.

~~31-30.~~ The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor's attention during the audit that would have caused the auditor to make a different materiality judgement.<sup>11</sup>

<sup>8</sup> ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>9</sup> ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 11 and 14

<sup>10</sup> ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 5

<sup>11</sup> ISA (NZ) 320, paragraphs 12 and 13

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~~32-31.~~ The auditor shall consider individually or collectively, all misstatements identified that are unadjusted by the entity, to conclude whether the service performance information is materially misstated. (Ref: Para. A536-A589)

### **Identifying and Assessing Risks of Material Misstatement**

~~33-32.~~ The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019) to obtain audit evidence that provides an appropriate basis for identification and assessment of risks of material misstatement, whether due to fraud or error:

- (a) At the service performance information level; and
- (b) At the assertion level for performance measures, descriptions or disclosures. (Ref: Para. A596-A613)

~~34-33.~~ The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.<sup>12</sup> (Ref: Para. A624)

### **The Auditor's Responses to Assessed Risks**

~~35-34.~~ The auditor shall design and perform procedures whose nature, timing and extent:<sup>13</sup>

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

~~36-35.~~ The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of controls over the service performance information when:<sup>14</sup>

- (a) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively; or
- (b) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence.

~~37-36.~~ Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.<sup>15</sup>

### **Audit Evidence**

~~38-37.~~ The auditor shall obtain sufficient appropriate audit evidence that the:<sup>16</sup> (Ref: Para. A635-A675)

- (a) Elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and
- (b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluations methods; and
- (c) Performance measures and/or descriptions are not materially misstated.

~~39-38.~~ Where possible the auditor shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. A668-A679)

<sup>12</sup> ISA (NZ) 315 (Revised 2019), paragraph 32

<sup>13</sup> ISA (NZ) 330 *The Auditor's Responses to Assessed Risks*

<sup>14</sup> ISA (NZ) 330, paragraph 8

<sup>15</sup> ISA (NZ) 330, paragraph 18

<sup>16</sup> ISA (NZ) 500, *Audit Evidence*, paragraph 6

~~40.39.~~ The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management expert.<sup>17</sup> (Ref: Para. A~~6870~~)

~~41.40.~~ The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

### **Communicating With Those Charged With Governance**

~~42.41.~~ The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance:<sup>18</sup>(Ref: Para. A~~6974~~)

- (a) Any significant risks identified with the service performance information.
- (b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement. (Ref: Para. A7~~02~~)
- (c) Significant difficulties, if any, encountered during the audit. (Ref: Para. A7~~31~~)
- (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management. (Ref: Para. A7~~24~~)
- (e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations.
- (f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.<sup>19</sup>
- (g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.<sup>20</sup>
- (h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.<sup>21</sup>

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

~~43.42.~~ When planning the audit of service performance information, the auditor shall:

- (a) Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit of service performance information sufficient to identify and assess the risks of material misstatement and design, and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.<sup>22</sup> (Ref: Para. A7~~35~~)

<sup>17</sup> ISA (NZ) 500 paragraph 8

<sup>18</sup> ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

<sup>19</sup> ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

<sup>20</sup> ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*

<sup>21</sup> ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>22</sup> ISA (NZ) 402, *Considerations Relating to an Entity Using a Service Organisation*

- (b) Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>23</sup> (Ref: Para. A76)
- (c) Where the service performance information includes information upon which another practitioner has expressed an opinion, communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner about the scope and timing of the work and findings of the other practitioner, and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information. (Ref: Para. A77)

#### **Using the Work of an Auditor's Expert**

~~44.43.~~ The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.<sup>24</sup> (Ref: Para. A76~~8~~)

#### **Written Representations**

~~45.44.~~ The auditor shall request written representations from those charged with governance that they have fulfilled their responsibility for:<sup>25</sup> (Ref: Para. A77~~9~~)

- (a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.
- (b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
- (c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
- (d) Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

#### **Forming an Opinion**

~~46.45.~~ The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>26</sup>

<sup>23</sup> ISA (NZ) 600 (Revised), *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

<sup>24</sup> ISA (NZ) 620, *Using the Work of an Auditor's Expert*

<sup>25</sup> ISA (NZ) 580, *Written Representations*

<sup>26</sup> ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

~~47-46.~~ In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

- (a) Whether sufficient, appropriate audit evidence has been obtained;
- (b) Whether uncorrected misstatements are material, individually or collectively; and
- (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

~~48-47.~~ The auditor shall conclude whether, in view of the applicable financial reporting framework:

- (a) The entity has presented service performance information that is appropriate and meaningful.
- (b) The measurement bases or evaluation methods are available to intended users. (Ref: Para. [A78-A79](#))
- (c) When the information is prepared in accordance with a fair presentation framework<sup>27</sup>, the service performance information achieves fair presentation, including whether:
  - i. The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
  - ii. The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
  - iii. The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.

~~49-48.~~ The auditor shall consider:

- (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
- (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

#### **Report Content**

~~50-49.~~ The auditor's report on the financial statements and the service performance information shall be included in a single report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information. (Ref: Para. A80-A81, [A83](#))

~~51-50.~~ The opinion section of the auditor's report shall:

- (a) Identify the service performance information;
- (b) State that the service performance information has been audited;
- (c) [Identify the applicable financial reporting framework; and](#)

<sup>27</sup> When the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation.

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~~(e)(d) Rwith r~~Reference to the measurement bases or evaluation methods ~~used to assess the service performance information as appropriate; and~~ (Ref: Para. A82)

**Identify the applicable financial reporting framework.**

~~52. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent: (Ref: Para. A83)~~

~~(a) In our opinion, the service performance information on pages x to x presents fairly, in all material respects, the service performance for the year then ended in accordance with the entity's measurement bases or evaluation method on pages x to xx, in accordance with [the applicable financial reporting framework]; or~~

~~(b) In our opinion, the service performance information on pages x to x gives a true and fair view of the service performance for the year then ended in accordance with the entity's measurement bases or evaluation method on pages x to xx, in accordance with [the applicable financial reporting framework].~~

~~53,51.~~ In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:

- (a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard 1 (Revised);
- (b) Describe the responsibilities of those charged with governance for:
  - i. The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.
  - ii. The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods on ~~pages x to xx~~, in accordance with the applicable financial reporting framework.
  - iii. The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
  - iv. Such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error.

When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view" as appropriate in the circumstances.<sup>28</sup>

(c) In the "auditor's responsibilities" section describe the audit of the service performance information by stating that, in accordance with the ISAs (NZ) and this New Zealand Auditing Standard, the auditor's responsibilities are to:

<sup>28</sup> This is not required for tier 4 entities reporting under a compliance framework, ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 26.

Commented [LT5]: CAANZ/CPA comment #63

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- i. Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
- ii. Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.
- iii. Evaluate whether the selected service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
- iv. Evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

### **Key Audit Matters**

~~54-52.~~ The auditor may be required or may voluntarily report key audit matters in the auditor's report in accordance with ISA (NZ) 701<sup>29</sup>. If reported, where, in the auditor's judgement matters related to service performance information were of most significance to the audit, key audit matters shall include matters related to the audit of the service performance. ~~where, in the auditor's judgement, such matters were of most significance to the audit of the service performance information.~~ (Ref: Para. A84)

**Commented [LT6]:** CAANZ/CPA comment #64

### **Modifications to the Opinion in the Independent Auditor's Report**

~~55-53.~~ The auditor shall modify the opinion, with respect to the service performance information when:<sup>30</sup>

- (a) The auditor concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or
- (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or (Ref: Para. A85)
- (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information, as a whole, is free from material misstatement.

~~56-54.~~ When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements. (Ref: Para. A86)

~~57-55.~~ When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as

<sup>29</sup> ISA (NZ) 701 Communicating Key Audit Matters in the Independent Auditor's Report

<sup>30</sup> ISA (NZ) 705 (Revised)

appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.

~~58-56.~~ If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.

#### Emphasis of Matter Paragraphs and Other Matter Paragraphs

~~59-57.~~ If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the service performance information, that in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report. (Ref: Para. A87)

~~60-58.~~ If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor’s judgement, is relevant to users’ understanding of the audit of service performance information, the auditor shall include an Other Matter paragraph in the auditor’s report. (Ref: Para. A87)

#### Comparative Information

~~61-59.~~ The auditor shall determine whether prior period comparative service performance information disclosed:

- (a) Agrees with amounts and other disclosures presented in the prior period or when appropriate, have been restated; and
- (b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

~~Public sector-Prospective Service Performance Information~~

~~62-60.~~ Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information agrees with the information presented in the published prospective service performance information.

Commented [LT7]: CAANZ/CPA comment #17, SB outreach comment #23

#### Other Information

~~63-61.~~ The auditor shall read the other information and consider whether there is a material inconsistency between: (Ref: Para. A88-A89)

- (a) The other information and the service performance information; and
- (b) The other information and the auditor’s knowledge obtained in the audit.

#### Application Material

##### Introduction (Ref: Para. 1)

A1. Service performance reporting requirements are generally less prescribed than financial information ~~and which may result in varied service performance reporting vary~~ between similar entities and industries. The format of the information is not prescribed and information may be presented outside the annual report and may be incorporated by cross reference. The auditor may benefit from early engagement with the entity to understand the entity’s service



performance reporting process, where it intends to report its service performance information and address any challenges that may arise to evaluate whether the service performance information is appropriate and meaningful as required by paragraph 26.

**Scope of the Standard (Ref: Para. 5)**

- A2. An entity may be required to identify the service performance information that is prepared in accordance with the applicable financial reporting framework. This standard only applies to service performance information prepared in accordance with the applicable financial reporting framework.

**Objective (Ref: Para. 87(a))**

- A3. Examples that the auditor may consider to assess whether the aspects of service performance information are appropriate and meaningful include:
- The elements/aspects of service performance that the entity has selected to report on. For example, provide safe drinking water to stakeholders.
  - The performance measures and/or descriptions the entity has used to report on what it has done in relation to the elements/aspects of service performance during the reporting period. For example, 100% of water supplied was safe.
  - The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.

**General Requirements (Ref: Para. 910, 112)**

*Conduct Engagement in Accordance with the ISAs (NZ)*

- A4. This NZ AS supplements the ISAs (NZ). It expands on how the ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not explicitly dealt with by the ISAs (NZ) or where the application of the ISAs (NZ) differs as a result of the nature of the service performance information.
- A5. The applicability of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240<sup>31</sup>, ISA (NZ) 540 (Revised)<sup>32</sup>, and ISA (NZ) 550<sup>33</sup> are in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates as a result of measurement that is subject to estimation uncertainty, or the effect of related party transactions.

*Professional Judgement and Professional Scepticism*

- A6. The applicable financial reporting framework enables an entity to determine how it selects, aggregates, measures and presents its service performance information. As such, this elevates the need for early engagement and planning of sufficient time to obtain an understanding of the entity and to exercise professional judgement, particularly to assess whether the service performance information is appropriate and meaningful and to determine materiality. The

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<sup>31</sup> ISA (NZ) 240, *The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>32</sup> ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>33</sup> ISA (NZ) 550, *Related Parties*

auditor may find it helpful to seek out examples of service performance reporting of similar entities.

**Documentation (Ref: Para. ~~123~~-134(a))**

A7. The following are examples of matters that the auditor may include in the audit documentation:

- Planning: The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial statements and service performance information, any significant changes made during the engagement, and the reasons for the changes.
- Risks of material misstatement: Key elements of the auditor's understanding in accordance with paragraphs 16-20; including the sources of information from which the auditor's understanding was obtained.
- Procedures: The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures.
- Evaluation of misstatements: Misstatements identified during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected misstatements are material, individually or collectively.

A8. ISA (NZ) 230<sup>34</sup> notes that, an important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgement exercised in performing the work and evaluating the results. Documentation of the professional judgements made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgement.

A9. Examples of circumstances relating to the use of professional judgement to include in audit documentation include significant matters and judgements relating to:

- whether the service performance information is appropriate and meaningful (Ref: Para. 26).
- the factors considered in determining materiality and what measures are material. (Ref: Para. 29)

**Agreement on Audit Engagement Terms (Ref: Para. ~~145~~)**

A10. The terms of the audit engagement include references to the service performance information.

A11. An illustrative audit engagement letter including service performance information is set out in Appendix 2.

**Scope**

A12. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).<sup>35</sup>

<sup>34</sup> ISA (NZ) 230, *Audit Documentation* paragraph A9

<sup>35</sup> ISA (NZ) 720 (Revised), *The Auditor's Responsibility Relating to Other Information*

*Public Sector*

- A13. ~~Some entities may be required to prepare information that is in addition to service performance information addressed in this standard and/or performance information that is required to be audited under legislation. The performance information required to be prepared by a public entity under legislation can be more extensive than the performance information that is required to be audited under legislation and/or the service performance information addressed in this standard. For example, Crown Entities are required to include Public entities, for example, can often include performance information on its obligation to be a good employer, that is outside of the service performance information required by the applicable financial reporting framework (i.e., additional to the audited set of information specially intended to satisfy the entity's formal reporting requirements).~~
- A14. Differences between reporting and auditing requirements in legislation may have been identified by the entity or by the auditor. In some instances, the entity or the auditor may have identified performance information that would be useful or valuable to have audited and that falls outside the scope of what is required to be statutorily audited.

**Commented [LT8]:** CAANZ/CPA comment #17-19, Outreach comment #23

*Not-for-Profit Sector*

- A15. Some entities that are required by the applicable financial reporting framework to prepare service performance information, may not be required by law or regulation to have an audit ~~or review~~. For example, some Tier 3 registered charities, and all Tier 4 registered charities may have no statutory audit ~~or review~~ requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).
- A16. Some entities are required by the applicable financial reporting framework to prepare entity information. For Tier 3 registered charities that have a statutory audit ~~or review~~ requirement, all information required to be prepared by the applicable reporting standard is required to be audited ~~or reviewed~~, including the entity information. When the entity information is not within scope of the audit engagement, the auditor's responsibility for the entity information is limited to following the requirements in ISA (NZ) 720 (Revised).

**Commented [LT9]:** CAANZ/CPA comment #66

**Obtaining an Understanding (Ref: Para. 156-19)**

*Understanding the Entity (Ref: Para. 156)*

- A17. The auditor may obtain an understanding through:
- (a) Enquires with management and those charged with governance;
  - (b) Reading:
    - Founding documents such as rules, constitution or trust deed.
    - Statement of intent.
    - Past statements of service performance.
    - Funding documents or agreements.
    - Minutes from governance meetings.
    - Entity newsletters.
    - Entities public website.
    - Charities register.

- Media reports.

*Understanding Laws and Regulations (Ref: Para. 176)*

- A18. Laws and regulations may differ among entities depending on their governing legislation.
- A19. The scope of what service performance information the entity reports may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability.
- A20. The nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.

**Public Sector**

~~A21. The specific statutory reporting requirements differ among public entities depending on their governing legislation. Statutes governing public entities' reporting obligations include the Public Finance Act 1989, Crown Entities Act 2004, Local Government Act 2002, Education and Training Act 2020, Energy Companies Act 1992, and will also include the public entity's enabling Act (where applicable).~~

**Commented [LT10]:** CAANZ/CPA comment #20 and Outreach comment #24

~~A22. For most public entities reporting under the Public Finance Act 1989, the Crown Entities Act 2004, or the Local Government Act 2002, the reporting requirements for an entity will likely include:~~

~~(a) A forecast performance report:~~

- ~~• That may be included in the supporting information for the main Appropriation Bill, statements of performance expectations, statements of intent, long-term plans, and similar documents; and~~
- ~~• That is aimed at specifying the types and levels of service the public entity plans to deliver and how it plans to assess what its work is achieving; and~~

~~(b) A performance report of actual performance achieved:~~

- ~~• That is normally presented in the public entity's annual report;~~
- ~~• That should cover what has been achieved against the performance intentions outlined in the forecast performance report;~~
- ~~• That should disclose any contextual information necessary to enable an informed assessment to be made of the public entity's performance. This could include descriptions of identified effects of the public entity's interventions, including any unintended consequences.~~

~~These reports are usually required to comply with the applicable financial reporting framework.~~

~~For other public entities (for example energy companies), the nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.~~

~~A23-A21.~~ The provisions of those laws and regulations may require the entity to present particular service performance information which may be over and above any requirements to comply with the applicable financial reporting framework. As the reporting is required by law and

regulation the auditor is not required to assess whether the service performance information is appropriate and meaningful.

*Understanding the Service Performance Information Reported (Ref: Para. 178)*

A24-A22. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established performance measures and/or descriptions or measurement bases or evaluation methods from guidance, standards, laws or regulation, or it may need to apply judgement to develop internally its own performance measures and/or descriptions or measurement bases or evaluation methods for its service performance information. The need for such judgement makes the preparation of service performance information inherently more susceptible to the risk of management bias.

A25-A23. The process applied by the entity to determine what service performance information to report on and how to measure or evaluate its service performance information may affect the work that the auditor carries out. The level of potential management bias in selecting the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods directly correlates with the amount of work that the auditor may need to perform when considering the service performance information reported or intended to report. For example, use of performance measures and/or descriptions or measurement bases or evaluation methods specified by external benchmarks or industry guidance may require less work than internally generated performance measures and/or descriptions or measurement bases or evaluation methods, as external guidance reduces the risk of management bias. The entity may have documentation that reflects the process it went through in selecting its service performance information. Transparency about the entity's process to select its service performance information and the entity's consideration of materiality may also affect the work that the auditor carries out.

A26-A24. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify its service performance information, or service performance information may be less accurate or complete. The entity may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities will be at varying stages of maturity in respect of preparing service performance information.

A27-A25. Unforeseen events impacting the entity may require the entity to focus on different elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods than intended when the service performance information was determined for the period. The auditor should gain an understanding of such events and the impact it has on service performance reporting and whether any alternative elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods used are more appropriate and meaningful to fairly reflect the revised activities or services performance of the entity over the period.

A28-A26. Service performance information can also be located outside the service performance report. Such information can, for example, be included with the service performance reporting of another entity or in some other publication and/or published form (for example, a stand-alone service performance report or industry sector report). Service performance reporting can also be activity based rather than focused on the service performance of a single entity.

[Public Sector Forecast Service Performance Information](#)

~~A29-A27.~~ When forecast service performance information is prepared, it may largely determine ~~For most public entities,~~ the service performance information that is reported, ~~is largely determined by the forecast service performance information.~~

*Understanding the Components of the Entity's System of Internal Control (Ref: Para. 189)*

A28. An entity's internal control systems related to the preparation of service performance information may vary by size or complexity of the entity, and the nature and complexity of the service performance information. There is a difference between simple controls and inadequate controls. Simple controls may be adequate when the entity and the performance measure and/or description and its measurement basis or evaluation method are not complex. Internal control systems related to the preparation of service performance may be less developed or less well 'embedded' into the operations than those related to the preparation of financial information. They may be less traditional to those used for financial information and require greater work effort by the auditor to gain an understanding.

