

NZAuASB Board Meeting Agenda

18 October 2023

9:00 am to 5.00 pm, Generator, Level 10, 11 Britomart Place, Auckland CBD

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary
PUBLIC SESSION						
10.00am	1	<u>Board Management</u>				
	1.1	Action list	Approve	Paper	3	
	1.2	Chair's report	Note	Verbal		
	1.3	AUASB Update	Note	Verbal		
	1.4	Update from CE	Note	Verbal		
	1.5	IAASB report September 2023	Note	Paper		3
	1.6	Prioritisation schedule	Note	Paper		7
10.30am	2	<u>Environmental scanning</u>			<i>Anna</i>	
	2.1	International Update	Note	Paper	4	
	2.2	Domestic Update	Note	Paper	10	
	2.3	Update for XRB	Note	Paper	12	
10.45am	<i>Morning tea</i>					
<u>NON-PUBLIC SESSION</u>						
12:15pm	<i>Lunch</i>					
PUBLIC SESSION						
1:15pm	4	<u>Trust and Confidence</u>			<i>Sharon</i>	
	4.1	Summary paper	Note	Paper	26	
1:30pm	5	<u>Sustainability Assurance ED ISSA 5000</u>			<i>Anna</i>	
	5.1	Summary paper	Note	Paper	29	
	5.2	Issues paper	Discuss	Paper	31	
	5.3	Feedback sustainability assurance focus group discussions	Note	Late Paper		
	5.4	Overview of IESBA developments	Note	Paper		10
	5.5	ED-ISSA 5000	Note	Paper		15
	5.6	ED-ISSA 5000 Explanatory Memorandum	Note	Paper		211
2.45pm	<i>Afternoon tea</i>					
3.00pm	6	<u>GHG Guidance</u>			<i>Nimash</i>	
	6.1	Quality Management Guidance summary paper	Discuss	Paper	45	
	6.2	Independence Guidance summary paper	Discuss	Paper	47	
	6.3	Independence guidance	Consider	Paper	50	
	6.3A	Independence guidance (Previous Version)	Note	Paper		261

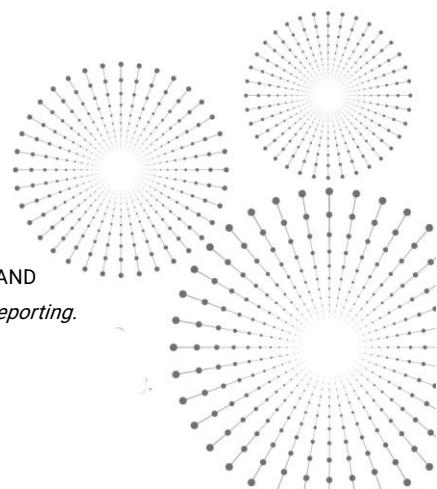
Est.Time	Item	Topic	Objective		Page	Supplementary
	6.4	Transitional provision	Consider	Paper	66	
	6.5	Illustrative reports	Consider	Paper	70	
3:40pm	7	<u>Service Performance Information Review Standard</u>			<i>Bruce</i>	
	7.1	Summary paper	Note	Paper	96	
	7.2	Issues Paper	Consider	Paper	98	
4:00pm	8	<u>Guidance on the Audit of Service Performance Information</u>			<i>Lisa</i>	
	8.1	Summary Paper	Note	Paper	107	
	8.2	Interactive Flowchart	Note	Paper		278
	8.3	FAQs	Note	Paper	108	
4:15pm	9	<u>ISA for Less Complex Entities (LCE)</u>			<i>Bruce</i>	
	9.1	Summary paper	Consider	Paper	112	
	9.2	Survey results	Note	Paper		279
	9.3	Preliminary recommendations around quantitative thresholds	Note	Paper		283
4:30pm	10	<u>Modified Audit Reports</u>			<i>Bruce</i>	
	10.1	Summary paper	Note	Paper	115	
	10.2	Application of Modified Audit Report Policy	Note	Paper	116	
	10.3	XRB Policy on Modified Audit Reports	Note	Paper		284

Next meeting: 30 November 2023, In person, Wellington

NZAuASB Action list

Following August 2023 meeting

Meeting Arose	Board Action	Target Meeting	Status
June 2022	Engage with FMA to understand and consider developing FAQ on application of paragraph 10 of ISA (NZ) 320 on determining materiality for the financial statements as a whole or determining lesser amounts for classes of transactions, account balances or disclosures.	Nov 2023	Guidance in development.
April 2023	Mark Babington, FRC and IESBA sustainability chair to visit New Zealand mid-November	Oct 2023	Outline of events planned for Mark's visit, refer agenda 11.3
June 2023	Update board governance manual	Oct 2023	Michele and April to attend October meeting to discuss MartinJenkins review and board governance matters.
Aug 2023	To issue the narrow scope amendments to ISAs (NZ) arising from public interest entity related revisions following approval by the NZAuASB in August, subject to PIOB approval and issue	Nov 2023	Pending. Final standard not yet issued internationally.



NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.1
Meeting date:	18 October 2023
Subject:	International Update
Date:	5 October 2023
Prepared By:	Anna Herlender, Nimash Bhikha

Action Required

For Information Purposes Only

Agenda Item Objectives

1. This update identifies the significant developments, relevant to auditing and assurance, from international organisations published since 24 July 2023. This agenda item is for information purposes.

Background

2. Following the Board's recent discussions, the paper has been restructured. The updates from international organisations have been categorised into topics and their relevance to the NZAuASB work plan. Appendix 1 includes list of organisations whose websites were reviewed for updates.
3. NZAuASB environmental scans focus on topics relating to auditing and assurance matters. Agenda Item 2.3 includes the wider environmental scan that was prepared for XRB Board purposes.

Hot topics

4. The following topics are of high interest for NZAuASB:

- **The State of Play: Beyond the G20. Sustainability Disclosure and Assurance in 20 More Jurisdictions**, IFAC, 20 September 2023

The report expands IFAC's sustainability disclosure and assurance data to 20 additional jurisdictions beyond the G20 previously reported on. One of the key highlights is that while the assurance rates have increase from 37% in 2019 to 48% in 2021, engagements are covering a narrower set of topics.

The report includes a sample of 25 entities from New Zealand and found that 52% of those entities had some ESG information assured in 2021, 53% of the assurance was performed by audit firms, 33% of all assurance was performed in accordance with ISAE 3000 and 20% of the assurance was in accordance with ISO standards (more about New Zealand on page 37 of the report).