Commented [LT11]: CAANZ/CPA comment #30 and #31

~~A30-A29.~~ Controls in the control activities component that may be relevant to the audit of the service performance information include policies and procedures that pertain to internal management performance reviews, such as reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another.

**Planning (Ref: Para. 204, 223)**

~~A31-A30.~~ Although it is likely that the service performance information and financial information will come from different systems, a single audit approach recognises the inextricable link between the service performance information and the financial statements of an entity.

~~A32-A31.~~ It is important to engage with the entity as early as possible to understand whether the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods the entity intends to report are appropriate and meaningful.

*Public Sector Forecast Service Performance Information*

~~A33-A32.~~ If an entity prepares forecast service performance information, providing feedback on the forecast service performance information provides the best opportunity to engage with the entity on whether the service performance information intended to be reported is appropriate and meaningful.

~~A34-A33.~~ The audit of the end of year service performance reporting, can influence how you assess the forecast service performance reporting for the following year.

**Compliance With the Applicable Financial Reporting Framework (Ref: Para. 245)**

~~A35-A34.~~ Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:

- a) For tier 1 and tier 2 public benefit entities, *PBE FRS 48 Service Performance Reporting*.

b) For tier 3 public benefit entities:<sup>36</sup>

- ~~PBE Simple Format Reporting – Accrual~~ [Reporting Requirements for Tier 3 Not-for-Profit Entities.](#)
- [Reporting Requirements for Tier 3 Public Sector Entities](#)

c) For tier 4 public benefit entities:

- ~~Reporting Requirements for Tier 4 Not-for-Profit Entities, PBE Simple Format Reporting – Cash.~~
- [Reporting Requirements for Tier 4 Public Sector Entities](#)

Commented [LT12]: CAANZ/CPA comment #67

*Appropriate and Meaningful (Ref: Para. 256)*

~~A36-A35.~~ To determine if the service performance information is appropriate and meaningful the auditor should assess how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods.

~~A37-A36.~~ The auditor may consider whether:

- The service performance information shows clear and logical links between the element/aspect of service performance to be measured or evaluated and the entity’s overall purpose and strategies.
- There is other potentially more relevant service performance information that could have been used and reasons why those were not included.
- The entity has a clear understanding of its contribution toward longer term elements/aspects of service performance.
- The entity uses a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders, for example, a local authority’s Long-Term Plan, statement of intent, charter, recent plans and strategies or agreements with key funders. The selection of service performance information pre agreed with key stakeholders may have a lower risk of management bias.
- The service performance information reflects how the entity assesses its service performance for the purpose of internal decision making.

~~A38-A37.~~ The auditor may consider whether the service performance information inappropriately attributes service performance to the entity.

~~A39-A38.~~ The auditor may consider:

- Whether the service performance information presents a neutral view including all significant aspects, both positive and negative.
- [Whether any service performance information is omitted, where this is an appropriate link to the service performance of the entity.](#)

Commented [LT13]: OAG comment #74

<sup>36</sup> Prior to periods beginning on or after 1 April 2024, the applicable financial reporting standards are *PBE Simple Format Reporting – Accrual* for tier 3 public benefit entities, and *PBE Simple Format Reporting – Cash* for tier 4 public benefit entities.

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- Whether there is potential for management bias in the selection of the performance measure and/or descriptions.
- If the entity reports targets, how those targets may obscure a proper understanding of the entity's service performance.
- The results of surveys. For example, satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints which may indicate the appropriateness of the service performance information.
- Whether the process to determine what service performance information to report involved the intended users and what information they may find helpful to assess the service performance of the entity - lowering the risk of management bias.
- External requirements or agreements with external parties that influence the entity's service performance accountability.
- Whether the service performance information was pre agreed with key stakeholders.
- Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information. The auditor may need to evaluate the suitability of these guidelines to the entity's circumstances and how these align to intended users' needs. More detailed service performance reporting may be more appropriate.
- Whether an overly voluminous service performance report is detracting from the usefulness and relevance of the overall report.
- Whether the report is complete.

A40:A39. An entity may select service performance information to report on the basis that the selected performance is readily obtainable or measurable however it may not be the most relevant information to enable the user to understand or assess the service performance of the entity.

A41:A40. The potential for management bias ~~in selecting the measurement basis or evaluation method to assess the service performance measure~~ directly correlates with the amount of work that the auditor may need to perform to obtain sufficient appropriate audit evidence that the ~~measurement basis or evaluation method~~ service performance information ~~selected~~ is appropriate and meaningful. For example, the auditor may need to consider management bias when there are multiple measurement bases or evaluation methods possible to assess a performance measure. Also, there may be greater management bias when the measurement basis or evaluation method is internally generated rather than an external industry standard.

A42:A41. Some service performance information that is more relevant for users, may be measured less precisely. The auditor may perform different audit procedures than for those where the service performance can be more precisely measured.

A43:A42. The auditor's evaluation of the service performance information may be an iterative process.



Public Sector Forecast Service Performance Information

A44-A43. For entities that prepare forecast service performance information for a reporting period, the auditor is encouraged to evaluate whether it is appropriate and meaningful when it is developed.

A45-A44. The considerations in paragraph 25(b), (c), (d) and (e) ~~26(a), (e), (d) and (f)~~ are most relevant in the auditor's evaluation of whether the forecast service performance information is appropriate and meaningful.

**Materiality (Ref: Para. 278-312)**

A46-A45. There can be significant variation in the service performance information selected and presented by entities. The auditor's understanding of the entity is important in determining what are the significant elements/aspects of the entity's service performance which are important to intended users of the service performance information.

A47-A46. Understanding what elements/aspects of service performance are significant to users may assist the auditor in focusing their audit efforts and applying professional judgement when considering any misstatements identified.

A48-A47. The auditor's materiality considerations and determination of materiality is a matter of professional judgement. The evaluation required by paragraph 256, particularly the factors regarding relevance considered by the auditor in paragraphs A346 to A435, may assist the auditor to determine materiality considerations and/or materiality.

A49-A48. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information. Such a discussion provides a frame of reference to the auditor in determining what is material. The auditor's consideration of the entity's process to select the elements/aspects of service performance, the performance measures and/or descriptions, and measurement bases or evaluation methods to use also provides context in determining materiality considerations and/or materiality.

A50-A49. The basis for materiality will likely differ from the financial statements. Materiality may be expressed in terms of the appropriate unit of account for each element/aspect of service performance or performance measure and/or description reported. The auditor is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account. It may be possible to group similar service performance measures and/or descriptions together and make materiality decisions on the same basis if they have the same unit of account.

A51-A50. The materiality considerations determine the auditor's tolerance for misstatement in relation to material service performance measures and/or descriptions. Material misstatements may occur in both qualitative and quantitative service performance information. The auditor may need to exercise professional judgement beyond the traditional approach of applying a % to a chosen benchmark. In some instances, there may be no tolerance for error in some performance measures and/or descriptions.

A52-A51. If the auditor's assessment required by paragraph 320(a) is that the significant elements/aspects of service performance and related material performance measures and/or descriptions is not appropriate and meaningful, it is a matter of professional judgement as to whether that gives rise to a material misstatement.

A53-A52. The auditor may firstly consider which elements/aspects of service performance are important to intended users. Having identified those, the auditor may then consider what are

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the material performance measures and/or descriptions that measure performance in those elements/aspects of service performance. A tolerance for misstatement is then applied by the auditor to material service performance measures and/or descriptions.

A54:A53. The following factors may assist the auditor in applying materiality:

- The importance of the element/aspect of service performance to achieving the entity's service performance objectives. For example, whether the performance measure and/or description relates to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
- How the information is presented. For example, does the presentation draw attention to particular information? The auditor may be less tolerant of misstatement in information that is given the most prominence.
- The extent of interest shown in particular aspects of service performance by, for example funders, key stakeholders or the public; and for example, whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the auditor may be less accepting of misleading or inaccurate information.
- The economic, social, political and environmental effect of a project or an entity's work, where there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to an activity that could be a significant risk to the public.
- Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.
- The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- The number of persons or entities affected.
- Where there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, the auditor may be particularly diligent where a target has only just been achieved.
- Whether a misstatement is material having regard to the auditor's understanding of known previous communications to users.

### *Misstatements*

A55:A54. A misstatement may arise when:

- An element/aspect of service performance or performance measure or description, or a measurement basis or evaluation method selected is assessed by the auditor as not being appropriate and meaningful;
- An element/aspect of service performance or performance measure and/or description is omitted that is assessed by the auditor as being appropriate and meaningful;
- The information is not prepared in accordance with the entity's measurement basis or evaluation method;

- The entity's service performance information is not in accordance with the applicable financial reporting framework.

A56-A55. An individual misstatement, impacting a single element/aspect of service performance, performance measure and/or description, may be material.

A57-A56. A number of misstatements, when observed collectively across the service performance information, may also be material if they amount to a misleading portrayal of the entity's service performance information. Even though taken individually, each service performance measure and/or description may not be materially misstated, the auditor needs to consider whether the service performance information as a whole is materially misstated.

A58-A57. It is unlikely that the auditor will be able to aggregate misstatements numerically. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively, as required by paragraph 32.

A59-A58. The auditor exercises professional judgement to conclude on the impact of any material misstatement on the opinion. The auditor may consider factors such as whether the misstatement impacts a significant element/aspect of service performance and whether it is likely to influence the decisions of the intended users.

A60-A59. Examples of factors that may lead to a material misstatement, include:

- Misuse of language – that creates a misleading picture of the entity's performance.
- Misleading presentation – which highlights or downplays aspects of performance, to create a misleading picture of the entity's service performance.
- Bias – an emphasis is placed on good performance and downplays or omits poor performance i.e., isn't neutral.
- Omission of fact – something is left out that may be important to understanding the entity's service performance or is important to intended users.
- Incorrect measurement or evaluation – the service performance measure isn't prepared in accordance with the measurement basis or evaluation method selected by the entity.
- Where quantifiable service performance information misstates the level of actual performance beyond a determined level (the traditional application of materiality).
- Misstatement of fact.
- Misrepresentation of trend – performance presented does not represent the facts available.
- Unsubstantiated claims.

#### **Identifying and Assessing Risks of Material Misstatement (Ref: Para. 323-334)**

A61-A60. Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:

- a) Occurrence – service performance that has been reported has occurred.
- b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with either directly or in conjunction with other entities with common goals.

- c) Completeness – all important service performance that should have been reported has been included in the service performance information.
- d) Accuracy – service performance has been reported, measured and described appropriately and is not inconsistent with the financial statement information.
- e) Cut-off – service performance has been reported in the correct period.
- f) Presentation – service performance is appropriately aggregated or disaggregated, clearly displayed and not misleading, and related disclosures are relevant and understandable.

A62-A61. The auditor may use the assertions as described in paragraph A61 or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution or based on the nature of the service performance information reported consider existence may be more appropriate than occurrence.

A63-A62. When assessing the likelihood and magnitude for identified risks of material misstatement the auditor exercises professional judgement in considering the degree to which inherent risk factors of the service performance information affect the susceptibility of an assertion to misstatement. Considering the degree to which inherent risk factors affect the susceptibility of an assertion to misstatement, assists the auditor in appropriately assessing inherent risk for risks of material misstatement at the assertion level and in designing a more precise response to such a risk. Due to the variation in how an entity can aggregate, measure and present its service performance information, this assessment needs to be done at a meaningful level to reflect the inherent risk of the particular measure.

A64-A63. Risks of material misstatement that may be assessed as having higher inherent risk and may therefore be determined to be a significant risk, may arise from matters such as the following:

- Performance measures that use a measurement basis or evaluation method that may be subject to differing interpretations.
- Performance measures that involve complexity in data collection and processing.
- Performance measures that use a measurement basis or evaluation method that involves complex calculations.
- Changes in the entity's business that involve changes in service performance.

**Audit Evidence (Ref: Para. 378-40)**

A65-A64. Determining whether service performance information selected is appropriate and meaningful involves a considerable amount of judgement. There may be documentation that provides audit evidence to support the judgements made by the entity in selecting the service performance information to report, for example, those referred to in paragraph A17.

A66-A65. The mix of procedures to be performed may vary compared with the mix used for financial information but does not alter the need to obtain sufficient appropriate audit evidence.

A67-A66. Service performance information may not come directly from traditional financial reporting information systems and source records. Nevertheless, the entity will need an accurate record keeping system that provides relevant and reliable audit evidence. The auditor may find it more challenging and need to think differently to obtain relevant and reliable audit evidence where information systems, source records or internal controls are different to those used in traditional financial reporting.

**A68:A67.** The auditor may be able to identify relationships between the service performance information and the financial information as a sense check that the financial and service performance information are reflecting a consistent report of the performance of the entity. For example, does the movement in fuel expense in the financial statements reflect the number of home visits reported.

**A69:A68.** The auditor's procedures may include:

- (i) Agreeing or reconciling amounts reported in the service performance information to any underlying financial and non-financial records;
- (ii) Agreeing cross references between the service performance information and the financial statements.

**A70:A69.** The auditor may use the work of an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert). Examples may include a professional survey firm conducting a perception questionnaire or satisfaction survey, or preparing a water quality report.

#### **Communicating With Those Charged With Governance (Ref: Para. 421)**

**A71:A70.** The auditor is encouraged to communicate with those charged with governance early or as soon as practicable

**A72:A71.** The auditor's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. For example, why the auditor considers the service performance information not to be appropriate and meaningful. Open and constructive communication including feedback on the maturity of the entity's process to prepare the service performance information, the service performance information selected by the entity or how the information compares to other entities may drive improvements over time. This may include comments about, for example, judgemental aspects of what service performance information to report on, concerns regarding management bias or the quality of the presentation of the information.

**A73:A72.** Significant difficulties encountered during the audit may include such matters as:

- (i) Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- (ii) The unavailability of expected information.

**A74:A73.** Significant matters discussed, or subject to correspondence with management may include matters that were pervasive to the service performance information, biases in the performance measures and/or descriptions, for example, questions in a survey articulated to drive a particular result.

#### **Special Considerations: An Entity Using a Service Organisation, Groups and Using the Work of Another Practitioner (Ref: Para. 423)**

**A75:A74.** It may be appropriate for an entity to report service performance information about elements/aspects of service performance provided by other entities. ISA (NZ) 402<sup>37</sup> may be relevant to the audit of service performance information, if the user entity makes use of a service organisation for the preparation of service performance information with another entity.

<sup>37</sup> ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

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~~A76-A75.~~ ISA (NZ) 600 (Revised)<sup>38</sup> may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about the elements/aspects of service performance provided by other entities.

~~A77-A76.~~ Alternatively, the service performance information may include information upon which another practitioner may have expressed an opinion. The auditor may decide to use the evidence on which the other practitioner's opinion is based to provide evidence regarding the service performance information. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:

- (a) A communication that the auditor understands and complies with the requirements of Professional and Ethical Standard 1<sup>39</sup>.
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement team's involvement in the work of the other practitioner.

ISA (NZ) 620<sup>40</sup> may also provide useful guidance with respect to using the work performance by another assurance practitioner.

### **Using the Work of an Auditor's Expert (Ref: Para. 434)**

~~A78-A77.~~ Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Examples may include expertise in relation to such matters as:

- (a) The measurement of complex performance measures;
- (b) Assertions made about the entity's performance, for example, when reporting on the impact that the entity had;
- (c) Conformity assessments, ecolabelling and certification programmes.

### **Written Representations (Ref: Para. 445)**

~~A79-A78.~~ An illustrative representation letter for an audit that includes service performance information is set out in Appendix 3.

### **Forming an Opinion (Ref: Para. 487(b))**

A79. The measurement bases or evaluation methods used to assess a performance measure and/or [description] need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.

A80. The measurement bases or evaluation methods can be made available to the intended users in one or more of the following ways:

**Commented [LT14]:** OAG comment #56 and CAANZ/CPA #59

<sup>38</sup> ISA (NZ) 600 (Revised), *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

<sup>39</sup> Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

<sup>40</sup> ISA (NZ) 620, *Using the Work of an Auditor's Expert*

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- (a) Publicly, for example, readily available documents such as a published external assessment framework on a website.
- (b) Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.
- (c) Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.
- ~~(d)~~ By general understanding, for example, the method of measuring time in hours and minutes. The auditor may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

### Report Content (Ref: Para. ~~5049-512~~)

~~A80-A81.~~ The auditor's report includes references to the service performance information. An illustrative auditor's report that includes references to the service performance information is set out in Appendix 4.

~~A81-A82.~~ This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised)<sup>41</sup>.

~~A82-A83.~~ The auditor's report ~~identifies or~~ refers to the method used to measure or evaluate the service performance so the intended users can understand the basis for the auditor's opinion.

~~A83-A84.~~ An example of how the wording may look in an auditor's report:

*In our opinion, the accompanying [financial report/ performance report] presents fairly, in all material respects:*

- *[the entity information as at December 31, 20X3;]*
- *the financial position of the [entity] as at December 31, 20X3, and its financial performance, and its cashflows for the year then ended; and*
- *the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods on pages x to xx*

*in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.*

### Key Audit Matters (Ref: Para. ~~524~~)

~~A84-A85.~~ The order of presentation of individual matters within the Key Audit Matters is a matter of professional judgement. Key audit matters relating to service performance may be the most important key matter to intended users.

### Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. ~~553-56~~)

~~A85-A86.~~ A misstatement of the service performance information may arise in relation to:

- (a) The application of the measurement basis or evaluation method;
- (b) Inadequate disclosure of judgements made, where applicable; or

<sup>41</sup> ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- (c) Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

A86-A87. In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements. Appendix 5 includes illustrative auditor's reports with modifications to the opinion with respect to the service performance information.

**Emphasis of Matter Paragraphs and Other Matter Paragraphs (Ref: Para. 579-5860)**

A87-A88. An Emphasis of Matter or Other Matter paragraph may describe for example:

- The underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
- The source and method used to measure or evaluate the service performance information and whether they are externally established (e.g., established in legislation or externally established performance frameworks).
- Any significant interpretations made in selecting the entity's service performance information or applying the method(s) to measure or evaluate.
- Whether there have been any changes in the service performance information disclosed or measurement bases or evaluation methods used.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.
- Information the auditor considers would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting.

**Other Information (Ref: Para. 5963)**

A88-A89. Other information, whether financial or non-financial information (other than the financial statements information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

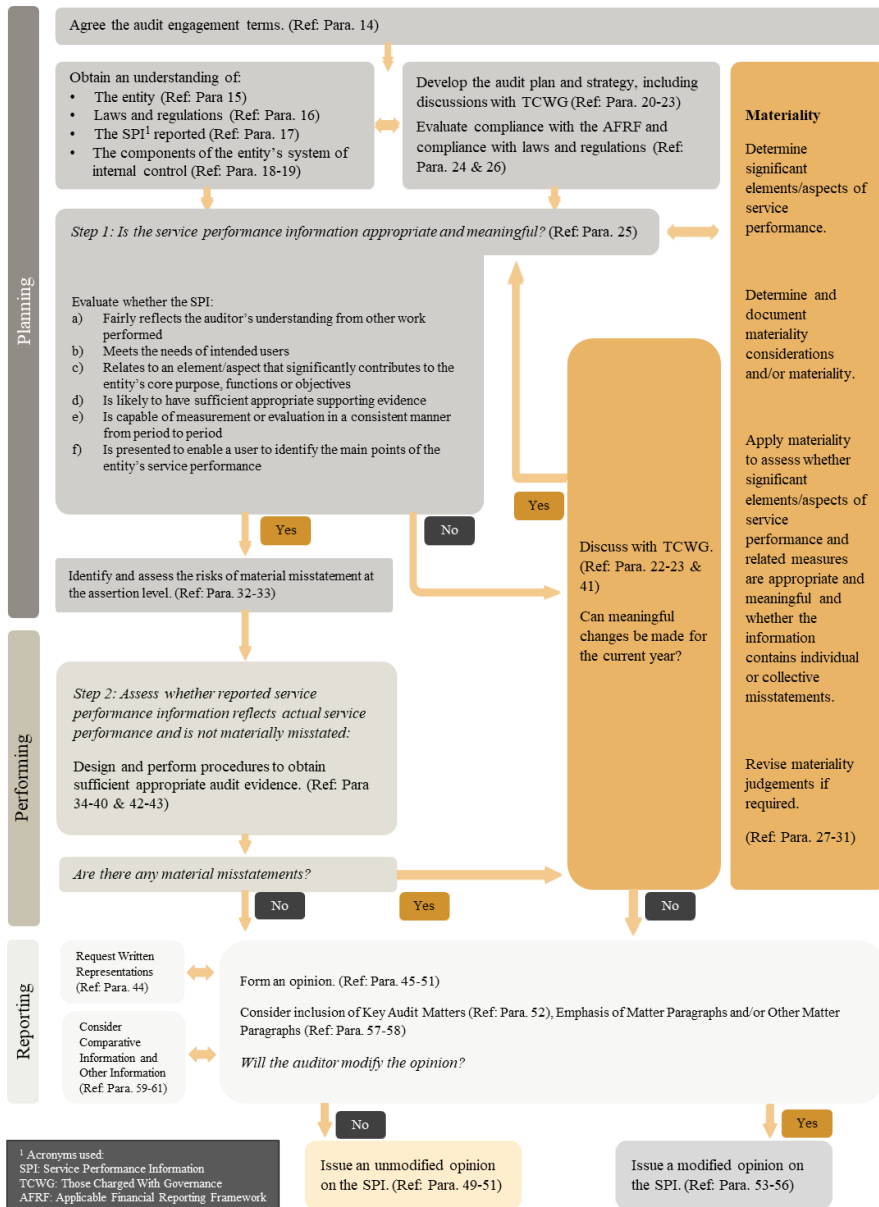
A89-A90. In the context of service performance information, the distinction between the audited service performance information and the "other information" is not as pronounced as it is for financial information. As a consequence, quite subtle changes in the way that information is presented in the "other information" (such as wording used to describe performance) can easily provide a misleading impression of the entity's actual performance when compared to the audited service performance information.



Appendix 1

Flowchart of the Audit of Service Performance Information

This flowchart is to be read in conjunction with the standard, and is not intended to be exhaustive. The audit is an iterative process, and therefore the audit may not necessarily flow in the order presented below.



## Appendix 2

(Ref: Para. A11)

### Illustrative Audit Engagement Letter including Service Performance Information<sup>42</sup>

The following is an example of an audit engagement letter for an audit of a *[financial report/ performance report]*, which comprise financial statements and service performance information. It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) and this standard. It will need to be varied according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

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To *[Those Charged With Governance]*:<sup>43</sup>

#### ***[The objective and scope of the audit]***

You have requested that we audit the *[financial report/ performance report]* of *[ABC Entity (the "entity")]*, which comprise the financial statements, and the service performance information *[, and entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the *[financial report/ performance report]* as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could reasonably be expected to influence the decisions of users taken on the basis of this *[financial report/ performance report]*.

#### ***[The responsibilities of the auditor]***

We will conduct our audit of the financial statements in accordance with ISAs (NZ) and the audit of the service performance information *[, and entity information]* in accordance with the ISAs (NZ) and NZ AS 1 (Revised). Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ) and NZ AS 1 (Revised), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the *[financial report/ performance report]*, whether due to fraud or error, design and perform audit procedures responsive to those

<sup>42</sup> May also be referred to as the Statement of Service Performance.

<sup>43</sup> The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

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risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the *[financial report/ performance report]* in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the *[financial report/ performance report]* that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by *[management and Those Charged With Governance]*.
- Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
- Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with *[the applicable financial reporting framework (e.g., PBE Standards)]*.
- Evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
- Conclude on the appropriateness of the use of the going concern basis of accounting by *[Those Charged With Governance]* and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the *[financial report/ performance report]* or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the *[financial report/ performance report]* and whether the *[financial report/ performance report]* represents the underlying transactions and events, and elements/aspects of service performance in accordance with the applicable financial reporting framework in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ) and NZ AS 1 (Revised).

### ***[The responsibilities of [Those Charged With Governance] and identification of the applicable financial reporting framework]***

Our audit will be conducted on the basis that *[Those Charged With Governance]* acknowledge and understand that they have responsibility on behalf of the entity for:

- The preparation, and fair presentation of the *[financial report/ performance report]* in accordance with *[the applicable financial reporting framework (e.g.: PBE Standards)]*;
- The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;

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- The preparation and fair presentation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
- The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework;
- Such internal control as *[Those Charged With Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error; and
- To provide us with:
  - Access to all information of which *[management and [Those Charged With Governance]]* are aware that is relevant to the preparation of the *[financial report/ performance report]* such as records, documentation and other matters;
  - Additional information that we may request from *[management or [Those Charged With Governance]]* for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from *[Those Charged With Governance]* written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your team during our audit.

***[Other relevant information]***

*[Insert other relevant information, such as fee arrangements, billings and other specific terms, as appropriate.]*

***[Reporting]***

*[Insert appropriate reference to the expected form and content of the auditor's report.]*

The form and content of our auditor's report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the *[financial report/ performance report]* including our respective responsibilities.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

Acknowledged and agreed on behalf of *[Those Charged With Governance]* of *[ABC Entity]* by

(signed)

.....

Name and Title

Date

### Appendix 3

(Ref: Para. A779)

#### Illustrative Representation Letter including Service Performance Information<sup>44</sup>

The following illustrative letter includes written representations that are required by this standard and ISAs (NZ). It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

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(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the [*financial report/ performance report*] of [*ABC Entity (the "entity")*] for the year ended December 31, 20X3<sup>45</sup> which comprise the financial statements, and the service performance information [, *and entity information*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes, for the purpose of expressing an opinion as to whether the [*financial report/ performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*):

- [*the entity information as at December 31, 20X3; and*]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in [that the service performance information is appropriate and meaningful and prepared in](#) accordance with the entity's measurement bases or evaluation methods ~~on pages x to x~~

in accordance with [*the applicable financial reporting framework (e.g.: PBE Standards)*] issued by the New Zealand Accounting Standards Board.

We confirm that (, *to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves*):

#### **[Financial Report/ Performance Report]**

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the audit engagement dated [*insert date*], for:
  - The preparation, and fair presentation of the [*financial report/ performance report*] in accordance with the applicable financial reporting framework;
  - The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service

<sup>44</sup> May also be referred to as the Statement of Service Performance.

<sup>45</sup> Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

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- performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;
- The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods ~~on pages x to xx~~, in accordance with the applicable financial reporting framework;
- The overall presentation structure and content of the service performance information in accordance with the applicable financial reporting framework; and
- Such internal control as we determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error. (NZ AS 1 (Revised))
- The methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework. (ISA (NZ) 540 (Revised))
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the applicable financial reporting framework. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the *[financial report/ performance report]*. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- *[Any other matters that the auditor may consider appropriate.]*

### **Information Provided**

- We have provided you with<sup>46</sup>:
  - Access to all information of which we are aware that is relevant to the preparation of the *[financial report/ performance report]* such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the *[financial report/ performance report]* may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or

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<sup>46</sup> If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

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- Others where the fraud could have a material effect on the *[financial report/ performance report]*. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's *[financial report/ performance report]* communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a *[financial report/ performance report]*. (ISA (NZ) 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.<sup>47</sup> (ISA (NZ) 720 (Revised))
- *[Any other matters that the auditor may consider necessary.]*

Signed on behalf of *[Those Charged With Governance]*<sup>48</sup> of *[ABC Entity]* by

(signed)

.....

Name and Title

(signed)

.....

Name and Title

---

<sup>47</sup> This is only required when the other information is not available until after the date of the auditor's report.

<sup>48</sup> The addressees and references in the letter would be those appropriate in the circumstances of the engagement.

## Appendix 4

(Ref: Para. A80)

### Illustrative Auditor's Report including Service Performance Information<sup>49</sup>

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

- Audit of a *[financial report/ performance report]* of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The *[financial report/ performance report]* is prepared in accordance with a fair presentation framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the *[financial report/ performance report]* in ISA (NZ) 210 and NZ AS 1 (Revised).
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

#### INDEPENDENT AUDITOR'S REPORT

To *[Appropriate Addressee]*

##### Opinion

We have audited the *[financial report/ performance report]* of *[ABC Entity (the "entity")]*, which comprise the financial statements on pages *x to xx*, and the service performance information on pages *x to xx* [, and entity information on page *x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying *[financial report/ performance report]* presents fairly, in all material

<sup>49</sup> May also be referred to as the Statement of Service Performance.



respects, (or gives a true and fair view of):

- [the entity information as at December 31, 20X3;]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in [that the service performance information is appropriate and meaningful and prepared in](#) accordance with the entity's measurement bases or evaluation methods, ~~on pages x to xx~~

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

**Basis for Opinion**

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information [*and entity information*] in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report] section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the entity.

**Other Information [or another title if appropriate such as "Information Other than the [Financial Report/ Performance Report] and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

**Responsibilities of [Those Charged With Governance] for the [Financial Report/ Performance Report]**

[Those Charged With Governance] are responsible on behalf of the entity for:

- The preparation, and fair presentation of the [financial report/ performance report] in accordance with the applicable financial reporting framework;
- The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;
- The preparation and fair presentation of service performance information in accordance with the entity's measurement bases or evaluation methods, ~~on pages x to xx~~, in accordance with the applicable financial reporting framework;
- The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
- Such internal control as [Those Charged With Governance] determine is necessary to enable the preparation of a [financial report/ performance report] that is free from material misstatement, whether due to fraud or error.

## NZ AS 1 (REVISED)

In preparing the [financial report/ performance report], [Those Charged With Governance] are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [Those Charged With Governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report]**

Our objectives are to obtain reasonable assurance about whether the [financial report/ performance report] as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 (Revised) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could reasonably be expected to influence the decisions of users taken on the basis of this [financial report/ performance report].

A further description of the auditor's responsibilities for the audit of the [financial report/ performance report] is located at the XRB's website at <https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/> [auditor to link to the appropriate webpage containing the applicable description of the auditor's responsibilities for the audit.]

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) of ISA (NZ) 700 (Revised) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 of ISA (NZ) 700 (Revised) states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/>

As part of an audit in accordance with ISAs (NZ) and NZ AS 1 (Revised), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [financial report/ performance report], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the [financial report/ performance report] in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management and Those Charged With Governance].
- Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.

NZ AS 1 (REVISED)

- Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.
- Evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods ~~on pages x to xx~~, in accordance with the applicable financial reporting framework.
- Conclude on the appropriateness of the use of the going concern basis of accounting by [*Those Charged With Governance*] and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the [*financial report/ performance report*] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the [*financial report/ performance report*] and whether the [*financial report/ performance report*] represents the underlying transactions and events, and elements/aspects of service performance in accordance with the applicable financial reporting framework, in a manner that achieves fair presentation.

We communicate with [*Those Charged With Governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate*]

[*Auditor Address*]

[*Date*]

## Appendix 5

(Ref: Para. A86)

### Illustrations of Auditor's Reports with Modifications to the Opinion with respect to the Service Performance Information<sup>50</sup>

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 3: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.
- [Illustration 4: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion on the service performance information due to the service performance information being materially misstated.](#)

**For purposes of these illustrative auditor's reports, the following circumstances are assumed:**

- **Audit of a [financial report/ performance report] of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).**
- **The [financial report/ performance report] is prepared in accordance with a fair presentation framework.**
- **The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the [financial report/ performance report] in ISA (NZ) 210 and NZ AS 1 (Revised).**
- **Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **The auditor has no other reporting responsibilities required under local law.**

<sup>50</sup> May also be referred to as the Statement of Service Performance.

**Illustration 1:** An auditor’s report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.

**INDEPENDENT AUDITOR’S REPORT**

To [Appropriate Addressee]

**Opinions**

We have audited the [financial report/ performance report] of [ABC Entity (the “entity”)], which comprise the financial statements on pages *x to xx*, and the service performance information on pages *x to xx* [, and entity information on page *x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity], and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

**Opinion on the Financial Statements [and Entity Information]**

In our opinion, the accompanying [financial report/ performance report] presents fairly, in all material respects, (or gives a true and fair view of):

- [the entity information as at December 31, 20X3; and]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended;

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)], issued by the New Zealand Accounting Standards Board.

**Qualified Opinion on the Service Performance Information**

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report, the accompanying [financial report/ performance report] presents fairly, in all material respects, (or gives a true and fair view of):

• the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared accordance with the entity’s measurement bases or evaluation methods ~~on pages *x to xx*~~

in accordance with [the applicable financial reporting framework] issued by the New Zealand Accounting Standards Board.

**Basis for Opinions, Including Basis for Qualified Opinion on the Service Performance Information**

[As reported in the service performance information on page *xx*, the entity has identified its service performance as [describe improvements reported or description of the difference that the entity has made] and measured this performance by [list performance measures and/or descriptions reported] to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information [and entity information] in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of*

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**NZ AS 1 (REVISED)**

*Service Performance Information.* Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report] section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the entity.

**Other Information [or another title if appropriate such as "Information Other than the [Financial Report/ Performance Report] and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].*

**Responsibilities of [Those Charged With Governance] for the [Financial Report/ Performance Report]**

*[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].*

**Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report]**

*[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

**Illustration 2:** An auditor’s report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor’s inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.

**INDEPENDENT AUDITOR’S REPORT**

To *[Appropriate Addressee]*

**Opinions**

We have audited the *[financial report/ performance report]* of *[ABC Entity (the “entity”)]*, which comprise the financial statements on pages *x to xx*, the service performance information on pages *x to xx* *[, and entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

***Opinion on the Financial Statements [and Entity Information]***

In our opinion, the accompanying *[financial report/ performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*):

- *[the entity information as at December 31, 20X3; and]*
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended

in accordance with *[the applicable financial reporting framework (e.g.: PBE Standards)]* issued by the New Zealand Accounting Standards Board.

***Qualified Opinion on the Service Performance Information***

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report, the accompanying *[financial report/ performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*):

• *the service performance for the year ended December 31, 20X3 in [that the service performance information is appropriate and meaningful and prepared in accordance with the entity’s measurement bases or evaluation methods](#) ~~on pages x to xx~~*

*in accordance with [\[the applicable financial reporting framework\]](#) issued by the New Zealand Accounting Standards Board.*

**Basis for Opinions, Including Basis for Qualified Opinion on the Service Performance Information**

*[Some significant performance measures of the entity, rely on information from third parties, such as (give examples). The entity’s control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, [describe performance measure and explain where information comes from that we are unable to independently test.]]*

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information *[and entity information]* in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of*

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**NZ AS 1 (REVISED)**

*Service Performance Information.* Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the [Financial Report/ Performance Report]* section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the entity.

**Other Information [or another title if appropriate such as “Information Other than the [Financial Report/ Performance Report] and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]*

**Responsibilities of [Those Charged With Governance] for the [Financial Report/ Performance Report]**

*[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].*

**Auditor’s Responsibilities for the Audit of the [Financial Report/ Performance Report]**

*[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*



**Illustration 3:** An auditor’s report containing a qualified opinion on both the financial statements and the service performance information due to the auditor’s inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.

## INDEPENDENT AUDITOR’S REPORT

To *[Appropriate Addressee]*

### Qualified Opinion

We have audited the *[financial report/ performance report]* of *[ABC Entity (the “entity”)]*, which comprise the financial statements on pages *x to xx*, the service performance information on pages *x to xx* [*and entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying *[financial report/ performance report]* presents fairly, in all material respects (or gives a true and fair view of):

- *[the entity information as at December 31, 20X3; and]*
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in [that the service performance information is appropriate and meaningful and prepared in](#) accordance with the entity’s measurement bases or evaluation methods ~~on pages *x to xx*~~

in accordance with *[the applicable financial reporting framework (e.g.: PBE Standards)]* issued by the New Zealand Accounting Standards Board.

### Basis for Qualified Opinion

*[As outlined on page *xx* of the *[financial report/ performance report]*, entity has not applied the requirements of the applicable financial reporting framework to its grant expenditure. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the *[statement of comprehensive revenue and expenses]*; assets, liabilities and equity in the statement of financial position, *[total comprehensive revenue and expense]* and opening and closing equity in the *[statement of changes in equity]* and grants expense reported in the service performance information.]*

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information *[and entity information]* in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the *[Financial Report/ Performance Report]** section of our report. We are independent of the *entity* in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the entity.

**Other Information [or another title if appropriate such as “Information Other than the [Financial Report/ Performance Report] and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].*

**Responsibilities of [Those Charged With Governance] for the [Financial Report/ Performance Report]**

*[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].*

**Auditor’s Responsibilities for the Audit of the [Financial Report/ Performance Report]**

*[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

**Illustration 4:** An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion on the service performance information due to the service performance information being materially misstated.