Full Report [The State of Play Beyond the G20](#)

- **Monitoring Group Reports on Progress to Implement Recommendations to Strengthen the International Audit, Assurance, Ethics, and Independence Standard-Setting System**, IOSCO, 27 July 2023

The report highlights steps taken so far to improve “the independence of the international audit, assurance, ethics and independence standard-setting system by providing safeguards against undue influence by any one stakeholder group while still encouraging participation from all stakeholders in the standard-setting process”. The report also highlights importance of securing sustainable, long-term funding. [Read here.](#)

- **PIOB’s Public Interest Issues** updated on 28 August 2023.
 - [IAASB projects](#)
 - [IESBA projects](#)

Other publications

5. The following topics are relevant to NZAuASB work plan or provide wider contextual insights:

Audit Standards/ Standard Setting

- **FRC Publishes Revised ISA (UK) 505 External Confirmations**, 3 October 2023, “*The revisions to the standard reflect recent enforcement findings as well as ensuring that modern approaches to obtaining external confirmations are considered, with additional material in respect of digital means of confirmation, enhanced requirements in relation to investigating exceptions and a prohibition on the use of negative confirmations.*” Full statement [Read here](#)
- **PCAOB Adopts New Standard, Modernizing Requirements for Auditors’ Use of Confirmation to Better Protect Investors in Today’s World**, 28 September 2023, “*The PCAOB today adopted a new standard to strengthen and modernize the requirements for the auditor’s use of confirmation – the process that involves verifying information about one or more financial statement assertions with a third party. The updated standard will better protect investors by strengthening procedures that enhance an auditor’s ability to identify fraud in certain circumstances and improving overall audit quality.*” Full statement [Read here](#)

Audit oversight and regulation

- PCAOB Audit Deficiencies Continue to Rise, CBIZ, 4 October 2023, [Read here](#)
- How regulation affects competition in the audit market, ICAEW, 21 September, [Read here](#)
- PwC former auditors of Fonterra’s books cop censure and costs following Colin Armer complaint, NZ Herald, 31 August 2023, [Read here](#)
- 22 years after the \$63 billion Enron collapse, a key audit review board finds the industry in a ‘completely unacceptable’ state, Fortune, 27 July 2023, [Read here](#)

Audit Quality / System of quality management

- Audit Quality Is More Complex Than One Board’s Inspection Data, Bloomberg, Dennis McGowan Center for Audit Quality, 31 August 2023, [Read here](#)
- A decline in the big four's auditing quality stokes fears of an Enron-style corporate collapse, ABC News, 4 August 2023, [Read here](#)

- Accounting firms accused of missing climate risks in company audits, Financial Times, 18 July 2023, [Read here](#)

Ethics

- How accountants can help businesses maintain strong ethics. ICAEW, 29 September 2023, [Read here](#)

Going concern

- Auditing and Accounting Boards Should Work Together to Have Common Going Concern Standard, Former PCAOB Chief Auditor Says, Thomson Reuters, 6 September 2023, [Read here](#)
- Going concern 20 year review, Audit Analytics, 22 June 2023, [Read here](#)

Sustainability Assurance

- Global sustainability assurance standard to be developed 'in line' with CSRD, Responsible Investor, 9 August 2023, [Read here](#)

Sustainability reporting standards

- ISSB

- **IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards**, 25 July 2023: *"IOSCO now calls on its 130 member jurisdictions, regulating more than 95% of the world's financial markets, to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors"*. Full statement [Read here](#)
- The ISSB should develop more sustainability reporting standards and provide support to enact them, Accountancy Europe, 10 August 2023, [Read here](#)
- IFAC Supports ISSB Focus on Implementation of IFRS S1 and S2; Sees opportunity for IASB and ISSB to develop global best practices for "front of the report" solution connecting financial and sustainability information, 1 September 2023, [Read here](#)
- Investors Urge ISSB to Develop Reporting Standard for Human Rights and Human Capital, ESG Reporting, Mark Segal, 31 August 2023, [Read here](#)

- European Sustainability Reporting Standards

- European Commission adopted European Sustainability Reporting Standards, 31 July 2023, [Read here](#)
- Accountancy Europe's Mark Vaessen on driving the sustainability agenda in the profession, ICAS, 24 August 2023, [Read here](#)

- Climate reporting standards

- **FRC thematic review examines quality of climate-related metrics and targets disclosures**, 26 July 2023: *"Key findings show an incremental improvement in the quality of companies' disclosure of net zero commitments and interim emissions targets. However, disclosures of concrete actions and milestones to meet targets were sometimes unclear, and comparability of metrics between companies remains challenging. Given the large volume of information*

presented, many companies are finding it challenging to explain their plans for transitioning to a low-carbon economy clearly and concisely.” Full report [Read here](#)

- UKEB Publishes Climate-related Matters Research, Financial Reporting Council, 22 September 2023, [Read here](#)
- ***The Taskforce on Nature-related Financial Disclosures (TNFD)***
 - **TNFD released its final recommendations**, 19 September 2023: *“The groundbreaking framework enables companies to assess, disclose and manage nature-related risks and impacts which will lead to consistent and comparable reporting on nature-related risks and impacts by businesses and financial institutions worldwide.”* Full statement [Read here](#)
 - Adopting the TNFD framework needn’t be a challenge, ICAEW, 25 September 2023, [Read here](#)
- ***Connectivity between sustainability and financial reporting***
 - Climate-Related Matters: Summary of Connectivity Research, UKEB, July 2023, [Read here](#)
 - A Study in Connectivity: Analysis of 2022 UK Company Annual Reports, UKEB, September 2023, [Read here](#)
- ***Other***
 - The importance of developing sustainability reporting standards for the public sector, Environment Finance, 26 September 2023, [Read here](#)
 - Beyond financials: shaping the future of economic impact reporting, GRI, 19 September 2023, [Read here](#)
 - ISO and UNDP announce partnership to enhance sustainability action, United Nations Development Programme, 20 September 2023. [Read here](#)

Governance / Audit Committees

- Effective Board Governance of Cyber Security – A source of competitive advantage, Savanti Insight, 11 September 2023, [Read here](#)

Technology

- Using AI for audit techniques, The Hindu, 4 October 2023, [Read here](#)
- European Commission recommends carrying out risk assessments on four critical technology areas: advanced semiconductors, artificial intelligence, quantum, biotechnologies, 3 October 2023, [Read here](#)
- Optimistic accountants embrace AI as profession shows desire to learn and adapt, ACCA. 16 September 2023, [Read here](#)

Various other publication – wider contextual scan

- Auditing the auditors: enhancing audit oversight, MAP Insights, 3 October 2023, [Read here](#)
- Economic uncertainty puts pressure on sustainable behaviour change, Deloitte, 25 July 2023, [Read here](#)
- IFAC Calls on G20 Leaders to Lead on Sustainable and Inclusive Growth. Highlights Enabling Role of Accountancy Profession, IFAC, 7 August 2023, [Read here](#)
- FRC publishes latest accountancy and audit facts and trends report, 14 August 2023, [Read here](#)

- First of its kind climate fund to back 100% renewable electricity, 8 August 2023, [Read here](#)
- FRC consults on revisions to Ethical Standard for auditors, 8 August 2023, [Read here](#)
- FRC welcomes record number of Stewardship Code signatories, 30 August 2023, [Read here](#)
- Environmental Management Accounting – Developments Over the Last 20 years from a Framework Perspective, Burritt, Australian Accounting Review, Wiley Online Library, 26 August 2023, [Read here](#)
- Trust, Corruption and Sustainable Development Are Interconnected Issues in Public’s Attitude Towards Tax. Accountants remain the most trusted players in tax according to the ACCA, IFAC and CA ANZ biennial global survey., 13 September 2023, [Read here](#)
- Australia to acknowledge climate risk to government bonds after world-first court settlement, The Guardian, 30 August 2023, [Read here](#)
- \$150 trillion of investors call for mandatory reporting of climate transition plans, Investor Group on Climate Change, 8 September 2023, [Read here](#)
- EU Lawmakers Ban Generic and Emissions Offsetting-Based Green Product Claims, Mark Segal, ESG Today, 21 September 2023, [Read here](#)
- “KPMG survey finds 75% of companies not ready for pending ESG assurance requirements”, ESG Survey, KPMG U.S., September 2023, [Read here](#)
- Financial Institutions Failing To Integrate Nature And Climate: New Report Warns Inaction On Nature Impedes Net-Zero Ambitions, CDP, 17 August 2023, [Read here](#)
- Climate Essentials for Accountants, Chartered Accountants Ireland, August 2023, [Read here](#)
- The Future of Accounting Talent: Career Values, Choices and Satisfaction Among Early Career Accountants, Denise Jackson, Julia Richardson, Grant Michelson, Rahat Munir, 5 September 2023, [Read here](#)
- What Accountants Need to Know About Carbon Offsetting, Stathis Gould, Pratik Shah, IFAC, 14 August 2023, [Read here](#)
- EY sets up six-way race to lead firm after break-up failure, Financial Times, 29 September 2023, [Read here](#)
- Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders, Australian Accounting Review, David J. Gilchrist, Andrew West, Yuyu Zhang, 7 May 2023, [Read here](#).
- A Global Comprehensive Corporate Reporting System: An Information Paper, Integrated Reporting Committee of South Africa, 20 September 2023, [Read here](#).

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, European Council and European Commission
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

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.2
Meeting date:	18 October 2023
Subject:	Domestic Update
Date:	28 September 2023
Prepared By:	Anna Herlender

Action Required

For Information Purposes Only

Agenda Item Objectives

1. This update summarises the significant developments relevant to auditing and assurance from New Zealand organisations published since 24 July 2023. This agenda item is for information purposes.

Background

2. Publications from the following organisations were 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: "RBNZ and FMA Governance Thematic Review outlines good practices and areas for improvement", 5 September 2023. A sample of 29 entities regulated by RBNZ and/or the FMA was reviewed, including a review of governance policies, procedures, record-keeping and followed up with interviews of board members and executive management. Entities were assessed against RBNZ/FMA expectations for governances, as set out in relevant legislation, regulatory requirements and RBNZ and FMA guidance. [Read more here.](#)
 - Hot topic 2: "New Zealand and UK audit authorities agree mutual recognition of audit qualifications", 28 September 2023, [Read more here.](#)

Other publications

4. The following topics are relevant to the NZAuASB work plan or provide wider contextual insights:

The Financial Markets Authority (FMA)

Publications

Presentation by the FMA: Scenario analysis in the CRD regime, 28 July 2023, [Read here](#).

FMA Outlook 2023/2024, 31 July 2023, [Read here](#).

Speech by Paul Gregory at the Responsible Investment Association Australasia (RIAA) Conference Aotearoa NZ 2023, 9 August 2023, [Read here](#).

The Chartered Accountants Australia and New Zealand (CA ANZ)

Companies Directors Duties Amendment Bill receives Royal Assent, 15 August 2023, [Read here](#).

CA ANZ launches annual benchmark and research insights reports, 25 July 2023, [Read here](#).

UNSW releases preliminary findings of a research project on Audit Market Structure and Competition, 7 August 2023, [Read here](#).

“Another historic moment for sustainability reporting. The Taskforce on Nature-related Financial Disclosures (TNFD) has released its final recommendations” and “Australian Government pilots TNFD with business”, 21 September 2023, [Read here](#).

The Institute of Directors (IoD)

“Who is determining the impact of NFPs?”, Pru Etcheverry, ONZM MInstD, Director of Advocacy Answers New Zealand, 10 Aug 2023, [Read here](#).

“The Companies (Directors Duties) Amendment Act 2023 is now law”, David Campbell, Senior Advisor, Governance Leadership Centre, IoD, 3 Aug 2023, [Read here](#).

The rising cost of audit fees, Sonia Yee, 20 September 2023, [Read here](#).

Other publications

The challenge to adapt: Corruption risk in an ever-evolving world. Australia and New Zealand’s Bribery and Corruption Report 2023, Deloitte, September 2023, [Read here](#).

State of the State New Zealand 2023, Deloitte, [Read here](#).

Memorandum

Date: 7 September 2023
To: XRB Members
From: Judith Pinny
Subject: Environmental Update

Recommendation¹

1. We recommend that the Board NOTES the International and Domestic update for the period 6 July 2023 to 7 September 2023.

Purpose and impact

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

International

- (a) [IOSCO](#) endorses IFRS S1 and IFRS S2.
- (b) *Science* study produces a new climate metric – [Corporate carbon damages](#)

Trans-Tasman

- (c) CA ANZ releases a thought leadership report on [Audit Quality](#).

Domestic

- (d) The [PwC report](#) on climate change in financial statements for NZX50 March 2023 reporters.
- (e) Service performance reporting inadequacies at [NZ Rugby Inc.](#) and in reporting on [public sector programmes](#).
- (f) The FMA has issued guidance on [Scenario Analysis](#) and introduced annual [Audit Quality Reviews](#).

Recent Climate reports

- (g) [Meridian](#) and [Vector](#) issue their 2023 Climate reports.

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

International

IFAC: Global regulatory report

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

IFRS Conference: Emmanuel Faber on resilient economies

5. Emmanuel Faber spoke at the recent IFRS Conference in London about the future of insurance:

"The Chair of the board of the largest insurance company in the world ten years ago, in 2015, said "a world at +4 degrees cannot be insured." You are all well placed, in this room, to know that insurance is fundamental to how businesses work, to how economics work, fundamental simply to our ways of life.

That was in 2015. One month ago, I was in San Francisco when the first and the fourth largest Californian insurance companies announced that they would stop issuing any new home insurance package, as they could not afford in the future the cost of dealing with the extreme weather events, including floods and fires in California.

I'm not talking here about 2050. I'm not talking here about a small emerging country.

I'm talking about May 2023. I'm talking about California, which many predict will become the fourth largest economy in the world, passing Germany soon.

Without home insurance. Really?

This is what economics are failing to take into account. And we cannot apply a damage function to an asset that doesn't have a value. We cannot value something that is not considered an asset."