## **INDEPENDENT AUDITOR'S REPORT**

Commented [LT15]: CAANZ/CPA #70

To *[Appropriate Addressee]*

### **Opinions**

We have audited the *[financial report/ performance report]* of *[ABC Entity (the "entity")]*, which comprise the financial statements on pages *x to xx*, the service performance information on pages *x to xx* *[, and entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

### ***Opinion on the Financial Statements [and Entity Information]***

In our opinion, the accompanying *[financial report/ performance report]* presents fairly, in all material respects, *(or gives a true and fair view of)*:

- *[the entity information as at December 31, 20X3; and]*
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended

in accordance with *[the applicable financial reporting framework (e.g.: PBE Standards)]* issued by the New Zealand Accounting Standards Board.

### ***Adverse Opinion on the Service Performance Information***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report, the accompanying *[financial report/ performance report]* does not present fairly *(or does not give a true and fair view of)* the service performance information of the *[entity]* *[on pages x to xx]* for the year ended December 31, 20X3 ~~in~~ *that is appropriate and meaningful and prepared* in accordance with the entity's measurement bases or evaluation methods and in accordance with *[the applicable financial reporting framework]* issued by the New Zealand Accounting Standards Board.

### ***Basis for Adverse Opinion on the Service Performance Information***

*[As reported in the service performance information on page xx, the entity has identified its service performance to include [describe improvements reported or description of the difference that the entity has made] and measured this performance by [describe performance measures and/or descriptions reported] to report its service performance. We do not consider that these performance measures will enable an appropriate and meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity presented more appropriate and meaningful performance measures, the service performance information would have been materially affected. The effects on the service performance information, reporting performance measures and/or descriptions including xxx and linking to its responsibility for yyyy.]*

We conducted our audit of the financial statements in accordance with International Standards on Auditing

**NZ AS 1 (REVISED)**

(New Zealand) (ISAs (NZ)) and the audit of the service performance information [and entity information] in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report]* section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and adverse opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the entity.

**Other Information [or another title if appropriate such as "Information Other than the [Financial Report/ Performance Report] and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information]

**Responsibilities of [Those Charged With Governance] for the [Financial Report/ Performance Report]**

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

**Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report]**

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

**CONFORMING AMENDMENTS**

**CONFORMING AMENDMENTS TO XRB Au1 APPLICATION OF AUDITING AND ASSURANCE STANDARDS**

...

Appendix 2A

This appendix lists the New Zealand Auditing Standards to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 (Revised) The Audit of Service Performance Information

**CONFORMING AMENDMENTS TO AUDITING STANDARDS AS A RESULT OF THE REVISIONS TO PBE FINANCIAL REPORTING STANDARDS**

Revisions to the titles of the Tier 3 and Tier 4 PBE Financial Reporting Standards requires conforming amendments wherever the title appears including in the following standards:

- ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*
- ISA (NZ) 210 *Agreeing the Terms of Audit Engagements*
- ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*

Revisions are as follows:

- ~~Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) (PBE SFR – A (PS));~~
- ~~Public Benefit Entity Simple Format Reporting – Accrual (Not For Profit) (PBE SFR – A (NFP));~~
- ~~Public Benefit Entity Simple Format Reporting – Cash (Public Sector);~~
- ~~Public Benefit Entity Simple Format Reporting – Cash (Not For Profit);~~
- Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard);
- Reporting Requirements for Tier 3 Not-for-Profit Entities (Tier 3 (NFP) Standard);
- Reporting Requirements for Tier 4 Public Sector Entities (Tier 4 (PS) Standard);
- Reporting Requirements for Tier 4 Not-for-Profit Entities (Tier 4 (NFP) Standard);

**Commented [MP16]:** The conforming amendments have been included subsequent to the exposure draft but are not shown in track changes

# NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 5.1  
**Meeting date:** 7 June 2023  
**Subject:** *Amendments to Professional and Ethical Standard 1 (PES 1):  
Technology-related Revisions*  
**Date:** 19 May 2023  
**Prepared By:** Bruce Mcniven

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**Action Required**

**For Information Purposes Only**

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**Agenda Item Objective**

1. The objective of this agenda item is to seek approval of the amending standard and the signing memorandum.

**Background**

***Amending standard – Technology-related revisions***

2. This project involved a review of the Code, conducted by IESBA, to address the impact of technological advancements on the global accountancy profession and to ensure the Code remains relevant and suitable. Key changes include:
  - Providing enhanced guidance in relation to the fundamental principles of confidentiality, and professional competence and due care as well as in dealing with circumstances of complexity.
  - Providing guidance on identifying and evaluating threats associated with the use of technology.
  - Addition of application material around professional judgement and factors to consider when an assurance practitioner intends to use the output of technology.
  - Addressing the circumstances in which firms and network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.
  - Introduction of a new definition of confidential information.
3. The IESBA approved the Technology-related revisions to the Code during their December 2022 meeting. The standard obtained approval from the PIOB in April 2023.

***New Zealand standard***

4. At the February 2023 NZAuASB meeting, the Board received an update and concluded that no compelling reason changes were needed for New Zealand. For the New Zealand amendments, we made customary spelling and terminology adjustments, and have made some updates to the internal cross-referencing due to the paragraph numbering changes. Additionally, we made the following amendments:
  - In New Zealand-specific paragraph NZ114.3 A1.1, we added "or using" to align with IESBA's changes. The sentence now reads, "An assurance practitioner considering disclosing or using confidential information about a client without their consent is advised to first obtain legal advice." We believe this is a minor change.

- Revised the definition of "Reasonable and informed third party" in the glossary to refer to an "assurance practitioner" rather than a "professional accountant," aligning it with paragraph R120.5A9.
  - In the glossary, for the definition of "[NZ] FMC reporting entity considered to have a higher level of public accountability", corrected the reference to the paragraph in the latest version of the FMC Act.
5. We plan to issue communications regarding these changes before the standard comes into effect.

#### ***Commencement date***

6. The revisions will apply to accounting periods starting on or after 15 December 2024, as indicated in Part A of the amending standard. There is no content in the amending standard to suggest that we need to permit early adoption in New Zealand.
7. Note that the commencement and application date section differs from the IESBA text to reflect that this standard has the force of law in New Zealand.

#### **Definition of Audit client and Group audit client**

8. At the April 2023 meeting, in approving the revisions to the Code for the definition of engagement team and group audits the NZAuASB agreed to defer amendments and to add "publicly traded" to the definition of "audit client" and "group audit client" for periods beginning on or after December 2024. This has not been included in this amending standard. This matter is considered further in our board paper in agenda item 5.1A.

#### **Recommendations**

9. We recommend that the Board APPROVE:
- *Amendments to Professional and Ethical Standard 1 (PES 1): Technology-related Revisions* for issue at agenda item 5.2; and
  - The signing memorandum at agenda item 5.3.

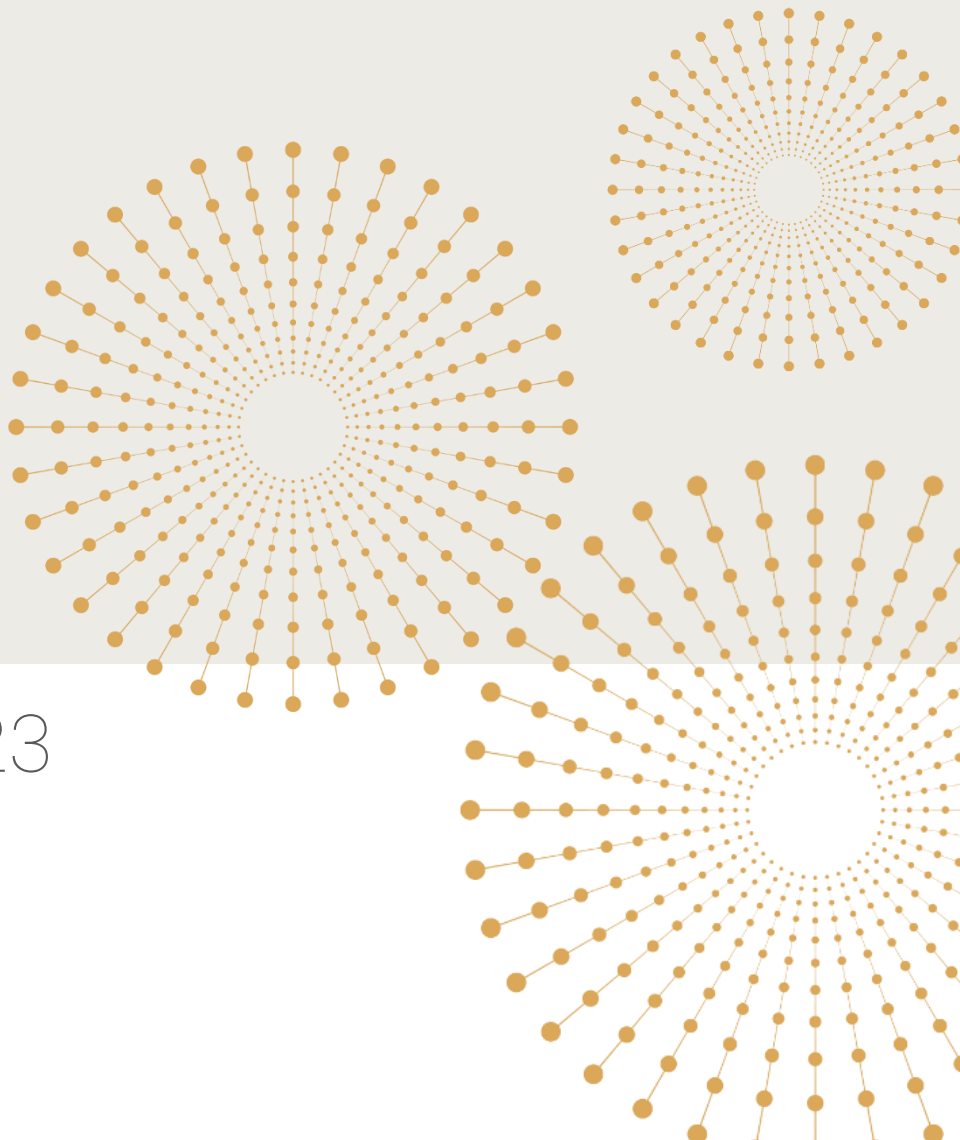
#### **Material Presented**

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	<i>Amendments to Professional and Ethical Standard 1 (PES 1): Technology-related Revisions</i>
Agenda item 5.3	Signing memorandum
Agenda item 5.1A	Board Paper – Definition of audit client and group audit client in PES 1

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

## Technology-related Revisions

Commencement and application dates: refer to Part A of this standard



Issued June 2023





## AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (PES 1): TECHNOLOGY-RELATED REVISIONS

### Legal status of Standard

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

This Standard is secondary legislation for the purposes of the Legislation Act 2019. An auditor or assurance practitioner, 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 A.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard contains amendments to Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, as a result of changes to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* arising from Technology-related revisions.

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ISBN **TBC**

**AMENDMENTS TO AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1  
(PES 1): TECHNOLOGY-RELATED REVISIONS**

*Issued by the New Zealand Auditing and Assurance Standards Board*

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## **A: Commencement and application**

### **When standard takes effect (Section 27 Financial Reporting Act 2013)**

1. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019<sup>1</sup>.

### **Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)**

2. The accounting periods in relation to which this standard commences to apply are, for a firm, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.
3. In paragraph 2:  
**mandatory date** means 15 December 2024.

---

<sup>1</sup> The standard was published on **DATE** and takes effect on **DATE**.

## **B: Introduction**

This Standard contains amendments to *Professional and Ethical Standard 1 (PES 1): International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, as a result of changes to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* arising from Technology-related revisions.

Section C of this Standard contains amendments arising from Technology-related revisions.

Underline and strikethrough are used to indicate changes.

## C: Amendments to PES 1: Technology-related revisions

### PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

...

#### SECTION 110

#### THE FUNDAMENTAL PRINCIPLES

...

#### SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

**R113.1** An assurance practitioner shall comply with the principle of professional competence and due care, which requires an assurance practitioner to:

- (a) Attain and maintain professional knowledge and skills at the level required to ensure that a client receives competent assurance service, based on standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation; and
- (b) Act diligently and in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

113.1 A1 Serving clients with professional competence ~~requires~~involves the exercise of sound judgement in applying professional knowledge and skills ~~when undertaking professional activities.~~

113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organisational skills facilitate the assurance practitioner's interaction with entities and individuals with whom the assurance practitioner interacts.

113.1 A23 Maintaining professional competence requires an assurance practitioner to have a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments relevant to the professional activities undertaken by the assurance practitioner. Continuing professional development enables an assurance practitioner to develop and maintain the capabilities to perform competently within the assurance environment.

113.1 A34 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

**R113.2** In complying with the principle of professional competence and due care, an assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the assurance practitioner's authority have appropriate training and supervision.

**R113.3** Where appropriate, an assurance practitioner shall make clients, or other users of the assurance practitioner's ~~assurance services~~professional activities, aware of the limitations inherent in the ~~services~~ activities and explain the implications of those limitations.

## SUBSECTION 114 – CONFIDENTIALITY

**R114.1** An assurance practitioner shall comply with the principle of confidentiality, which requires an assurance practitioner to respect the confidentiality of information acquired ~~as a result in~~ the course of professional and business relationships. An assurance practitioner shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm;
- (c) Maintain confidentiality of information disclosed by a prospective client; and
- ~~(dg)~~ Take reasonable steps to ensure that personnel under the assurance practitioner's control, and individuals from whom advice and assistance are obtained, respect/comply with the assurance practitioner's duty of confidentiality.

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the assurance practitioner taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

**R114.2** Subject to paragraph R114.3, an assurance practitioner shall not:

- ~~(ad)~~ Not disclose confidential information acquired ~~as a result in the course~~ of professional and business relationships ~~outside the firm without proper and specific authority, unless there is a legal or professional duty or right to disclose;~~
- ~~(be)~~ Not use confidential information acquired ~~as a result in the course~~ of professional and business relationships for the ~~personal~~ advantage of the assurance practitioner, the firm or ~~for the advantage of~~ a third party;
- ~~(cf)~~ Not use or disclose any confidential information, either acquired or received ~~as a result in the course~~ of a professional or business relationship, after that relationship has ended; and
- ~~(d)~~ Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that that information has become publicly available, whether properly or improperly.

**R114.3** As an exception to paragraph R114.2, an assurance practitioner may disclose or use confidential information where:

- (a) There is a legal or professional duty or right to do so; or
- (b) This is authorised by the client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

114.13 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the assurance practitioner's client to the assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where assurance practitioners ~~are or might be required or have the duty or right to disclose confidential information or when such disclosure might be appropriate:~~

- (a) Disclosure is required by law or regulation, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or

- (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- ~~(b) Disclosure is permitted by law and is authorised by the client; and~~
- ~~(be) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:~~
  - (i) To comply with the quality review of a professional body;
  - (ii) To respond to an enquiry or investigation by a professional or regulatory body;
  - (iii) To protect the professional interests of an assurance practitioner in legal proceedings; or
  - (iv) To comply with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

NZ114.34 A1.1 The circumstances in paragraph 114.43 A1 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing or using confidential information about a client without their consent is advised to first obtain legal advice.

114.34 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client ~~consents to~~ authorises the disclosure or use of information by the assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed ~~type~~ means of communicating ~~on, and to whom it is addressed~~ the information.
- Whether the parties to whom the ~~communication~~ information is ~~addressed to be provided or access is to be granted~~ are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

114.3 A3 The circumstances in which a firm seeks authorisation to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorisation might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorisation of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.

- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

**R114.42** An assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the assurance practitioner and a client. When acquiring a new client, the assurance practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received ~~as a result~~ in the course of a professional or business relationship.

...

## SECTION 120

### THE CONCEPTUAL FRAMEWORK

...

#### Requirements and Application Material

##### General

...

**R120.5** When applying the conceptual framework, the assurance practitioner shall:

- Have an enquiring mind;
- Exercise professional judgement; and
- Use the reasonable and informed third party test described in paragraph 120.5 A96.

##### *Having an Enquiring Mind*

120.5 A1 An enquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an enquiring mind involves:

- Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
- Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the assurance practitioner might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the assurance practitioner.
- There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.



- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all assurance practitioners to have an enquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all assurance practitioners regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the NZAuASB, assurance practitioners are also required to exercise professional scepticism, which includes a critical assessment of evidence.

#### *Exercising Professional Judgement*

120.5 A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular ~~assurance~~professional activities, and the interests and relationships involved.

120.5 A5 Professional judgement is required when the assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the assurance practitioner might consider matters such as whether:

- The assurance practitioner's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.

120.5 A6 The circumstances in which assurance practitioners carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgement exercised by assurance practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

120.5 A7 Managing complexity involves:

- Making the firm and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgements the assurance practitioner has made. (Ref: Para. R120.5 to 120.5 A3, and R120.9 to 120.9 A2)

120.5 A8 Managing complexity might also involve:

- Analysing, and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyse relevant data to inform the assurance practitioner's judgement.

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

### *Reasonable and Informed Third Party*

120.5 A96 The reasonable and informed third party test is a consideration by the assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.

...

## **Other Considerations when Applying the Conceptual Framework**

### *Bias*

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to provide additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.

- Receiving training related to the identification of bias as part of professional development.

### *Organisational Culture*

120.13 A1 The effective application of the conceptual framework by an assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the assurance practitioner's organisation.

120.13 A2 The promotion of an ethical culture within an organisation is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating the ethical values of the organisation;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistle-blowers; and
- (d) The organisation adheres to ethical values in its dealings with third parties.

120.13 A3 Assurance practitioners are expected to:

- (a) encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority; and
- (b) Exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner, or the firm has a professional or business relationship.

...

## **PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM**

### **SECTION 200**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM.**

...

**R200.5** An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

200.5 A1 An assurance practitioner has a responsibility to further the legitimate objectives of the assurance practitioner's employing organisation. The Code does not seek to hinder assurance practitioners from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Assurance practitioners may promote the position of the employing organisation when furthering the legitimate goals and objectives of their employing organisation, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, assurance practitioners are expected to encourage and promote an ethics-based culture in the organisation and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner or the employing organisation has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

#### **Identifying Threats**

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for an assurance practitioner when undertaking a professional activity:

(a) Self-interest Threats

- An assurance practitioner holding a financial interest in, or receiving a loan or guarantee from, the employing organisation.

- An assurance practitioner participating in incentive compensation arrangements offered by the employing organisation.
  - An assurance practitioner having access to corporate assets for personal use.
  - An assurance practitioner being offered a gift or special treatment from a supplier of the employing organisation.
- (b) Self-review Threats
- An assurance practitioner determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) Advocacy Threats
- An assurance practitioner having the opportunity to manipulate information in a prospectus in order to obtain favourable financing.
- (d) Familiarity Threats
- An assurance practitioner being responsible for the financial reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial reporting of the organisation.
  - An assurance practitioner having a long association with individuals influencing business decisions.
- (e) Intimidation Threats
- An assurance practitioner or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
    - The application of an accounting principle.
    - The way in which financial information is to be reported.
  - An individual attempting to influence the decision-making process of the assurance practitioner, for example with regard to the awarding of contracts or the application of an accounting principle.