[IFRS - ISSB Chair Emmanuel Faber at the IFRS Foundation Conference: A new common language to build more resilient economies](#)

IFRS Foundation: TCFD and IFRS S2 comparison

6. IFRS Foundation has [published a comparison of the requirements](#) in IFRS S2 *Climate-related Disclosures* and the TCFD recommendations.
7. There are additional requirements in IFRS S2. These include the requirements for companies to disclose industry-based metrics, to disclose information about their planned use of carbon credits to achieve their net emissions targets and to disclose additional information about their financed emissions.

IFRS Foundation Trustees (Trustees): Meeting highlights

8. The Trustees met in Poland for their June 2023 meeting. Relevant highlights included:
 - (a) Opening the IFRS Foundation office in Beijing in June 2023; the office will host the first meeting of the ISSB in China in November 2023.
 - (b) Working at speed to complete the review of references to jurisdiction-specific laws, and issue amendments to the standards.
 - (c) The IASB and ISSB have now established infrastructure and processes to facilitate connections between them, including information sharing, consultation with each other, consistent drafting and coordinated stakeholder engagement.
 - (d) Work being undertaken to extend the funding of the ISSB beyond the 5-year seed funding period.
 - (e) The Trustees considered the work to develop an Adoption Guide—a document outlining the mechanisms that the IFRS Foundation and the ISSB are planning to utilise to support jurisdictional regulatory implementation of IFRS S1 and IFRS S2.
9. There was also a meeting of the Due Process Oversight Committee (DPOC) in Poland.
 - (f) The ISSB’s decision to form a Transition Implementation Group (TIG) to discuss implementation questions submitted by stakeholders on IFRS S1 and IFRS S2. The ISSB representatives explained that the question of whether there should be an interpretations committee for ISSB Standards will need to be revisited in the future. However, the TIG, similar to the IASB’s Transition Resource Groups (TRGs), should be a helpful, quick and responsive tool to address implementation questions as they arise after IFRS S1 and IFRS S2 are issued. Like the TRGs, the TIG will be a less formal mechanism than an interpretations committee, with its output largely being written summaries of its public discussions.

[trustees-dpoc-meeting-summary-june-2023.pdf \(ifrs.org\)](#)

IFRS Foundation: Sue Lloyd on ISSB standards and working with the EU

10. Sue Lloyd, ISSB Vice-Chair, spoke to the Association of German Banks covering the support the ISSB standards had received from investors, the Financial Stability Board and endorsement by IOSCO (next article). Sue also covered working with the EU to improve the interoperability of their respective climate-related disclosure requirements and core concepts.

[IFRS - Sue Lloyd delivers keynote speech on the current agenda of the ISSB and cooperation with EU Institutions](#)

IOSCO: Endorsement of IFRS S1 and IFRS S2

11. The International Organization of Securities Commissions (IOSCO) [has announced its endorsement of the ISSB Standards](#) following its comprehensive review of the Standards.
12. IOSCO is now calling on its 130 member jurisdictions, capital markets authorities that regulate more than 95% of the world's securities markets, to consider how they can incorporate the ISSB Standards into their respective regulatory frameworks to deliver consistency and comparability of sustainability-related disclosures worldwide.
13. To coincide with the endorsement, the IFRS Foundation has [published a high-level roadmap](#) providing transparency around the IFRS Foundation and the ISSB's strategy to support jurisdictional adoption. This document is a precursor to an Adoption Guide for regulators, which will be finalised later in 2023.

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IOSCO consults on Goodwill

14. IOSCO has published a consultation on goodwill, seeking inputs from market participants to identify good practices for addressing the risk of unrecognized impairment on accumulated goodwill balances and related disclosures arising from business combinations.
15. The consultation is open for comments until 20 September 2023. The feedback received will be used to formulate a set of recommendations for regulators, auditors, issuers and those charged with governance. They will also underpin IOSCO's engagement with standard setters, including the IASB, on improvements to accounting, reporting and disclosure requirements related to goodwill.
16. From the consultation document:

Securities regulators believe that goodwill accounting should continue to be a focus in the coming years, in light of the current global macroeconomic environment and we ask stakeholders to respond to this consultation to provide additional information to better inform the standard-setting process and to address issues that may arise in practice.

Article: [IOSCO consults on goodwill \(iasplus.com\)](#)

Consultation Document: [IOSCO calls for inputs on Goodwill](#)

IVSC: Intangible Assets paper series continues with paper on Technology Values

17. The International Valuation Standards Council (IVSC) is publishing a series of perspectives papers 'Time to get Tangible about Intangible Assets' that notes that despite the importance of intangible assets to the capital markets, only a small percentage are recognised on balance sheet.

18. Following the first paper *The Case for Realigning Reporting Standards with Modern Value Creation* published in [September 2021](#), the second paper *Human Capital Introspective* published in [June 2022](#), the third paper *Rethinking Brand Value* published in [September 2022](#), a fourth paper *Deciphering Technology* can now be accessed through the [press release](#) on the IVSC website.

Science: Corporate carbon damages – a new metric

19. This *Science* article introduces “corporate carbon damages” as a measure of the total costs to society associated with corporate emissions.
20. For each firm, it is calculated as the product of their carbon dioxide (CO₂)-equivalent direct emissions and the social cost of carbon (SCC)—the monetary value of the damages associated with the release of an additional metric ton of CO₂. To account for differences in firm size and to facilitate across-firm comparisons, we then divide this product by the respective firm’s operating profit or sales.
21. With existing datasets, it is not possible to determine who bears the costs or to divide responsibility for these damages between firms and consumers. We nevertheless refer to them as corporate carbon damages because the emissions come from firm activities.
22. The study provides and analyses estimates of corporate carbon damages for 14,879 publicly traded firms across the globe. the sample accounts for more than 80% of global market capitalization of public companies.
23. The core finding is that average corporate carbon damages are large, but they vary greatly across firms within an industry, across industries, and across countries.

[Mandatory disclosure would reveal corporate carbon damages | Science](#)

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Trans-Tasman

CA ANZ: Report by Professor Ken Trotman on Audit Quality

24. The report is entitled “Differences in the Judgements of Experts: Audit Quality from the Perspective of Regulators, Auditors, Audit Committees and User”.
25. This thought leadership paper, while focussing on audit quality, also looks at the increasing complexity of financial reporting. Two issues are raised for consideration on page 10 of the report under Negative findings in inspection reports:
 - (a) when judgements involve future estimates, sometimes across decades, are those estimates an error if the future turns out to be different from what was expected? Or is an error when a professional does not show sufficient professional scepticism or does not collect sufficient appropriate evidence.

While the latter appears a more reasonable approach, difficulties arise in determining what is sufficient professional scepticism, is the evidence collected appropriate, is it sufficient and/or has there been adequate documentation.

- (b) the fact that there is a difference of opinion of two experts (two different auditors or an auditor and inspector²) does this mean that there is a material misstatement in the financial statements that the auditor has not found?

[Differences in the judgements of experts | CA ANZ \(charteredaccountantsanz.com\)](#)

[Back to Trans-Tasman Highlights](#)

CPA Australia: The price of 'going green' goes under the microscope

- 26. The faster the transition to net-zero is, the more expensive it may be in the short term. Demand is expected to outstrip the supply of metals and minerals required for green technologies. The CPA's article is asking whether this so called "greenflation" is a legitimate cause for concern, or is "fossilflation" the greater source of upward pressure.
- 27. According to Dr William Paul Bell, research fellow at the Centre for Applied Energy Economics and Policy Research at Griffith University, any inflationary impact from the net zero transition is overwhelmed by cost spikes from fossil fuels – referred to as fossilflation.
- 28. Upward pressure on prices may be an inevitable part of the Net Zero transition, but downward pressures are also possible, due to cheaper costs of capital. Banking disclosures announce the large amount they've done in green financing, and many of them have targets to wind down fossil fuel lending.

[The price of 'going green' goes under the microscope](#)

Domestic

PwC: Impact of climate change in financial statements for NZX March 2023 reporters

- 29. This review covered 13 businesses and included the following key findings:
 - (a) No one quantified physical and transition risks in their financial statements;
 - (b) 6 reporters discussed the impact of climate-related risks in their financial statements;
 - (c) 10 reporters included climate-related information in their non-financial reporting outside the financial statements;
 - (d) 4 reporters voluntarily disclosed against the Aotearoa NZ Climate Standards; and

² Refers to an ASIC inspector, similar to an FMA audit review.

(e) 2 audit reports mentioned climate change in the key audit matters.

[How was the impact of climate change reflected in the financial statements of NZX50 March 2023 reporters? \(pwc.co.nz\)](https://www.pwc.co.nz/en/australia-and-new-zealand/audit-services/audit-reports/audit-reports-2023/audit-reports-2023-reporters.html)

[Back to Domestic](#)

Ministry for the Environment (MfE) consultation: Community-led retreat and adaptation funding

30. Motivated by the Auckland floods in January, and Cyclone Gabrielle which left 10,000 people displaced and 11 people dead, MfE is consulting on community-led retreats and adaptation funding.
31. The consultation looks at the current system and what new powers, roles and responsibilities might be needed to support community-led retreat, as well as how the costs of adaptation could be met.
32. Community-led retreat is moving homes, businesses and sites of cultural significance and taonga out of harm's way through a planned process which involves the community.
33. Councils will offer to buy homes in areas where risks cannot be managed. Land will disappear into the sea. The chance of disaster will rise from unlikely to probably, to highly likely to certain. Rivers and coastal areas are the highest risks. Rural and low-income communities will be particularly vulnerable.
34. Māori will be disproportionately impacted. Culturally significant sites will be threatened. Many Māori live in areas at risk from flooding and rising sea levels.
35. Submissions close on 1 November 2023.

[Community-led retreat and adaptation funding – issues and options | Ministry for the Environment](#)

NZ Rugby: Governance review - incorporated society structure and service performance reporting

36. This recent review asks whether an incorporated society is the right structure for the \$300m international sporting business. It looks at governance of the game, including independence in Board appointments, and more women participating on Boards. The conflicts between the 26 regional bodies and the national bodies (who are appointed by the regional bodies) have restricted development of the game. Appointments have often been on popularity rather than governance experience.
37. The Incorporated society structure review (p56) covers the needs for independent governance, and concludes that no other structure would significantly improve NZR's situation.

[NZRU-Governance-Review-31-August-2023.pdf \(boardworks.nz\)](#)

38. Below is the Statement of Service Performance framework, which is easily understood by any rugby player.



39. However, the review was critical of the measurability of some of the KPIs:

As outlined in the SSP, there are three high-performance measures and two participation measures—one overall and one for women. Both those areas are in decline (see Appendices). The remaining three measures relate to injury, staff engagement and female directors. These are important and warrant tracking, but they are not at the level the SSP process contemplates.

The chief executive's reporting dashboard has 48 Key Performance Indicators (KPIs); most of them are tactical at best and lacking measurability. There is simply too much indistinguishable detail coming to the board. There needs to be a focus on a smaller number of measurable outcomes.

The lack of clearly stated outcome expectations in favour of statements of intended activity, and the multitude of low-level tactical KPIs mean that directors are drawn into the operational domain. This tends to fix the board as a supra-layer of management—driving into the future with its attention on the rear-vision mirror, doing the wrong job (or not enough of the right job).

This review is not a board evaluation, but our observations here do connect to our concerns that the present constitutional arrangements are not delivering enough of the competencies needed on this board, specifically in the vital areas of planning and strategy.

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OAG: Performance reporting on outcomes for Māori from the public sector programmes

40. The Auditor-General looked at three public organisations and four initiatives (Ministry of Education - 2 initiatives, MSD and MPI) aimed at supporting improved outcomes for Māori, and which have received new or increased funding in recent years. His report summary included the following:

“Although we have seen much that is encouraging in the work done to date, we expect public organisations to hold themselves to account and be publicly accountable for the funding they administer. In our view, they are not yet doing enough to fulfil this expectation.

Although we heard anecdotally that all four initiatives have made a positive difference, this has not been adequately reflected in reporting. Reporting has focused on the progress in contracting providers and enrolling participants and some anecdotal accounts of peoples’ experiences. This is not enough to properly inform Parliament and the public about what has been achieved and what value has been derived. (Emphasis added)

It is important to acknowledge that these initiatives do not represent all the ways public organisations work with and for Māori. We encourage all public organisations to consider and apply the findings described in our report to the work they are doing to support improved outcomes for Māori. In particular, we would like to see all public organisations build effective relationships so that iwi and Māori have better experiences with other Government initiatives”.

41. An example from page 50 of the full report is:

The Ministry of Education has not measured the impacts and outcomes for Te Ahu o te Reo Māori

5.52 The public reporting for Te Ahu o te Reo Māori not only does not reflect the difference being made, but also does not give an accurate indication of the performance that is being measured. The main measure the Ministry has reported on is the number of people who participated in Te Ahu o te Reo Māori each year.

5.53 Staff from the Ministry of Education acknowledged to us that its current measures are not adequate to capture the full impact of this initiative. Some providers we spoke to agreed. Providers recognised that it is hard to measure impact. However, some had anecdotal evidence that the training was having a wider impact, as noted above, and thought the Ministry should put more effort into capturing this.

5.54 The performance measure reported on publicly for Te Ahu o te Reo Māori is to maintain or improve the number of people who participated during the year. **In its annual report for the 2021/22 financial year, the Ministry of Education states the number of people who participated for 2020/21 (1054) and for 2021/22 (6190) and uses this increase as a basis to state that it has achieved its expected performance.**

5.55 **This does not accurately reflect that 2020/21 was a pilot stage, and the large increase in 2021/22 was due to the initiative expanding from four regions to the whole country.** (Emphasis added)

[summary-outcomes-for-maori.pdf \(oag.parliament.nz\)](#)

Full report: [Four initiatives supporting improved outcomes for Maori \(oag.parliament.nz\)](#)

See Monitoring and Reporting Section on pages 41-52.