*Identifying Threats Associated with the Use of Technology*

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).

- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or employing organisation.

## **Evaluating Threats**

200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

200.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.

200.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:

- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
- Policies and procedures to implement and monitor the quality of employee performance.
- Systems of corporate oversight or other oversight structures and strong internal controls.
- Recruitment procedures emphasising the importance of employing high calibre competent personnel.
- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and code of conduct policies.

200.7 A4 ~~Assurance practitioners might consider obtaining legal advice where they believe that unethical behaviour or actions by others have occurred, or will continue to occur, within the employing organisation.~~ The assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organisation and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees, so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

...

## SECTION 220

### PREPARATION AND PRESENTATION OF INFORMATION

...

#### Requirements and Application Material

...

#### Relying on Using the Work of Others

**R220.7** An assurance practitioner who intends to ~~rely on~~use the work of others, ~~either whether~~ internal or external to the employing organisation, ~~or other organisations,~~ shall exercise professional judgement to determine ~~what~~the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.7 A1 ~~Factors to consider in determining whether reliance on~~when an assurance practitioner intends to use the work of others is reasonableinclude:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

#### Using the Output of Technology

**R220.8** An assurance practitioner who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when an assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the assurance practitioner has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.

- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

...

## Other Considerations

220.11 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.11 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.11 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.11 A4 When an assurance practitioner is considering using the work of others or the output of technology, a consideration is whether the assurance practitioner is in a position within the employing organisation to obtain information in relation to the factors necessary to determine whether such use is appropriate.

...

## SECTION 260

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

...

#### Requirements and Application Material

...

#### Responsibilities of Senior Assurance Practitioners

...

##### *Determining Whether Further Action Is Needed*

...

##### Determining Whether to Disclose the Matter to an Appropriate Authority

...

**R260.21** If the senior assurance practitioner determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.31(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

##### *Imminent Breach*

**R260.22** In exceptional circumstances, the senior assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it



would be appropriate to discuss the matter with management or those charged with governance of the employing organisation, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.~~31(d)~~ of the Code.

...

### **Responsibilities of Assurance Practitioners Other than Senior Assurance Practitioners**

...

**R260.26** In exceptional circumstances, the assurance practitioner may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the assurance practitioner does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.~~31(d)~~ of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

...

## **PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK**

### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK**

...

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

##### **General**

**R300.4** An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

**R300.5** When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to an assurance practitioner include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the assurance practitioner might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the assurance practitioner's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

NZ300.5A1.1 The International Independence Standards (New Zealand) prohibit the firm or a network firm from providing accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or a conclusion or financial information which forms the basis of such financial statements<sup>2</sup>, except in limited circumstances as described in paragraph R601.5. Accordingly, the situation described in the second bullet point of paragraph 300.5 A1 in respect of an assurance practitioner's assurance client would not be permitted.

300.5 A2 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into

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<sup>2</sup> See Section 601, paragraphs R601.5 and R601.6

account their position and seniority in the firm, assurance practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

## **Identifying Threats**

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for an assurance practitioner when undertaking an assurance service:

### (a) Self-interest Threats

- An assurance practitioner having a direct financial interest in a client.
- An assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the assurance service in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board for that price.
- An assurance practitioner having a close business relationship with a client.
- An assurance practitioner having access to confidential information that might be used for personal gain.
- An assurance practitioner discovering a significant error when evaluating the results of a previous assurance service performed by a member of the assurance practitioner's firm.

### (b) Self-review Threats

- An assurance practitioner issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- An assurance practitioner having prepared the original data used to generate records that are the subject matter of the assurance engagement.

### (c) Advocacy Threats

- An assurance practitioner promoting the interests of, or shares in, a client.
- An assurance practitioner acting as an advocate on behalf of a client in litigation or disputes with third parties.
- An assurance practitioner lobbying in favour of legislation on behalf of a client.

(d) Familiarity Threats

- An assurance practitioner having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.
- ~~An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.~~

(e) Intimidation Threats

- An assurance practitioner being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- An assurance practitioner feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
- An assurance practitioner being informed that a planned promotion will not occur unless the assurance practitioner agrees with an inappropriate accounting treatment.
- An assurance practitioner having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

*Identifying Threats Associated with the Use of Technology*

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).

- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or the firm.

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**Evaluating Threats**

300.7 A1 The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental

principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- (a) The client and its operating environment; and
- (b) The firm and its operating environment.

300.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the assurance service.

#### *The Client and its Operating Environment*

300.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is:

- (a) An audit client and whether the audit client is a public interest entity;
- (b) An assurance client that is not an audit client; or
- (c) A non-assurance client.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, an assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

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

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

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

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

300.7 A6 The assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the assurance practitioner's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees, so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

*Consideration of New Information or Changes in Facts and Circumstances*

300.7 A7~~6~~ New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A8~~7~~ Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of an assurance service is expanded.
- When the client becomes a FMC reporting entity considered to have a higher level of public accountability or acquires another business unit.
- When the firm merges with another firm.
- When the assurance practitioner is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the assurance practitioner's personal or immediate family relationships.

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**SECTION 320**

**PROFESSIONAL APPOINTMENTS**

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**Requirements and Application Material**

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## **Using the Work of an Expert**

**R320.10** When an assurance practitioner intends to use the work of an expert in the course of undertaking a professional activity, the assurance practitioner shall determine whether the use is warranted appropriate for the intended purpose.

320.10 A1 Factors to consider when an assurance practitioner intends to use the work of an expert include:

- ~~†~~The reputation and expertise of, and the expert, the resources available to, the expert, and the
- Whether the expert is subject to applicable professional and ethics standards applicable to the expert.

~~This~~Such information might be gained from prior association with ~~the expert,~~ or from consulting others about, the expert.

## **Using the Output of Technology**

**R320.11** When an assurance practitioner intends to use the output of technology in the course of undertaking a professional activity, the assurance practitioner shall determine whether the use is appropriate for the intended purpose.

320.11 A1 Factors to consider when an assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the assurance practitioner has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

## **Other Considerations**

320.12 A1 When an assurance practitioner is considering using the work of experts or the output of technology, a consideration is whether the assurance practitioner is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

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## **SECTION 360**

## RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

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### Requirements and Application Material

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### Audits and Reviews of Financial Statements

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#### *Determining Whether Further Action Is Needed*

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#### Determining Whether to Disclose the Matter to an Appropriate Authority

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**R360.26** If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.31(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.

#### *Imminent Breach*

**R360.27** In exceptional circumstances, the assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.31(d) of the Code.

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### Assurance Services Other than Audits and Reviews of Financial Statements

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#### *Considering Whether Further Action Is Needed*

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**R360.37** If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.31(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.



*Imminent Breach*

**R360.38** In exceptional circumstances, the assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.31~~(d)~~ of the Code.

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# INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) (PARTS 4A and 4B)

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

### SECTION 400

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

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#### Requirements and Application Material

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#### Prohibition on Assuming Management Responsibilities

**R400.2013** A firm or a network firm shall not assume a management responsibility for an audit client.

400.2013 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.2013 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.2013 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
  - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
  - Designing, implementing, monitoring or maintaining internal control.

400.2013 A4 Subject to compliance with paragraph R400.2114, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in

Section 600.

**R400.2114** When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client’s management:

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

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

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

400.21 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.20 and R400.21 apply regardless of the nature or extent of such use of the technology.

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## **Related Entities**

**R400.270** As defined, an audit client that is a FMC reporting entity considered to have a higher level of public accountability includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 400.281 to 400.29 are intentionally left blank]**

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## **SECTION 520**

### **BUSINESS RELATIONSHIPS**

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

##### **General**

520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- ~~Distribution or marketing a~~ Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

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### **Buying Goods or Services**

520.6 A1 The purchase of goods and services, including the licencing of technology from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit team.

### **Providing, Selling, Reselling or Licensing Technology**

520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- To an audit client; or
- To an entity that provides services using such technology to audit clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 600 apply.

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## **SECTION 600**

### **PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT**

#### **Introduction**

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

- 600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.
- 600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.
- 600.6 The requirements and application material in this section apply where a firm or a network firm:
- (a) Uses technology to provide a non-assurance service to an audit client; or
  - (b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:
    - (i) To an audit client; or
    - (ii) To an entity that provides services using such technology to audit clients of the firm or network firm.

## **Requirements and Application Material**

### **General**

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#### *Identifying and Evaluating Threats*

##### All Audit Clients

- 600.9 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit client is set out in paragraph 120.6 A3.
- 600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:
- The nature, scope, intended use and purpose of the service.
  - The manner in which the service will be provided, such as the personnel to be involved and their location.

- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgement. (Ref: Para. R400.2013 to R400.2114).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fee relating to the provision of the non-assurance service.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

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#### Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgement as part of an audit.

**R600.14** Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and

- (b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgements made or activities performed by the firm or network firm when providing the service.

#### Audit Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

#### Self-review threats

**R600.16** A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.13 A1 and R600.14).

#### Providing advice and recommendations

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

- (a) Does not assume a management responsibility (Ref: Para. R400.~~2013~~ and R400.~~2114~~); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

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#### *Considerations for Certain Related Entities*

**R600.26** This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.~~2013~~, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;

- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

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## **SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES**

### **Introduction**

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

### **Requirements and Application Material**

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

**R601.5** A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

601.5 A1 Accounting and bookkeeping services that are routine or mechanical:

- (a) Involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary; and
- (b) Require little or no professional judgement.

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgement of the firm or network firm.

601.5 A~~3~~<sup>2</sup> Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.



- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.2114 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A43 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

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

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### **Requirements and Application Material**

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#### **Risk of Assuming Management Responsibility When Providing an Internal Audit Service**

R605.3 Paragraph R400.2013 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

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## **SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES**

### **Introduction**

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

### **Requirements and Application Material**

#### **Description of Service**

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customisation.
- Operating, maintaining, monitoring, updating or upgrading IT systems.

- Collecting or storing data or managing (directly or indirectly) the hosting of data.

606.2 A21 ~~Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:~~

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

### **Risk of Assuming Management Responsibility When Providing an IT Systems Service**

**R606.3** Paragraph R400.2013 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- ~~(b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;~~
- (be)** The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design and, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems process;
- ~~(cd)~~ The client evaluates the adequacy and results of the design, development, and implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and
- (de)** The client is responsible for operating the IT system (hardware or software) and for the data it generates and uses or generates.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the audit client. Such services include:
  - Acting as the only access to a financial or non-financial information system of the audit client.
  - Taking custody of or storing the audit client's data or records such that the audit client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the audit client's data or records.
- Operates, maintains, or monitors the audit client's IT systems, network or website.

606.3 A2 The collection, receipt, transmission and retention of data provided by an audit client in the course of an audit or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

## Potential Threats Arising from the Provision of IT Systems Services

### *All Audit Clients*

606.4 A1 Providing IT systems services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the audit of the financial statements on which the firm will express an opinion.

~~606.4 A2 Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility:~~

- ~~(a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;~~
- ~~(b) Designing or implementing IT systems that do not generate information forming part of the accounting records or financial statements; and~~
- ~~(c) Implementing “off the shelf” accounting or financial information reporting software that was not developed by the firm or network firm, if the customisation required to meet the client’s needs is not significant.~~

606.4 A~~2~~<sup>3</sup> Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client’s IT systems and the extent to which the IT systems service impacts or interacts with the client’s accounting records, internal controls over financial reporting or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect an audit client’s accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting an audit client’s IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

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

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

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

**R606.6** A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

~~606.6 A1~~ ~~Examples of services that are prohibited because they give rise to a self-review threat include those involving designing or implementing IT systems that:~~

- ~~• Form part of the internal control over financial reporting; or~~
- ~~• Generate information for the client's accounting records or financial statements on which the firm will express an opinion.~~

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## **SUBSECTION 609 – RECRUITING SERVICES**

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### **Risk of Assuming Management Responsibility When Providing a Recruiting Service**

R609.3 Paragraph R400.2013 precludes a firm or network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

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# **PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

## **SECTION 900**

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

#### **Introduction**

##### **General**

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.
- An audit of specific elements, accounts or items of a financial statement.

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

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#### **Prohibition on Assuming Management Responsibilities**

**R900.13** A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

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

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

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

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.13 A4 Examples of IT systems services that result in the assumption of a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, include where a firm:

- Stores data or manages (directly or indirectly) the hosting of data related to the underlying subject matter or subject matter information. Such services include:
  - Acting as the only access to the data or records related to the underlying subject matter or subject matter information.
  - Taking custody of or storing the data or records related to the underlying subject matter or subject matter information such that the assurance client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the assurance client's data or records related to the underlying subject matter or subject matter information.
- Operates, maintains, or monitors an assurance client's IT systems, network or website related to the underlying subject matter or subject matter information.

900.13 A5 The collection, receipt, transmission and retention of data provided by an assurance client in the course of an assurance engagement or to enable the provision of a permissible non-assurance service to the assurance client does not result in an assumption of management responsibility.

900.13 A64 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

**R900.14** When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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

(ii) The respective client and firm responsibilities.

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

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

900.14 A1 When technology is used in performing a professional activity for an assurance client, the requirements in paragraphs R900.13 and R900.14 apply regardless of the nature or extent of such use of the technology.

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## **SECTION 920**

### **BUSINESS RELATIONSHIPS**

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

##### **General**

920.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- ~~Distribution or marketing a~~Arrangements under which the firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's products or services.
- Arrangements under which a firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

920.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm licenses products or solutions to or from the assurance client.

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#### **Buying Goods or Services**

920.5 A1 The purchase of goods and services, including the licensing of technology from an assurance client by a firm, or an assurance team member, or any of that individual's

immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

### **Providing, Selling, Reselling or Licensing Technology**

920.6 A1 Where a firm provides, sells, resells or licenses technology:

- (a) To an assurance client; or
- (b) To an entity that provides services using such technology to assurance clients of the firm,

depending on the facts and circumstances, the requirements and application material in Section 950 apply.

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## **SECTION 950**

### **PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS**

#### **Introduction**

950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.

950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

950.5 The requirements and application material in this section apply where a firm:

- (a) Uses technology to provide a non-assurance service to an assurance client; or
- (b) Provides, sells, resells or licenses technology that provides a non-assurance service:
  - (i) To an assurance client; or



- (ii) To an entity that provides services using such technology to assurance clients of the firm.

## Requirements and Application Material

### General

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#### *Identifying and Evaluating Threats*

950.7 A1 A description of the categories of threats that might arise when a firm provides a non-assurance service to an assurance client is set out in paragraph 120.6 A3.

950.7 A2 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided
- ~~• The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.~~
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
  - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
  - The extent to which the assurance client determines significant matters of judgement (Ref: Para. R900.13 to R900.14).
- ~~• The level of expertise of the client's management and employees with respect to the type of service provided.~~
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

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#### Self-Review Threats

950.10 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that

might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

- (a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.
- (b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.
- (c) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.
- (d) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems and subsequently issuing an assurance report on subject matter information, such as elements of non-financial information, that is prepared from information generated by such IT systems.

Assurance clients that are public interest entities

950.11 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

- (a) Made available publicly, including to shareholders and other stakeholders; or
- (b) Provided to an entity or organisation established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.11 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.11 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organisation established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

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## GLOSSARY

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[NZ] Audit Client	<p>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 R400.207.)</p> <p><i><u>In Part 4A, the term “audit client” applies equally to “review client.”</u></i></p> <p><i>In the case of a group audit, see the definition of group audit client.</i></p>										
...											
<u>Confidential information</u>	<p><u>Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.</u></p>										
...											
[NZ] FMC reporting entity considered to have a higher level of public accountability	<p>A FMC reporting entity of a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:</p> <ul style="list-style-type: none"><li>• Under section 461K of the Financial Markets Conduct Act 2013; or</li><li>• By notice issued by the Financial Markets Authority under section 461L(1)(<del>1</del>)(a) of the Financial Markets Conduct Act 2013.</li></ul>										
Fundamental principles	<p><i>This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:</i></p> <table><tr><td><i>Integrity</i></td><td><i>R111.1</i></td></tr><tr><td><i>Objectivity</i></td><td><i>R112.1</i></td></tr><tr><td><i>Professional competence and due care</i></td><td><i>R113.1</i></td></tr><tr><td><i>Confidentiality</i></td><td><i>R114.1 to R114.3</i></td></tr><tr><td><i>Professional behaviour</i></td><td><i>R115.1</i></td></tr></table>	<i>Integrity</i>	<i>R111.1</i>	<i>Objectivity</i>	<i>R112.1</i>	<i>Professional competence and due care</i>	<i>R113.1</i>	<i>Confidentiality</i>	<i>R114.1 to R114.3</i>	<i>Professional behaviour</i>	<i>R115.1</i>
<i>Integrity</i>	<i>R111.1</i>										
<i>Objectivity</i>	<i>R112.1</i>										
<i>Professional competence and due care</i>	<i>R113.1</i>										
<i>Confidentiality</i>	<i>R114.1 to R114.3</i>										
<i>Professional behaviour</i>	<i>R115.1</i>										
...											
[NZ] Group audit client	<p>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</p>										

direct or indirect control and any other components at which audit work is performed.

See also paragraph R400.207.

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Reasonable and informed third party

The reasonable and informed third party test is a consideration by the ~~professional accountant~~ assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an ~~accountant~~ assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the ~~accountant's~~ assurance practitioner's conclusions in an impartial manner.

*These terms are described in paragraph R120.5 A94.*

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**Memorandum**

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**Date:** 7 June 2023  
**To:** Michele Embling, Chair External Reporting Board  
**From:** Marje Russ, Chair NZAuASB  
**Subject:** **Certificate Signing Memorandum:**  
*Amendments to Professional and Ethical Standard 1 (PES 1): Technology-related Revisions*

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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 (PES 1): Technology-related Revisions* which amends Professional and Ethical Standards (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 the Exposure Draft Proposed Technology-related Revisions to the Code in February 2022. XRB staff were seconded to the IESBA to assist in the development of the exposure draft.
3. The aim of the exposure draft was to future proof the Code for a rapidly changing technology environment. Some of the key changes include:
  - Providing enhanced guidance in relation to the fundamental principles of confidentiality, and professional competence and due care as well as in dealing with circumstances of complexity.
  - Providing guidance on identifying and evaluating threats associated with the use of technology.
  - Addition of application material around professional judgement and factors to consider when an assurance practitioner intends to use the output of technology.
  - Addressing the circumstances in which firms and network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.
4. Overall submissions to IESBA expressed support for the proposed Technology-related revisions to the Code.
5. The IESBA unanimously approved the proposed technology-related revisions to the Code in its December 2022 meeting with some amendments based on submissions received.