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FMA: Scenario Analysis Information sheet

42. The FMA published a 21-page information sheet on scenario analysis for Climate reporting entities and directors. Below is the FMA's description of the relationship of their guidance to the XRB's guidance.

Relationship with XRB guidance

This information sheet is focused on communicating the FMA's compliance expectations in monitoring and enforcing the CRD regime.

The XRB has issued non-binding staff guidance that discusses scenario analysis.¹ The described intention of the XRB staff guidance is to:

- "enable increased consistency and comparability of scenario analysis disclosures, focusing on the process of sector-level scenario analysis."²
- set out "the broader 'why and how' of climate-related risk and opportunity management in the context of the NZ CS."³
- "foster consistency through clarity of understanding."⁴

[FMA Scenario Analysis Information Sheet.dotx](#)

Press release: [FMA publishes scenario analysis information sheet for CRD regime](#)

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FMA: Annual audit quality reviews introduced

43. The FMA will conduct yearly audit quality reviews (AQR) of every licensed audit firm in a refreshed [Auditor and Regulation Oversight Plan 2023-2026](#).
44. Starting from 2023/24, the FMA plans to review each licensed firm every year to increase the frequency of engagement and identify new developments and industry requirements. Although the FMA will review each firm every year, the overall number of files it reviews annually will be similar to prior practice and so the overall burden on firms will not increase.

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RBNZ: Increased monitoring of cryptoassets and stablecoins

45. "We agree with the balance of submitters that a regulatory approach isn't needed right now, but increased vigilance is," said Ian Woolford, Director of Money and Cash. He was releasing a summary of submissions published on 30 June 2023 for an earlier issues paper "The Future of Money — Private Innovation".
46. "Issues raised by cryptoassets and other innovations do not fall neatly within agency boundaries. However, issues such as consumer and investor protection or potential commercial or regulatory barriers to entry do matter for the collective vision we have for a reliable and efficient money and payment system that better meets the evolving needs of New Zealanders".
47. "We will continue to work with other agencies, particularly through the Council of Financial Regulators, to support healthy growth in the financial ecosystem, as well as continuing to engage with industry and other stakeholders on the issues as they arise," Mr Woolford said.

[RBNZ ramps up monitoring of stablecoins and cryptoassets](#)

Business Payments Practices: Disclosure by large businesses from 2024

48. The Business Payment Practices Act 2023 will bring greater transparency to payments made by large entities. Large entities will be required to disclose their payment practices on a new public register. From July 2024 entities with revenue and

expenditure over particular thresholds will need to collect information about how long they take to pay their bills.

49. Organisations that will have to make their payment times and terms public are those with:
 - (a) revenue of \$33 million (excluding GST) or more, and
 - (b) third-party expenditure of \$10 million (excluding GST) a year or more.

[Large organisations to disclose information about their payment practices | Ministry of Business, Innovation & Employment \(mbie.govt.nz\)](#)

CA ANZ: Retention Money Accounting FAQ

50. The *Construction Contracts (Retention Money) Amendment Act 2023* received the Royal Assent on 5 April 2023 and is effective 5 October 2023. It amends the *Construction Contracts Act 2002* retention money regime and affects all head contractors who withhold retention money in relation to a commercial construction contract.

[Retention money accounting FAQs | CA ANZ](#)

NZ Government: Community Trusts (Investment Transparency) Amendment Bill (Bill)

51. This Bill will amend the Community Trusts Act 1999 which covers 12 community trusts in New Zealand which have investment portfolios over \$1 billion in some cases. Proposed disclosure requirements embed proportionality to recognise the range of size amongst community trusts.
52. The Bill aims to achieve greater accountability from community trust, by requiring:
 - (a) a statement of performance expectations;
 - (b) half yearly reports to the Minister (which must be available online); and
 - (c) public disclosure of their investment policies, standards, and procedures each financial year.

[Community Trusts Investment Transparency Amendment Bill](#)

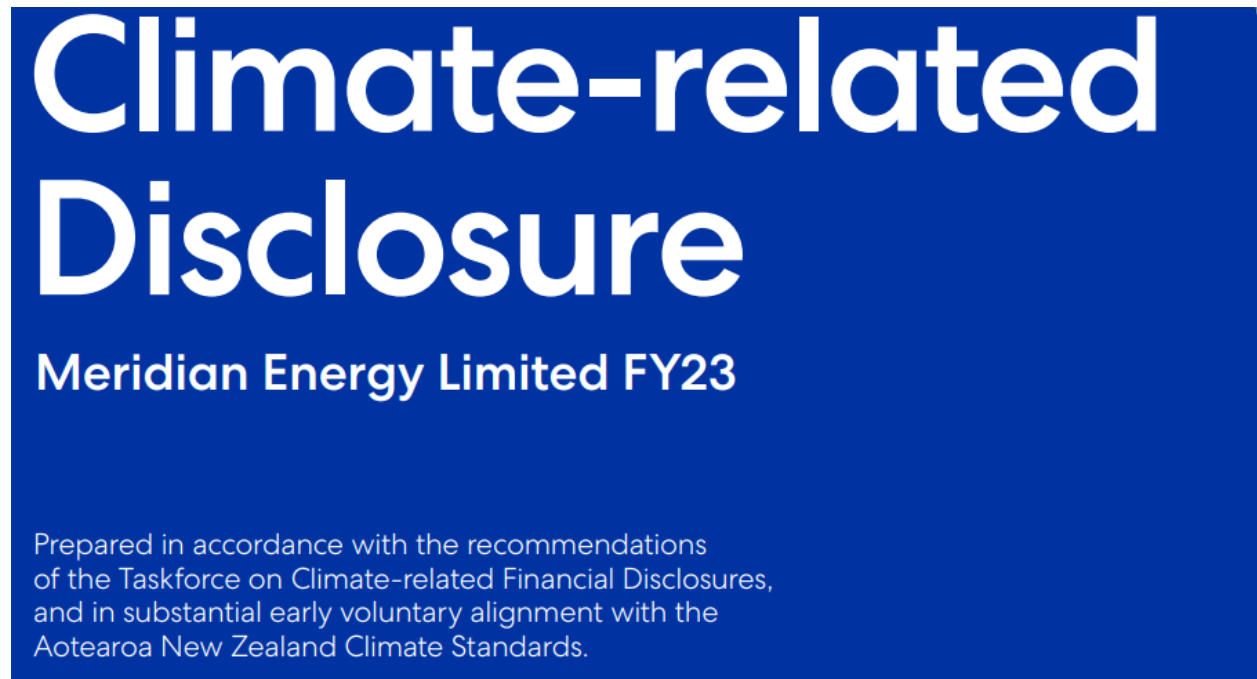
2023 Climate Reports

Meridian Climate report FY2023

53. Released in August 2023, a quote from Mark Verbiest in his comment from the Chair:

"Climate-related disclosures are no longer just a corporate obligation. By being transparent about our climate risks and opportunities, we empower ourselves, our investors and stakeholders to make informed decisions. It speaks to our commitment to responsible stewardship of the environment and to the resilience of all the communities we serve in Aotearoa."

From the Meridian report cover:



[Meridian Energy Climate related disclosures 2023](#)

[Vector Climate Report FY23](#)

[vector-2023-tcf-d-report.pdf](#)

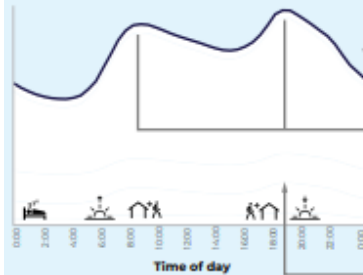
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54. As with last year's report, Vector produces some smart understandable graphics. The following graphic looks at Vector's three scenarios and their impact on a day's electricity consumption, based on peak use around 6.30pm:

Current Status (July - September 2022)

New Zealand's electricity peak is around 18:30. Increases in demand at this time may result in network upgrades that can increase electricity costs

Electricity Demand



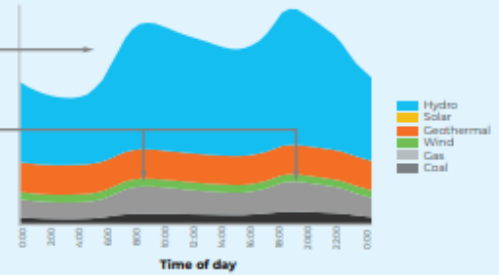
As New Zealanders consume electricity, supply must be generated in real-time to match

Fossil fuels are still being used to supply peak demand

Fossil fuels still constitute a reasonable base load

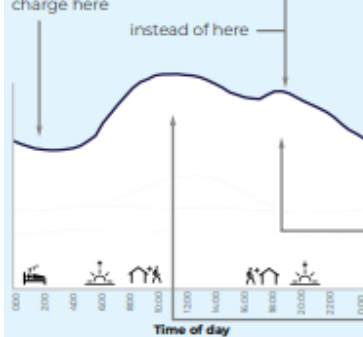
Unmanaged electric vehicle uptake has the potential to double this peak load requirement

Electricity Supply



An Orderly Decarbonised Future

Electric vehicles charge here



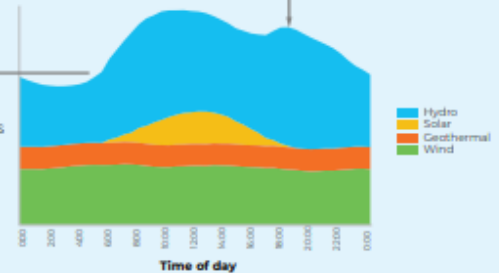
Network peaks are reduced by managing distributed energy resources such as smart electric vehicle charging and hot water load control

Consumer demand adjusts in real-time to match renewable generation at its cheapest price and availability

Residential heating peaks are lowered through ongoing building energy efficiency measures

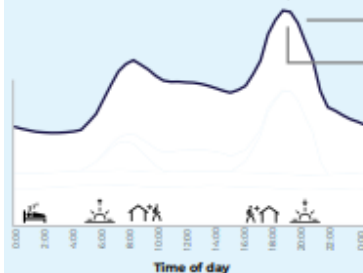
Prosumption (production and consumption) of distributed solar energy allows for local peaks without impacting the network

Only unmanaged demand requires additional hydro capacity



A Disorderly Decarbonised Future

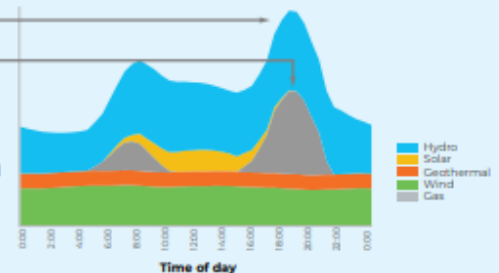
New Zealand's network peaks double through unmanaged electric vehicle adoption leading to a significant spend on network upgrades, thus increasing electricity price



Maintaining a supply side electricity system requires heavy investment in grid-level energy storage, with a high price point for peak power

Large natural gas backup reserve is required to manage daily energy peaks

High electricity prices delay industrial electrification and exacerbates energy poverty



NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	18 October 2023
Subject:	Trust and confidence
Date:	4 October 2023
Prepared By:	Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to provide an update to the Board on next steps in response to the XRB's Trust and confidence research report.

Background

2. We commissioned research to explore the perceptions of Audit Committee Chairs regarding the crucial role of audit in preserving trust and confidence in financial reporting.
3. The final report was issued in September and is available on the [XRB website](#).

Recommended actions to explore

4. The authors' recommendations of actions to explore are outlined on [page 5 of the report](#). The focus of this paper is on the recommendation to explore the benefits of joint publications on:
 - Assessing audit quality
 - Best practices involving audit committees to improve trust and confidence.
5. An outline of our initial thinking on key themes to include in possible guidance is set out below. A list of useful resources considered is included in the Appendix.

Assessing audit quality

- What is audit quality?
- Ongoing assessments vs comprehensive review
- Why should a comprehensive review be undertaken?
 - Independence, objectivity and professional scepticism
 - Quality of the engagement team
 - Quality of communications with the auditor
- Using quality indicators to measure audit quality

Best practices involving audit committees to improve trust and confidence

- Importance of audit in trust and confidence
- Audit committee and its relationship to the Board. Who should be on the audit committee?
- Respective roles of auditor and audit committees/directors and how each contributes to audit quality.
- Audit committee's role regarding climate statements/GHG assurance
- Responsibility for auditor independence, how the audit committee can contribute to auditor independence – link to the new NAS guidance/requirements for communications with those charged with governance. Also consider how assurance over climate statements/GHG might be addressed
- Appointment of auditors/assurance practitioners
- Setting the audit fee – reasonable fee for service. Relationship between audit fee and audit quality.
- How the audit committee supports audit/assurance quality
- Required communications between the auditor and the audit committee
- Assessing the auditor's performance and responses

Next steps

6. Staff met with Institute of Directors (IoD) staff to initiate discussions on next steps in early October. IoD staff will gauge interest in response to the recommendations with leadership and will meet with XRB staff again in late October/early November for further discussion.
7. Some key questions to consider include:
 - What is the purpose of the guidance?
 - Who is the guidance aimed at?
 - How would the guidance fit with existing guidance available? For example, the IoD already has guidance for members on governance best practices.