### *Domestic process*

6. The NZAuASB consulted its constituency in relation to the IESBA ED by seeking input from a wide range of targeted New Zealand constituents.
7. A webinar on ethics related changes to the Code was held in April 2022, including but not limited to the Technology-related proposals. Polling was used to seek attendees' views on the proposed revisions. Submissions to the NZAuASB were requested by 9 May 2022. We did not receive any written submissions.
8. The XRB's submission to the IESBA agreed with the proposed changes and was supportive of the IESBA's initiative to enhance the Code's robustness and its relevance in an environment reshaped by rapid technological changes.
9. The IESBA issued its final pronouncements in December 2022. In February 2023 the NZAuASB considered the proposed standard and agreed that there is no NZ compelling reason changes required to adopt the IESBA standard for New Zealand.

### *Australian process and harmonisation with Australia*

10. The Accounting Professional & Ethical Standards Board (APESB) released the IESBA exposure draft relating to the Proposed Technology-related Revisions to the Code in early 2022. They provided a submission to IESBA in June 2022. Overall APESB was supportive of the IESBA's Technology ED so that it remains relevant and fit for purpose in response to the transformative effects of technology on the work of professional accountants.
11. The APESB are planning to approve an Australian specific exposure draft at their August 2023 board meeting. They are planning to focus on this project in June, at this stage they have not proposed any changes that would cause harmonisation differences between New Zealand and Australia in relation to this standard.

### **Privacy**

12. 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. While these amendments relate to maintaining the confidentiality of information rather than disclosure of personal information, we have notified the Privacy commissioner of these changes.

### **Due process**

13. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

### **Consistency with XRB Financial Reporting Strategy**

14. The adoption of *Amendments to Professional and Ethical Standard 1 (PES 1): Technology-related Revisions* is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international auditing and assurance standards, as applying in New Zealand unless there are compelling reasons not to.

### **Other matters**

15. 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**

16. 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 (PES 1): Technology-related Revisions*
- Certificate of determination

**Marje Russ**

Chair NZAuASB

# NZAuASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 5.A  
**Meeting date:** 7 June 2023  
**Subject:** *Definition of audit client and group audit client in PES 1 and commencement date wording for Revisions to the Definition of Engagement Team and Group Audits definition in PES 1.*  
**Date:** 16 May 2023  
**Prepared By:** Lisa Thomas and Bruce Mcniven



Action Required



For Information Purposes Only

## Agenda Item Objective

- The objective of this agenda item is to:
  - AGREE not to include Publicly Traded Entity in the definition of Audit client and Group audit client in PES 1.
  - AGREE not to permit early adoption of *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits*

## A. Glossary changes – definition of audit client and group audit client

- The historical IESBA definition of “audit client” used the term “listed entity”. In NZ we adopted a NZ definition for “audit client” that increased the scope from “listed entity” to “FMC reporting entity considered to have a higher level of public accountability” (FMC HLPAs).
- For periods beginning on or after 15 December 2024, the IESBA 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 IESBA definition of “audit client” and “group audit client” which will refer to the term “publicly traded entity” instead of “listed entity”.
- At the April 2023 meeting, in approving the revisions to the Code for the definition of engagement team and group audits, the NZAuASB agreed to defer amendments to add “publicly traded” to the NZ definition of “audit client” and “group audit client” for periods beginning on or after December 2024 and to consider adding these amendments within the technology related changes to PES 1. The changes that were discussed in April are included in Appendix 1.
- The decision was deferred to get a better understanding of the implications of making this change, for example what and how many entities would be captured as a publicly traded entity that are not FMC HLPAs. Since the last board meeting, staff have undertaken research to identify New Zealand examples of a “publicly traded entity”. Our focus was on identifying entities that are publicly traded but not classified as a “FMC Reporting Entity Considered to have a Higher Level of Public Accountability” (FMC HLPAs).

## ***Who is a Publicly traded entity (PTE)***

- As a reminder, the definition of a Publicly Traded Entity is:

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

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



7. In March 2023, the IESBA issued [staff questions and answers on PIE](#). Part of this covered the definition of Publicly Traded Entities (PTE). This guidance clarified that the criterion “traded through a publicly accessible market mechanism” means that the trading of an entity’s financial instruments is through a trading platform or system that is available to the public. Such a mechanism can be either a primary or secondary stock exchange or an over-the-counter platform.
8. However, it is not intended to capture entities for which the only way to trade their financial instruments is through privately negotiated agreements, or entities whose listing on the market mechanism is only for tax or regulatory compliance.
9. For instance, an entity whose listed debt securities are offered only to institutional investors would not meet the definition of PTE. On the other hand, an entity whose financial instruments are traded through an over-the-counter platform by the public, is a PTE even if the volume of trade is low, assuming there is no refinement of the PTE category.
10. The IESBA highlighted the ability of the local standard setting body to refine the definitions.
11. The definition of PTE is high-level and will scope in a broad range of entities if there is no refinement in local jurisdictions. Any further refinement should be conducted by the relevant local bodies as appropriate depending on their specific jurisdictional contexts. For example, the relevant local bodies in some jurisdictions might determine that entities trading via certain secondary markets or over-the-counter platforms are not PTEs under paragraph R400.17(a) on the ground that the financial condition of these entities does not attract significant public interest. The relevant local bodies might thus refine R400.17(a) in their jurisdictions accordingly.

***Why the IESBA expanded the scope to publicly traded entities***

12. The IESBA moved away from the term "listed entities", expanding the scope to "publicly traded entity" to encompass a wider range of entities. i.e. not limited only entities that have shares, stocks, or debt traded on formal exchanges, but also those trading on second-tier markets or over-the-counter platforms. The definition explicitly states that the trading activities must occur through a publicly accessible market mechanism, such as an auction-based or electronic exchange. As a result, more entities are now classified as publicly traded entities compared to listed entities. However, it's worth noting that in New Zealand, the use of FMC HPLA means that a greater number of entities are already being captured.

***Examples of PTEs who are not FMC HPLA***

13. Based on our research we believe that it is theoretically possible for there to be audit clients who are publicly traded entities but not FMC HPLA.
14. We considered entities such as:
  - Companies with under 50 shareholders making a regulated offer under the Financial Markets Conduct Act 2013. Such companies, even if their shares are traded on a publicly accessible market mechanism, will not meet the criteria for being classified as an FMC HPLA as they have less than 50 shareholders but they could be classified as a PTE.
  - Companies trading on the unlisted exchange. Under the *Financial Markets Conduct (Unlisted Market) Regulations 2015*, issuers listed on this exchange (around 19) prepare financial statements in accordance with GAAP and which are audited by a qualified auditor. We reviewed five financial statements from entities listed on the exchange, all were group financial statements prepared under Tier 1 IFRS. Of these, four regarded themselves as FMC reporting entities, however they did not mention if they were FMC HPLA. These companies would meet the definition of a PTE, as Unlisted is a publicly accessible market mechanism.
  - Entities listed on the ‘public market’ on the Catalist Marketplace. Similar to Unlisted, under the *Financial Markets Conduct (Catalist Public Market) Regulations 2021* an issuer on this exchange must prepare financial statements prepared in accordance with GAAP and have

them audited by a qualified auditor. This is a relatively new exchange, there are a total of four companies listed on this exchange which shares available for purchase

- Entities raising funds through crowdfunders. While we saw some companies had initially raised funds through a crowdfunding platform, we were unable to determine whether shares or debt instruments were subsequently traded on that platform.
- The FMA has the power to grant financial reporting exemptions and vary public accountability designations (under section 461L(b) of the FMC Act). It is possible that these entities receiving an exemption could have instruments available to be traded through a publicly accessible market mechanism and thus be deemed a PTE. For example:
  - i. Small Co-operatives under the Financial Markets Conduct (Small Co-operatives) Exemption Notice 2022.
  - ii. Irrigation companies under the Financial Markets Conduct (Irrigation Companies) Exemption Notice 2022.

### **Conclusion**

15. The IESBA notes that local standard setting bodies have the authority to determine that certain entities are not PTEs, based on the rationale that the financial condition of these entities does not attract significant public interest. The entities that are considered of significant public interest to the regulator in New Zealand (through [section 461K](#) of the FMC Act) are designated as FMC HLPAs and are already captured by our NZ definition of audit client. While there may be PTEs that are not FMC HLPAs, on reflection we questioned why we would expand our definition to include entities beyond those that are considered of high public interest by the regulator.
16. Including or not including PTEs in the definition of audit client and group audit client impacts what related entities are captured by the independence requirements. In terms of altering the definitions, if we don't include PTEs, the impact for:
  - An Audit Client is that the definition will always include *an entity in respect of which a firm conducts an audit engagement*. For FMC HLPAs, this includes all related entities. But for entities that are PTEs who are not FMC HLPAs, the definition of audit client "includes those related entities over which the client has direct or indirect control".
  - A Group audit client, is that the definition will always include *the entity on whose group financial statements the group auditor firm conducts an audit engagement*. For FMC HLPAs, this includes its related entities and any other components at which audit work is performed. But for entities that are PTEs who are not FMC HLPAs, the definition of 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".
17. It is important to note that regardless of the entity (if it is a FMC HLPAs, or a PTE or otherwise), paragraph R400.27 of PES 1 says that "When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence."
18. Therefore, auditors must always consider the related entities regardless of whether or not they client is an FMC HLPAs.
19. We recommend that the definitions of audit client and group audit client remain (with a couple of reference amendments to be included in the Technology-related revisions amending standard – shown by underline), as below:

[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 R400.207.)

*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.*

...

[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 R400.207.

## **B. Commencement and application date**

20. The Board approved the standard *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits* in the April 2023 meeting pending the commencement date discussions. The IESBA standard permits early adoption. For your information, the IESBA commencement and application date text is presented at Appendix 2.
21. The NZAuASB is now asked to consider whether it will permit early adoption. Early adoption can be for periods that commence before the application date, but have not ended before the effective date. If the Board is going to permit early adoption for the window of time available before application date it must specify that permission.
22. When we considered the nature of the changes to the Code by *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits* and the near pending application date of periods beginning on or after 15 December 2023, we do not believe that permitting early adoption is necessary.
23. The recommended commencement date wording is as follows:

...

1. The accounting periods for engagements in relation to which this standard commences to apply, for a firm, are those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.
2. In paragraph 2:  
**mandatory date** means 15 December 2023.

### 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.

**Recommendations**

24. We recommend that the Board APPROVE:

- not to amend the definition of audit client and group audit client to include Publicly Traded Entities.
- not to permit early adoption of *Amendments to Professional and Ethical Standard 1: Revisions to the Definition of Engagement Team and Group Audits* as set above.

## Appendix 1

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The definitions proposed by the previous amending standard were as follows:

- [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 or is a publicly traded entity, in accordance with paragraphs R400.17 and R400.18, 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.*
- [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 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 R400.292.*

## Appendix 2

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For your information, the following is the IESBA commencement and application date wording, extracted *Revisions to the Code of Ethics Relating to the Definition of Engagement Team and Group Audits*.

### EFFECTIVE 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 (Chapter 1) will be effective 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 effective as of December 15, 2023:
  - The conforming amendments to Section 360 to align with ISA 600 (Revised) terminology in Chapter 2.
  - The conforming amendments to the revised non-assurance services provisions in Section 400 in Chapter 3.
  - The conforming amendments to Sections 300, 310, 320, 400, 510, 605 and 900 resulting from the revisions to the definitions of engagement team in Chapter 4.
  - The quality management-related consequential amendments to Sections 540, 800, 940, and 990 in Chapter 5.
- The changes to the Glossary in Chapter 6 will be effective:
  - 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 in Chapter 7 will be effective for audits of financial statements and group financial statements for periods beginning on or after December 15, 2024.  
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, will come into effect with the conforming amendments in Chapter 7.

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.

# NZAuASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 6.1

**Meeting date:** 7 June 2023

**Subject:** IESBA Strategy & Work Plan 2024-2027

**Date:** 24 May 2023

**Prepared By:** Tracey Crookston

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

**Agenda Item Objective**

1. For the Board to CONSIDER and APPROVE the XRB’s submission on the IESBA’s Strategy and Work Plan 2024-2027.

**Background**

2. The IESBA has issued its [proposed strategy and work plan 2024-2027](#) (SWP) with submissions due by 7 July 2023.
3. The XRB recently commented on the [IAASB's proposed SWP 2024-2027](#) and the comments to the IESBA include similar key messages.

**IESBA’s proposed SWP 2024-2027**

4. The proposed SWP includes strategic themes, drivers, and actions. See [Appendix A](#) of this BMSP for a summary of these.
5. The SWP also sets out projects and workstreams commenced before 2024, potential new topics and pre-committed workstreams. These are summarised in the table below.

Projects/Work Streams commenced before 2024 (Table A)	Potential New Topics Identified (Table B)	Pre-committed work streams <sup>1</sup> (Table C)
<ul style="list-style-type: none"> <li>• Sustainability Work stream 1: Independence Work stream 2: Ethics</li> <li>• Use of Experts</li> <li>• Collective Investment Vehicles, Pension Funds, and Investment Company Complexes</li> <li>• Post-implementation Review – NOCLAR<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Role of CFOs and other senior PAIBs</li> <li>• Business relationships</li> <li>• Definitions and descriptions of terms</li> <li>• Audit Firm – audit client relationship</li> <li>• Custody of data</li> <li>• Communication with Those Charged with Governance</li> </ul>	<ul style="list-style-type: none"> <li>• PIR – Long Association phase 2</li> <li>• PIR – Restructured Code</li> <li>• PIR – Non-Assurance Services and Fees</li> <li>• PIR – Definition of Public Interest Entity</li> </ul>

<sup>1</sup> To commence during or after Q1 2024  
<sup>2</sup> Non-compliance with laws and regulations.

6. The IESBA intends to consider responses and to finalise the SWP in December 2023.

#### **Matters to Consider**

7. At agenda item 6.2 staff have prepared draft responses to the specific questions in the consultation paper for the Board to consider.
8. We will liaise with APESB staff to obtain an understanding of their views on the proposed SWP. At the time of drafting this paper the APESB staff are yet to begin work on this project.

#### **Engagement with stakeholders**

9. We are aware of the many requests and demands currently on stakeholders to respond to various XRB consultations. We have considered how best to engage with stakeholders to obtain their views.
10. Our engagement plan is to:
  - highlight the IESBA's SWP on the XRB's website and in Audit and Assurance Alerts.
  - post on LinkedIn to raise stakeholder awareness and invite comments.
  - reach out APESB staff to understand their views on the proposed SWP.

#### **Recommendation**

We recommend that the Board CONSIDERS and APPROVES the XRB's submission.

#### **Main meeting papers**

- |                 |  |
|-----------------|--|
| Agenda item 6.1 | Board Meeting Summary Paper                                |
| Agenda item 6.2 | Submission on the IESBA's Strategy and Work Plan 2024-2027 |

#### **Supplementary papers**

- |                 |   |
|-----------------|---|
| Agenda item 6.3 | IESBA's proposed strategy and work plan 2024-2027 |
|-----------------|---|



**Appendix A – IESBA SWP 2024-2027 – Proposed Strategic Themes, Drivers, and Actions**

Strategic Themes	Strategic Drivers	Strategic Actions
Enhancing trust in sustainability reporting and assurance	<ul style="list-style-type: none"> <li>• Rapidly growing market demand for sustainability information.</li> <li>• Heightened stakeholder expectations for greater timeliness.</li> </ul>	<ul style="list-style-type: none"> <li>• In relation to sustainability information:               <ul style="list-style-type: none"> <li>○ developing fit-for-purpose ethics standards to support sustainability reporting by PAIBs and PAs in public practice (PAPPs).</li> <li>○ developing fit-for-purpose, profession-agnostic ethics (including independence) standards to support sustainability assurance.</li> </ul> </li> <li>• Obtaining the support or endorsement of its new standards addressing sustainability reporting and assurance, as well as the related but broader standard addressing the use of experts, from global regulators and oversight bodies and other key jurisdictional bodies.</li> </ul>
Strengthening the Code or responding in other ways in areas beyond sustainability reporting and assurance	<ul style="list-style-type: none"> <li>• The expanding roles of professional accountants in business.</li> <li>• Ongoing impact of technological transformations.</li> <li>• Heightened stakeholder expectations for greater timeliness.</li> <li>• Trust crisis and other repercussions from recurring high profile corporate failures.</li> </ul>	<ul style="list-style-type: none"> <li>• Progressing and completing ongoing projects in a timely manner (see section III proposed work plan 2024-2027).</li> <li>• With regards to new projects to commence during the new strategy period (Section III, proposed work plan 2024-2027)               <ul style="list-style-type: none"> <li>○ developing project plans to address the identified public interest issues.</li> <li>○ progressing the new projects in a timely manner and in accordance with the work plan.</li> </ul> </li> <li>• Maintaining an ongoing monitoring function on technology developments and considering how best to address the public interest issues identified.</li> <li>• Monitoring emerging issues or developments outside of sustainability and technology through the IESBA’s Emerging Issues and Outreach Committee (EIOC) and responding appropriately to identified public interest issues through enhancements to the Code or other actions such as the development of NAMs in accordance with its general guidelines.</li> </ul>
Further enhancing the diversity of stakeholder perspectives and the global operability and acceptance of the IESBA standards	<ul style="list-style-type: none"> <li>• The imperatives of quality and global acceptance of the IESBA’s Standards.</li> <li>• Global operability of the IESBA’s Standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Proactively engaging with a broad range of stakeholders, including investors, regulators and oversight bodies, the corporate governance community, preparers, NSS, PAOs, accounting firms and the academic community. The IESBA will also continue to engage with small and medium practices (SMPs) to guide its considerations of proportionality in developing the standards, among other matters of relevance to the SMP community.</li> <li>• Proactively engaging with assurance providers independent of the accountancy profession to seek their input to the IESBA’s development of profession-agnostic standards for sustainability assurance and to promote the understanding, acceptance and use of those standards by those independent assurance providers.</li> </ul>

Strategic Themes	Strategic Drivers	Strategic Actions
		<ul style="list-style-type: none"> <li>• Pursuing coordination with the IAASB and ISSB to ensure that the new IESBA standards addressing sustainability reporting and assurance and the use of experts align with those of the IAASB and ISSB in an interoperable manner.</li> <li>• Coordinating closely with the IAASB on matters of mutual interest with respect to other projects and work streams.</li> </ul>
<p>Widening the influence of the IESBA's standards through a continued focus on adoption and implementation.</p>	<ul style="list-style-type: none"> <li>• Further increasing global adoption of the Code and supporting its effective implementation.</li> </ul>	<ul style="list-style-type: none"> <li>• Engaging in outreach around the world to raise awareness of the importance of ethics to the proper functioning and sustainability of financial markets and economies, and to promote further adoption of the Code, including its most recent enhancements, as well as adoption of the IESBA's new standards addressing sustainability reporting and assurance and the use of experts.</li> <li>• Collaborating with IFAC to document the latest status of adoption of the IESBA's standards.</li> <li>• Working with IFAC and other stakeholders to encourage more support for timely and accurate translations of the IESBA's standards and publications.</li> <li>• Developing or facilitating the development of non-authoritative materials (NAM) to support the adoption and effective implementation of new or revised standards.</li> <li>• Conducting post-implementation reviews to assess how effectively the implementation of the IESBA's recently issued standards meets the original objectives for developing them, and to identify any need for further enhancements.</li> </ul>

30 June 2023

Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants  
539 Fifth Avenue  
New York, 10017  
USA

Dear Gabriela,

### ***The IESBA's Proposed Strategy and Work Plan 2024-2027***

Thank you for the opportunity to comment on the Proposed IESBA Strategy and Work Plan 2024-2027. We submit the feedback from the New Zealand External Reporting Board (XRB).

The XRB is a Crown Entity responsible for developing and issuing climate, accounting, auditing and assurance standards (including professional and ethical standards in New Zealand). The XRB enables high-quality, credible and integrated reporting by providing robust frameworks and standards that are internationally credible, while being relevant to Aotearoa, New Zealand. This ensures reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

The XRB's mandate is to develop ethical standards for assurance practitioners. Our consideration of the IESBA's Proposed Strategy and Work Plan 2024-2027 is therefore informed in this context.

The XRB agrees with, and supports, the IESBA's proposed strategy for 2024-2027 as outlined in section II of the consultation paper.

While supportive of the strategic direction, we recognise that there are significant challenges ahead for the IESBA in achieving its strategy. It is critical that the IESBA is, and is seen to be, an independent standard setter, transparent and operating free from bias. We consider this to be particularly important in the context of developing profession agnostic, globally accepted standards for ethics and independence requirements for those preparing or assuring sustainability information.

Comparing ethical requirements across professions is not an easy task, and it is not possible to make a statement that one profession's requirements are better or worse than another. However, it is in the public interest that there is a level playing field and a clear understanding by users of either what those requirements are or how they differ if there are multi-disciplinary practitioners providing assurance. To meet the challenge of globally accepted profession agnostic standards we encourage the IESBA to:

- Clearly articulate what profession agnostic ethical standards mean in the context of the IESBA's mandate, which is limited to professional accountants and to clarify who it expects to apply these standards beyond the profession. If the intent is for other professionals to use these standards, we encourage the IESBA to consider if and how other professionals will see themselves in the standard or whether this standard is creating barriers to entry, which would not be in the public interest.
- take an inclusive approach that recognises and respects other professions' requirements in order to overcome challenges related to gaining acceptance and adoption by other professionals.
- think broadly and recognise those standard setters who set ethics standards for other professions operating in this space. The XRB have been developing a standard for assurance (including ethics requirements) over-mandatory GHG emissions disclosures, taking care to take an inclusive approach that can learn from others, recognising that assurance practitioners in this area is broader than professional accountants.

- explore what can be learnt from other established assurance practices (which have associated ethics requirements) and collaborate with a far broader range of stakeholders and not only financial markets regulators to gain wider acceptance. For standards to be globally accepted they should not deter other participants in the market. The IESBA needs to be curious to learn about the ethics and independence standards of these other assurance practitioners, taking an inclusive approach, to ensure they can see themselves in the standards.
- 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.

These actions are important because global support for the IAASB's assurance standard on sustainability, that links to the IESBA's ethics standards, will depend on the IESBA's ability to develop an ethics standard for sustainability that is truly profession agnostic.

We encourage the IESBA to develop performance-based metrics against which the success of its proposed strategic actions can be measured. For example, how will the IESBA assess whether it is progressing and completing projects in a timely manner?

Our responses to specific questions in the CP are set out in Appendix A. Should you have any queries concerning our submission please contact either myself at the address details provided below or Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,

**Marje Russ**  
**Chair**

Email: [marje.russ@tonkintaylor.co.nz](mailto:marje.russ@tonkintaylor.co.nz)

## Submission of the New Zealand External Reporting Board

### Appendix A: Responses to specific questions 1,2,3,4 and 6 in the CP

#### *The IESBA's Strategy and Work Plan 2024-2027*

**1) Do you agree with the IESBA's proposed strategic drivers? (pp. 9-14)**

**Q1 Response**

Yes. We agree with the IESBA's proposed strategic drivers.

**2) Do you agree with the IESBA's proposed strategic themes and proposed strategic actions (pp.22-24)**

**Q2 Response**

We support the IESBA's proposed strategy for 2024-2027 as outlined in section II of the consultation paper.

While supportive of the IESBA's strategic direction, we recognise that there are significant challenges ahead for the IESBA in achieving its strategy. We set out our responses below.

*Strategic Theme – Enhancing trust in sustainability reporting and assurance*

Strategic action: developing fit-for-purpose profession-agnostic ethics (including independence standards)

We consider that the IESBA needs to clearly articulate what it means by profession agnostic ethics (including independence) standards in the context of its mandate (which is limited to professional accountants) and to clarify who it expects to comply with these standards beyond members of the accounting profession. If the intent is for other professionals to use these standards, we encourage the IESBA to consider if and how other professionals will see themselves in the standard or whether this standard is creating barriers to entry, which would not be in the public interest.

We appreciate that comparing ethical requirements across different professions is not an easy task, and it is not possible to make a statement that one profession's requirements are better or worse than another. However, it is in the public interest for there to be a level playing field and a clear understanding by users of what the requirements are or if they differ because there are multi-disciplinary practitioners providing sustainability assurance.

Strategic action: obtaining the support or endorsement of its new standards from global regulators, oversight bodies and other key jurisdictional bodies

In fulfilling this strategic action, we encourage the IESBA to engage with a broader range of regulatory and oversight bodies than those who oversee financial information. By engaging more broadly with these bodies, the IESBA is more likely to gain greater acceptance of the standards and therefore uptake of their use.

*Strategic Theme – Strengthening the Code*

Strategic action: progressing and completing projects in a timely manner

We encourage the IESBA to develop performance-based metrics against which the success of its proposed strategic actions can be measured. For example, how will the IESBA assess whether it is progressing and completing both ongoing and new projects in a timely manner?

How is the IESBA going to achieve its strategic object of completing projects in a timely manner? For example, is the IESBA contemplating using narrow scope amendments (an approach used by the IAASB and other standard setting Boards) to ensure that projects are progressed in a timely manner.

Maintaining an ongoing monitoring function relating to technology

With developments in artificial intelligence and other technology evolving at a rapid pace, we support the IESBA’s strategic action of maintaining an ongoing monitoring function on technology developments and considering how best to address the public issues identified.

*Strategic Theme – Enhancing global operability and acceptance of the IESBA standards*

Strategic action: proactively engaging with a broad range of stakeholders

For standards to be globally accepted they should not deter other participants in the market. The IESBA needs to be curious to learn about the ethics and independence standards of other assurance practitioners, taking an inclusive approach, to ensure they can see themselves in the standards.

One way of achieving this will be 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.

Engagement with other standard setters, regulators and oversight bodies outside of those responsible for financial statements will also be important in gaining acceptance of the IESBA’s standards. This will ensure that interoperability occurs more than as contemplated in the paper simply between that of the IESBA, IAASB and ISSB standards.

We note the strategic action to ‘promote the understanding, acceptance and use of those standards by those independent assurance providers’ seems to presume that these other independent assurance providers will apply the requirements developed by the accounting profession. In our experience, that will not necessarily be the case if there has not been adequate engagement from the outset.

**Proposed Work Plan for 2024-2027**

- 3) **Do you support the IESBA considering the topics set out in Table B as potential work streams (see pp. 22-24)? If so, please also share your views on any specific issues or questions you believe the IESBA should consider under these topics. If not, please explain your reasons.**

Table B
Potential Work Streams under consideration
<ul style="list-style-type: none"> <li>• <a href="#">Role of CFOs and other senior PAIBs</a></li> <li>• <a href="#">Business Relationships</a></li> <li>• <a href="#">Audit Firm - Audit client relationship</a></li> <li>• <a href="#">Definitions and descriptions of terms</a></li> <li>• <a href="#">Custody of Data</a></li> <li>• <a href="#">Communication with TCWG</a></li> </ul>

**Q3 Response:**

We are support the IESBA considering the Table B potential workstreams. Our comments are set out below.

- **Role of CFOs and Other Senior PAIBs**

We recognise that it is important for the IESBA to gather information on the evolving roles of CFOs and other PAIBs given rapidly developing changes in their environment. This is especially so given rapidly developing changes in technology as well as an increasing market demand for sustainability information which will require CFOs to have a much broader focus on non-financial information.

• **Business Relationships**

We consider this to be an important potential workstream for the IESBA given the findings of the Technology Working Group (Final Phase 2 Report) – that the profession is experiencing a rise in strategic and commercial relationships between accounting firms and technology and other companies, and that section 520 of the Code does not address these broader business relationships. This is an important area for the IESBA to address given the impact of close business relationships on independence and the importance of maintaining trust and confidence in the profession.

• **Audit Firm – Audit Client Relationship**

Given the significant impact of this relationship on independence we are supportive of the IESBA exploring whether the Code as a whole continues to provide a framework that addresses the potential ethical impact arising from the firm-client relationship.

• **Definitions and Descriptions of Terms**

While supportive of this project, we consider it should be extended more broadly than consistency in the definitions and descriptions used in standards issued by the IESBA and IAASB to ensure the appropriateness of definitions and descriptions for other professions. Getting all professions on board with terminology is particularly important if the IESBA is to develop fit for purpose, profession-agnostic independence standards for sustainability assurance.

• **Custody of Data**

We consider the IESBA should first clarify how the ethical considerations of holding financial or non-financial data belonging to clients might be different to ethical considerations relating to the existing provisions relating to custody of client assets.

• **Communication with Those Charged with Governance**

We consider this potential workstream to be important given the increasing reliance that will be placed on the use of technology and experts in the sustainability reporting and assurance space.

4) **Do you believe the IESBA should accelerate or defer any particular ongoing, potential or pre-committed work stream(s) set out in Tables A, B and C? Please explain your reasons.**

Table A	Table B	Table C
<b>Ongoing Projects and Work Streams</b>	<b>Potential Work Streams under consideration</b>	<b>Pre-committed Work Streams</b>
Sustainability <ul style="list-style-type: none"> <li>• Workstream 1 – Independence</li> <li>• Workstream 2 – Ethics</li> <li>• Use of Experts</li> <li>• Collective investment vehicles, pension funds and investment company complexes</li> <li>• Post-implementation review – NOCLAR</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Role of CFOs and other senior PAIBs</a></li> <li>• <a href="#">Business Relationships</a></li> <li>• <a href="#">Audit Firm - Audit client relationship</a></li> <li>• <a href="#">Definitions and descriptions of terms</a></li> <li>• <a href="#">Custody of Data</a></li> <li>• <a href="#">Communication with TCWG</a></li> </ul>	<ul style="list-style-type: none"> <li>• PIR – Long Association (phase 2)</li> <li>• PIR – Restructured Code</li> <li>• PIR – NAS and Fees</li> <li>• PIR – Definition of PIE</li> </ul>

**Q4 Response:**

The XRB considers that the sustainability workstreams should be focus areas of the highest possible importance.

We note the IAASB's sustainability work stream also considers the use of experts. We encourage the IESBA and IAASB to align their work efforts in this area to avoid overlap.

Recent revisions to the Code (Long Association, NAS, Fees, PIE etc) have resulted in significant changes for stakeholders to implement in practice. We encourage the IESBA to identify areas where further implementation support (e.g., Q&As, staff alerts, fact sheets etc.) can be provided. For example, we consider more implementation support is needed for NAS. Through our outreach and consultation on the NAS provisions we are aware of concerns about the operability and consistency of interpretation of the provisions, specifically around tax services.

**Additional Information**

- 6) **The IESBA's proposed Strategy and Work Plan emphasizes the importance of close coordination with its sister Board, the IAASB. Do you have views or suggestions as to how coordination between the IESBA and the IAASB could be enhanced to better serve the public interest?**

**Q6 Response:**

We are supportive of the two Boards, coordinating the development of their strategy and work plans, continuing to coordinate closely at a technical level as well as coordinating at an operational level. However, the coordination efforts will need to be broader, beyond the IFAC Boards, so that lessons can be learned from other international standard setters in the sustainability space.



## Appendix B

### Contextual Information for the Board – (not part of the submission)

Set out below, for ease of the Board's review are extracts from the IESBA's strategy and work plan for the Table B potential work streams.

#### Table B – potential workstreams under consideration

##### Role of CFOs and Other Senior PAIBs

The role of CFOs and the financial function within organisations is rapidly changing and expanding beyond just managing the balance sheet. The CFO's remit now extends to strategy, enterprise risk management, performance management, and communicating the organisation's story to the outside. New technology has also created both new challenges and opportunities for CFOs and the finance function.

Additionally, market demand for sustainability information requires CFOs to expand their focus on non-financial information. One of the key roles of the CFO and finance function is to establish clear links between financial and non-financial metrics in order to drive financial value linked to revenue and operating margins. With their expanded roles, the CFO must help to deliver trust and confidence in the governance of the organisation, the quality of its data and reporting, as well as providing ethical leadership and a constructive challenge mindset.

Under this potential work stream, the IESBA would gather information into the evolving roles of CFOs, including those in equivalent positions within the public sector, and other PAIBs in senior roles, including identifying and understanding the ethics issues and challenges these PAIBs may face due to their changing roles.

The IESBA will consider whether Parts 1 and 2 of the Code need further enhancement to support senior PAIBs in addressing these ethical issues and challenges, taking into account the revisions already made under recent projects, such as the Role and Mindset and Technology projects, as well as those issues that are being addressed under the Sustainability and Use of Experts projects. Part 2 of the Code already contains some provisions that are focused on senior PAIBs, such as those in the NOCLAR standard. [Back](#)

##### Business Relationships

*"A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable."* (R520.4)

Under this potential workstream, the IESBA would initially gather information on developments in business arrangements between firms and their clients, including further research into the technology-related business arrangements noted in the TWG Phase 2 Report\*. The IESBA will also conduct a holistic review of section 520 to determine whether the Code continues to be relevant in addressing the independence considerations relating to these arrangements, including whether there is a need to develop a definition for the term "business relationship". As part of this potential workstream, the IESBA may also consider whether materiality and significance should be retained as criteria for exceptions to certain business relationships (Section 520) as well as loans and guarantee arrangements (Section 511). As the IESBA gains an understanding of these business relationships in a broader context, the IESBA may consider whether the provisions of Parts 1 and 3 of the Code continue to remain relevant in addressing the ethics implications of these relationships. [Back](#)

##### Audit Firm – audit client relationship

Under this potential workstream, the IESBA would consider whether it continues to remain appropriate for the Code to use the term "audit client" in the International Independence Standards as opposed to "audited entity" or "entity subject to audit". This recognises that the ultimate beneficiary client is not the entity itself or its management but the entity's owners or shareholders.

As part of its Fees project, the IESBA concluded that the Code should recognise the inherent self-interest threat in the audit client payer model whereby the party responsible for the subject of an examination directly pays the examiner. The IESBA, however, agreed with the view that the inherent risk related to the audit client payer model is part of the broader topic of the "audit firm – audit client" relationship, and that it is not exclusively a fee-

related issue. Accordingly, the IESBA determined that this matter of the inherent threats arising from the client relationship was outside of the remit of the Fees project. As part of this potential workstream, the IESBA would examine more broadly the “audit firm – audit client” relationship and explore whether the Code in its entirety continues to provide a framework that addresses the potential ethical impact arising from such client relationship. Some of the issues identified under this potential workstream may also have implications on how the IESBA may address the topic of business relationships. [Back](#)

### **Definitions and descriptions of terms**

There are differences between the definitions of some terms in the Code and the definitions of the same terms in the IAASB standards. These terms include financial statements; firm; independence; review engagement; and special purpose financial statements.

Under this potential workstream, the IESBA would seek to align the definitions of terms used in the Code with the corresponding IAASB definitions to the greatest extent possible. As many users apply both the IAASB standards and the Code simultaneously, the alignment of terms and definitions will eliminate ambiguity, improve the interoperability of the IESBA’s and IAASB’s standards and make it easier for adoption and implementation, including facilitating translations. Respondents to the Strategy Survey were supportive of this alignment exercise.

A second component of this workstream may include a review of how certain terms are currently defined in the Code, including audit team, employee, engagement period, firm, network firm, professional accountant.

In addition, this workstream may also include a review of whether the terms “professional accountant in public practice” and “professional accountant in business” in the Code require further clarification. The IESBA’s Applicability project, finalised in 2017, address the applicability of Part 2 of the Code to PAPPs. As part of this project, there were suggestions as to whether the definitions of PAPP and PAIB should be revised. [Back](#)

### **Custody of Data**

Data is the foundation of all financial and non-financial reporting, and impacts both PAPPs and PAIBs. As highlighted in the TWG Phase 2 Report, holding data is becoming increasingly common and important, given that most organisations are flooded with data, and services provided by firms and activities carried out by PAs are increasingly performed digitally. If data is lost, misappropriated, misused, improperly manipulated or subject to unauthorized access (including, for example, a breach of privacy), there is, at the very least, reputational loss, if not financial and legal consequences, to the organisation or firm.

As part of its Technology project, the IESBA introduced new provisions to Subsection 606 (Information Technology Systems) of the Code clarifying the circumstances under which the storing or hosting of data are examples of IT systems services that will result in the assumption of a management responsibility. The IESBA also strengthened the Code in relation to confidentiality by including new provisions on maintaining the confidentiality of information acquired in the course of professional or business relationships and seeking consent to use or disclose confidential information.

Under this potential workstream, the IESBA would further investigate the ethics implications of a PA’s custody or holding of financial or non-financial data belonging to clients, customers, or other third parties. There may also be a consideration of whether the Code sufficiently addresses these issues, including whether there is a need to establish a new section in Part 3 to capture the ethics considerations relating to the custody of data, along the lines of Section 350 of the Code relating to custody of client assets. [Back](#)

### **Communication with Those Charged with Governance**

The IESBA’s NAS and Fees projects have enhanced the provisions in the International Independence Standards relating to communication with TCWG on the provision of NAS and fees-related matters, particularly with respect to a PIE audit client. In addition, the revisions arising from the Technology project have further strengthened the Code’s requirement for PAs to make a client, an employing organisation, or other users of the accountant’s professional activities or services aware of the limitations inherent in the activities and explain the implications of those limitations.

As highlighted in the TWG Phase 2 report, there is potential “over-reliance” on an expert or consultant that a PA uses to develop or implement technology, or to provide advice on a technology-related issue (e.g., cybersecurity risks). The revisions arising from the Technology project provide guidance to PAs when using the output of technology. However, when PAs use experts or consultants in relying on technology, communication with TCWG could help to further strengthen the concepts of transparency and accountability for PAs to minimize their potential “over-reliance” on such experts or consultants.

The concepts of transparency and accountability for PAs to minimize their potential “over-reliance” on such experts or consultants are not unique to technology (i.e., they also apply to tax planning, sustainability reporting, etc.). There is therefore an opportunity to incorporate provisions addressing such communication into the Code more generally so that it can be considered under all circumstances.

Under this potential workstream, the IESBA would consider whether there would be merit in adding new provisions relating to communication with those charged with governance in Sections 200 and 300 to stimulate meaningful communication with TCWG by PAs about risks and exposures that might affect the PAs’ compliance with the fundamental principles, and, where applicable, independence requirements. For auditors, this workstream will consider the interaction with requirements already contained in ISA 260 (Revised), *Communication with Those Charged with Governance*. The IESBA will also take into account the outputs of its Use of Experts project. [Back](#)

**NZAuASB Board Meeting Summary Paper**

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<b>AGENDA ITEM NO.</b>	7.1
<b>Meeting date:</b>	7 June 2023
<b>Subject:</b>	National Standard Setters Agenda
<b>Date:</b>	24 March 2022
<b>Prepared By:</b>	Misha Pieters

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

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**Agenda Item Objectives**

1. To confirm key messages from the XRB to convey on the agenda items to be discussed at the Virtual National Standard Setters meetings to be held in June 2023.

**Background**

2. The NZAuASB Chair and the director of assurance will attend upcoming virtual national standards setters (NSS) meetings scheduled for June 7<sup>th</sup> (IESBA NSS) and June 12<sup>th</sup> – 13<sup>th</sup>. There is no combined IAASB/IESBA meeting this time.

*IESBA NSS*

3. The agenda for the IESBA meeting covers:
  - a. Message from the PIOB Chair, Linda de Beer.
  - b. Independence Considerations for Sustainability Assurance Engagements
  - c. Ethics considerations for sustainability reporting and assurance
  - d. Use of Experts project
4. These are the same topics explored at the sustainability roundtables we attended in Sydney in March. We expect to receive an update on the outcome of the global roundtables, and then discuss the developing proposals for profession agnostic ethics and independence standards.

*IAASB NSS*

5. The agenda for the two day IAASB meeting covers:
  - a. Message from the PIOB Chair, Linda de Beer.
  - b. Jurisdictional developments of international relevance "Tour de table".
  - c. Assurance on sustainability – to obtain NSS perspectives on selected key areas of proposed ED 5000 and the upcoming outreach to be undertaken.
  - d. Fraud – to obtain NSS perspectives on the work effort when fraud or suspected fraud is identified and transparency about the auditor's responsibilities related to fraud.
  - e. Going concern – to obtain NSS perspectives on key proposals including transparency about the auditor's responsibilities related to going concern and timeline over which the going concern assessment is made.

- f. Less Complex Entities (LCE) – to obtain NSS perspectives on proposals. We have not covered this topic in the slides but intend to update the board on the LCE project once the IAASB has voted to finalise the standard.
- 6. The attached slides at agenda item 7.2 explore the key issues and messages to convey from the New Zealand perspectives on the key topics. We seek your views on these key messages or any additional comments that board members would wish to highlight to the IAASB or the IESBA.
- 7. Agenda item 7.3 is a flowchart depicting the audit procedures the auditor may perform when identifying and assessing risks of material misstatement due to fraud, and responding to the assessed risks, including when fraud or suspected fraud is identified. This sets the scene for the developing auditor responsibilities in the context of the fraud section in the slides.

**Material Presented**

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Issues to explore
<b>Supplementary paper</b>	
Agenda item 7.3	Fraud flowchart

# Going concern

1

1

## Transparency – proposed auditor reporting requirements

Use of GC basis appropriate, no material uncertainty exists (all entities)

### Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

For listed entities, events or conditions identified that may cast significant doubt, but the auditor has concluded that no material uncertainty exists

We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

*Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.*

2

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## Transparency – proposed auditor reporting requirements

Use of GC basis appropriate, material uncertainty exists (all entities)

### Material Uncertainty Related to Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended 31 December, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

For listed entities only

*Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.*

3

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## XRB's perspectives on Transparency

- Can see merit in reporting on going concern/MURGC
- Challenging to enhance transparency without increasing length and complexity in auditor's report.
- Auditor's report cluttered and losing its usefulness for decision making.
- Auditor's responsibility goes beyond that of the preparer to report on these matters
- Need a whole of supply chain response to address expectation gap issues
- Conclusion on going concern – an opinion within the opinion? Overall objective of the auditor: to obtain reasonable assurance about whether the financial statements as a whole... (ISA 200)
- Would it serve users better to report on other elements through a separate piece of work?

4

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## Timeline for management's assessment of going concern

The proposed commencement date of the twelve month period of management's assessment of going concern is from the date of approval of the financial statements (previously the date of the financial statements)

XRB's perspectives on timeline over which the going concern assessment is made.

- Supportive of the proposed change
- Aligns closely with current NZ requirements

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# Fraud

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## Developing transparency proposals

Separate section in the auditor's report describing:\*

- The auditor's responsibilities as it relates to fraud in the audit of the financial statements;
- The identified and assessed fraud risks and the auditor's response to the assessed risks.

\*(IAASB papers December 2022)

Note: The task force previously also proposed to include identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements. This is no longer proposed.

XRB's perspectives on Transparency

- Less comfortable with reporting the auditor's responsibilities and work related to fraud in the auditor's report than for going concern.
- Auditor's report cluttered and losing its usefulness for decision making.
- Would it serve users better to report on other elements through a separate piece of work?
- Objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from **material misstatement**, whether due to fraud or error.

7

7

## Audit procedures

### Audit Procedures

- Revision of risk assessment (if applicable)
- Design and perform (additional) further audit procedures
- Determine existence of control deficiencies
- Determine additional responsibilities under law, regulation, or relevant ethical requirements regarding the entity's non-compliance with laws or regulations
- Communicate with those charged with governance
- Communicate to regulatory and enforcement authorities, as required
- Consider implications for other aspects of the audit

XRB's perspectives on the work effort required when fraud or suspected fraud is identified.

- Required procedures seem reasonable
- Unclear whether the procedures differ depending on whether the fraud is identified or suspected
- Unclear whether consideration is given to materiality, or is all fraud treated as if material?

8

8

# Sustainability Assurance – ISSA 5000

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## Key Principles

Global Baseline for Sustainability Assurance

Stand alone Standard

Profession and Framework Agnostic

Includes relevant Ethical Requirements

Includes relevant Quality Management Requirements

Limited and Reasonable Assurance

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## Main Themes

### Ethical and Quality Management considerations

- IESBA Code (PES 1)
- ISQM 1 and 2 (PES 3 and 4)

### Acceptance and Continuance

### Evidence and Documentation

### Planning

- Work Effort required for Limited and Reasonable Assurance Engagements
- Reliance on Experts
- Forward-Looking Information (considerations for limited and reasonable assurance)

### Risks of Material Misstatement

11

11

## XRB Messages for NSS

XRB's perspectives on developing sustainability proposals

- "At least as demanding" test for ethical and quality management standards of the IAASB will be a barrier for adoption by non-accountants, and is therefore not meeting the objective of profession agnostic standards
- Does it appropriately address assurance of forward-looking information (e.g., scenario analysis)?
- How does the IAASB intend to engage widely with a broad range of regulators, practitioners and users?

12

12

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	8.1
<b>Meeting date:</b>	7 June 2023
<b>Subject:</b>	NZAuASB work plan update for 2023
<b>Date:</b>	19 May 2023
<b>Prepared By:</b>	Misha Pieters

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### Agenda Item Objectives

- For the Board to:
  - NOTE the update on the NZAuASB 2022/23 action plan and key achievements for the year.
  - Note the implementation plan for 2023/24.

### Background

#### *2022/23 performance*

- As this is the final meeting of the NZAuASB for the 22/23 financial year end, it is timely to reflect on the key achievements for the year and for plans for the next 12 months.
- The key achievements for the period to be reported in the statement of service performance include:
  - Issue domestic standard, guidance and/or consultation document in accordance with agreed work plan:

Issued SAE 3450 Assurance over Financial Information Prepared in Connection with a Capital Raising. (Dec 2022)
Issued exposure draft proposing to revise NZ AS 1 <i>The Audit of Service Performance Information</i> . (Dec 2022) Received 3 written submissions together with responses to polling questions at our feedback forum attended by 45 people.
Issued exposure draft of proposed NZ SAE 1 <i>Assurance Engagements over Greenhouse Gas Emissions Disclosures</i> . (Dec 2022) Received 16 written submissions and collected feedback during informal meetings with stakeholders and interactive feedback forums.
Issued Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards (May 2023)

- Promote awareness of frameworks, standards and guidance throughout life cycle, from development to implementation

Engagement with assurance practitioners, the public sector and the FMA (as appropriate)	The assurance team hosted the following in the period: <ul style="list-style-type: none"><li>- 2 Need to Know Series: Assurance updates (Aug 2022 and March 2023)</li><li>- 2 virtual feedback forums on shaping GHG assurance (Sept 2022)</li></ul>
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<p>on the following key projects:</p> <p><b>Final standards:</b></p> <ul style="list-style-type: none"> <li>- Group audits</li> <li>- Non-assurance services</li> <li>- Assurance over Financial Information Prepared in Connection with a Capital raising (SAE 3450)</li> </ul> <p><b>Exposure drafts:</b></p> <ul style="list-style-type: none"> <li>- Greenhouse gas (GHG) assurance engagements</li> <li>- Going concern</li> <li>- Audit Evidence</li> <li>- Public interest entity definition</li> <li>- Audit of Service Performance information</li> </ul>	<ul style="list-style-type: none"> <li>- A virtual feedback forum on the audit evidence exposure draft (Nov 2022)</li> <li>- A virtual, and an in-person, feedback forum on the Audit of Service Performance information (Feb 2023)</li> </ul> <p>The team presented at the annual CA ANZ audit conference to promote awareness of new standards and upcoming projects.</p> <p>As a new initiative this year, we published Walk-through webcast videos which provided a short overview on the exposure drafts of:</p> <ul style="list-style-type: none"> <li>- Audit evidence</li> <li>- GHG assurance</li> <li>- Audit of Service Performance information</li> <li>- Going concern</li> </ul> <p>We developed a short animation explaining the key terms proposed to be included in the GHG assurance report.</p> <p>We published the following:</p> <ul style="list-style-type: none"> <li>- FAQs and “a cheat sheet”, on non-assurance services.</li> <li>- FAQs on the deferral of NZ AS 1</li> <li>- Research on reporting of Key Audit Matters</li> <li>- FAQs on reporting in accordance with Reserve Bank’s Orders in Council</li> <li>- FAQs on Audit of service performance information</li> <li>- FAQs on GHG assurance</li> <li>- Enhancing Audit Quality: Aotearoa New Zealand Auditing Standards – supporting Auditors to perform high quality audits</li> <li>- FAQs on audits of group financial statements</li> </ul>
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- c. Engage with assurance practitioners, regulators, directors and users to understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in Aotearoa New Zealand reporting and consider how best to respond to international developments regarding governance and audit quality reforms

We commenced research into audit committee chairs perspectives on trust and confidence with the aim of issuing a report in July/August 2023.

4. The following standards were gazetted this year:

Amendments to Professional and Ethical Standard 1: Quality Management-related conforming amendments and other consequential amendments to the Code	August 2022
Amendments to Professional and Ethical Standard 1: Revisions to the definition of a public interest entity	Nov 2022
SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising	Dec 2022
Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards	May 2023
Amendments to Professional and Ethical Standard 1: Revisions to the definition of Engagement Team and Group Audits (subject to note in agenda item 5)	June 2023

Amendments to Professional and Ethical Standard 1: Technology-related Revisions (if approved)	June 2023
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5. The following submissions were made this year:

IAASB's proposed International Standard on Auditing (ISA) 500 (Revised) Audit Evidence	Submission (April 2023) expressed support for the proposals while noting the proposals do not fully address changes in technology. The XRB encouraged the IAASB to expediate updating other specified standards to take into account changes related to technology.
IAASB's Proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to operationalise the IESBA transparency requirement in the Code	Submission (Oct 2022) acknowledged that the auditor's report is the most appropriate mechanism to operationalise the IESBA's transparency requirement however raised concerns that these revisions may be of limited value to users.
IAASB Strategy and Work Plan 2024-2027 Consultation paper	Submission (April 2023) expressed support for the proposed strategy and work plan while recognising the significant challenges ahead to achieve the proposals, including the development of profession agnostic sustainability assurance standards and highlighting the value of implementation support to achieve consistent application of new or revised standards in light of the volume and pace of change.
IESBA Strategy survey 2022 and the Strategy and Work Plan 2024-2027 Consultation paper	Submissions (July 2022 and June 2023) expressed support for the proposed strategy and work plan and reiterating the importance of profession agnostic standards for sustainability reporting and assurance and highlighting the importance of post-implementation reviews to ensure that new or revised standards are achieving the objectives.

6. The updated prioritisation schedule for the period is at agenda item 8.2

**Board members are asked to NOTE the 2022/23 update.**

*2023/24 performance*

7. We have commenced work for the 2023/2024 period and include a prioritisation schedule for the period at agenda item 8.3 where you can see what projects have commenced and the expected timing.

8. **Board members are asked to CONSIDER the Prioritisation plan for 2023/2024.**

**Material Presented**

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	2022/23 prioritisation plan
Agenda item 8.3	2023/24 prioritisation plan

Domestic Project	2022/2023 planned action	Status	Resource	Priority	Key deliverable	Due date
GHG assurance standard	Engage with GHG panel, Develop ED and guidance, <a href="#">outreach</a> , analyse feedback and issue standard	On track	Available	High	Issue ED	Dec 22
			Available		Issue standard	July 23
Climate reporting	Develop guidance on implications of climate reporting on audit of financial statements	Too early	TBD	TBD	Issue guidance	Defer
Climate/broader assurance	Understand scope of information that may require assurance and who is undertaking that work	Map presented in April	Available	High	NZ landscape document	April 2023
Audit of Service Performance Information	Engage with advisory panel, develop ED, perform outreach, assess responses, issue standard	On track	Available	High	Issue ED	Dec 22
			Available		Issue standard	Aug 23
Assurance over capital raising	Analysis of feedback on ED and issue standard	Gazetted		Medium	Finalise standard	Dec 2022
NZ Definition of a public interest entity	Webinar complete. Analysis of feedback on ED. Issue standard	Gazetted		Medium	Finalise NZ standard	Oct 2022
Research report on KAMs in COVID	Commissioned research to publish a report	<a href="#">Issued</a>		Medium	Publish report	Oct 2022
Guidance on auditor reporting for RBNZ	Consult with practitioners and develop FAQ	FAQ published		Medium	Issue FAQ	Oct 2022
Materiality FAQ	Respond to issue identified by FMA	Monitoring	TBD	Medium	TBD	TBD
Monitor inspection findings	Report highlighting XRB standard response to quality matters	Report issued	Available	Low	Issue report	Feb 2023
QM Conforming amendments PES 1	<a href="#">Finalise standard</a>	Gazetted		Low	Issue standard	August 2022
Post implementation review of SAE 3100	Engage on issues arising on the application of SAE 3100	Issued	Available	Low	Feedback statement	April 23

IAASB projects

IAASB project	2022/23 action	Status	Resource	Priority	Key deliverable	Due date
Sustainability assurance	Monitor developments, consult/respond as appropriate. ED expected July 2023	On track. Update refer agenda	Available	High	Build NZ strategy for climate assurance	Next year
Going Concern	IAASB ED issued May 2023. NZ compelling reason changes agreed in April and ED issued May 2023	Consultation underway	Available	Medium	Submission due Sept 2023	Q3 2023
Audit Evidence	IAASB ED issued October. Approve submission.	Submission finalised	Available	Medium	Submission	April 23
Fraud	IAASB ED to be approved September 2023	Delayed	Available	Medium	Monitoring	Next year
Strategy and work plan	IAASB approved Dec 2022. Approve submission	Submission finalised	Available	Medium	Submission	April 2023
Audits of Less Complex Entities	IAASB expected to approve standard in September 2023	Revised plan	Available	Low	To determine if and how XRB to adopt for NZ	Q4 2023
Implications of PIE on ISAs	Consider NZ implications	Submission finalised	Available	Low	Submission	Oct 2022
	Monitor track 2	On track	Available	Low	ED expected 2024	2024
Implementation of revised Group standard	Promote awareness of revisions	<a href="#">Need to know webinar</a> Aug 22 FAQs issued	Available	Low	<a href="#">Q&amp;A</a>	March 2023
Technology	<a href="#">Insights</a> piece published	None	None	None	None	None
Guidance on application of IAS 1	Update the Example audit reports throughout the suite of ISAs (NZ)	On track	Available	Low	Approve standard	May 2023
Participate in NSS meetings/regional groups/advisory groups/task forces	IAASB membership maintained Sustainability advisory panel participation Virtual NSS meeting in June	On track	To manage	High	TBD	Ongoing



IESBA projects

IESBA projects	2022/2023 action	Status	Resource	Priority	Key deliverable	Due date
Sustainability reporting and assurance	Monitor and influence IESBA deliberations	On track	Available	High	Attend Sydney roundtable discussions	March 2023
Fees and NAS Rollout	Promote awareness of changes	Need to know webinar CA ANZ audit conference November		Medium	<a href="#">Need to know Webinar</a> (Aug) <a href="#">Fact sheet (cheat sheet)</a> (Aug)	August 2022 Nov 2022
Strategy	IESBA issued consultation April. Draft submission refer agenda	On track	Available	Medium	Submission	June 2023
Technology related changes to the Code	IESBA issued in April. Refer agenda 5	Standard to be approved for New Zealand	Available	Low	NZ standard	June 2023
Engagement Team/Group Audits	IESBA approved standard in Dec 2022. NZAuASB approved in April.	To be gazetted	Available	Low	NZ standard	April 2023
Technology non-authoritative guidance	Monitor and raise awareness	TBD	None	Low	None	None
Participate in NSS meetings/regional events	Virtual NSS in June Participate in Sydney sustainability roundtables	On track Update provided at April meeting	To manage	High	TBD	June 2023