Material Presented

Agenda item 4.1

Board Meeting Summary Paper

Existing Publications for Audit Committees

[AICD* & AUASB Periodic Comprehensive Review of the External Auditor – Guide for Audit Committees](#) Sept 2022

[ASIC Information Sheet 196 Audit quality – the role of directors and audit committees](#)

[IAASB Framework for audit quality](#)

AUASB/AUCD/Institute of Internal Auditors-Australia, Audit Committees: [A Guide to Good Practice](#), Third Edition [AUASB Board Papers 26 April 2017 version](#)

OAG [Getting the most out of your department’s audit and risk committee](#)

[IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality](#)

Joint publication: CPA Canada, Canadian Public Accountability Board, Institute of Corporate Directors [Oversight of the External Auditor](#) Guidance for Audit Committees

CPA Canada [Audit Committee Guide to Audit Quality Indicators](#)

* Australian Institute of Company Directors

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	18 October 2023
Subject:	Sustainability Assurance Exposure Draft
Date:	28 September 2023
Prepared By:	Anna Herlender, Karen Tipper

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to:
 - Discuss the IAASB'S Exposure Draft *Proposed International Standard on Sustainability Assurance 5000 General Requirements for Sustainability Engagements (ED - 5000)*, and
 - Seek views from the Board to inform the development of a submission to the IAASB.

Background

2. The IAASB issued the ED-5000 in August 2023. The IAASB's aim was to develop an overarching standard for assurance on sustainability reporting that supports consistent performance of quality sustainability assurance engagements. The IAASB intends ED-5000 to be suitable across all sustainability topics and reporting frameworks and implementable by all assurance practitioners.
 - IAASB's Exposure Draft is included in the supplementary pack, agenda item 5.5.
 - IAASB's Explanatory memorandum is included in the supplementary pack, agenda item 5.6.
3. The IAASB submission period ends on 1 December 2023. The XRB has invited comments from New Zealand stakeholders by 20 November 2023. The XRB's draft submission will be discussed at the November Board meeting.
4. The IESBA is currently developing revisions to the Code in relation to sustainability reporting and assurance. The IESBA plans to approve the revisions for exposure in December 2023. Agenda item 5.4 in the supplementary pack includes a summary of the IESBA's developing proposals discussed at the September meeting.

Matters to Consider

5. When developing ED-5000, the IAASB took the following approach:
 - Identified relevant definitions, requirements and application material from existing IAASB standards (i.e., ISAE 3000¹ and ISAE 3410²).
 - Identified concepts that are appropriate for sustainability assurance from the auditing standards issued by the IAASB.

¹ ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information

² ISAE 3410 Assurance Engagements on Greenhouse Gas Statements

- Identified material from the EER guidance³ that would be appropriate for inclusion in ED-5000.
 - Developed further material for priority areas (difference in work effort between limited and reasonable assurance, scope, suitability of the reporting criteria, materiality, evidence, system of internal controls).
6. Sustainability information has different characteristics than financial statements: sustainability information is inherently more complex and uncertain, it contains more narrative than numbers, numbers not in monetary units and variety of subject matters within one report, etc.
7. The IAASB’s consultation includes 25 questions³ and the IAASB has asked for specific feedback on proposed areas in ED-5000. As an overview, key areas for feedback include:
- “Is it responsive to the public interest?”
 - Is its scope and applicability clear?
 - Does it provide an appropriate basis for performing both limited assurance and reasonable assurance engagements?
 - Does it appropriately address the practitioner’s evaluation of the suitability and availability of the criteria used by the entity in preparing the sustainability information?
 - Can it be applied for assurance engagements on the sustainability information of groups or in other circumstances when “consolidated” sustainability information is presented by the entity?
 - Does it appropriately address the topic of fraud (including “greenwashing”)?
 - Will the requirements drive assurance reporting that meets the information needs of users?”
8. The NZAuASB submission does not need to answer all questions. Instead, the submission should focus on the most pressing issues from the NZAuASB’s perspective. Issues identified by the staff are discussed in detail in agenda item 5.2.

Recommendations

9. Staff are seeking Board’s views on:
- What are the Board’s comments on ED-5000?
 - What are the Board’s views on the issues discussed on the agenda item 5.2?
 - Has the Board identified any other issues that should be considered by the staff when developing the submission to the IAASB?

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues Paper
Agenda item 5.3	Feedback sustainability assurance focus group discussions (late paper)

Supplementary papers

Agenda item 5.4	Summary of the IESBA’s developments
Agenda item 5.5	Exposure Draft ED -5000
Agenda item 5.6	Explanatory Memorandum

³ Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements

NZAuASB Board Meeting Issues Paper

Background

1. The aim of this Issues Paper is to discuss key questions identified from the IAASB'S Explanatory memorandum on Exposure Draft *Proposed International Standard on Sustainability Assurance 5000 General Requirements for Sustainability Engagements* (ED - 5000).

Context for information subject to assurance under ED-5000

2. ED ISSA 5000 has been developed to be framework agnostic, to be applied to perform assurance over a broad range of sustainability information included in sustainability reports. Consideration of the appropriateness of ED-5000 should be considered in the context of the broad range of different possible sustainability reports under a range of different reporting frameworks.

Key Issues

3. The following issues will be explored in more detail in this paper:
 - (a) Framework agnostic and link to assurance conclusions
 - (b) Definition of Sustainability information and sustainability matters
 - (c) Reasonable and Limited Assurance
 - (d) Forward-looking information
 - (e) Key sustainability assurance matters
 - (f) Materiality
 - (g) Profession agnostic considerations
 - (h) Ethics and quality management

Framework agnostic and assurance conclusions

IAASB Consultation questions

- | |
|---|
| <ol style="list-style-type: none">4. Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item). (Question 1)5. Will the requirements in ED-5000 drive assurance reporting that meets the information needs of users? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included. (Question 21) |
|---|

Background

6. The Explanatory Memorandum (in paragraph 14) explains that the IAASB developed ED-5000 on the basis that it can be applied for: all sustainability topics and aspects of topics, all mechanisms for reporting, any suitable criteria, all intended users, limited and reasonable assurance engagements, and use by all assurance practitioners.

Analysis

7. We agree that ED 5000 is an overarching standard that covers the key principles and stages of an assurance engagement over a broad range of sustainability topics and aspects of topics. The ED covers the broad spectrum of requirements and considerations for the assurance practitioners, including considerations on the entity's process to select topics to be reported, application of controls approach in the assurance engagement, how to approach forward looking information, which in essence involves assuring a model.
8. ED-5000 includes the traditional two binary assurance conclusions, being either a:
 - a) "reasonable assurance conclusion, expressed in a positive form, that the sustainability information is prepared or fairly presented, in all material respects, in accordance with the applicable criteria"; or
 - b) "limited assurance conclusion, expressed in a negative form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the sustainability information is not prepared or not fairly presented, in all material respects, in accordance with the applicable criteria." (para 170 (vi))
9. We are concerned that a binary approach might be too narrow. One type of the assurance conclusion over the sustainability report might not be appropriate in all circumstances. given the varied topics, and work performed by the assurance practitioner.
10. To promote trust and confidence, the IAASB could explore other forms of expressing the assurance conclusions. For example, how the assurance report could communicate to the users:
 - that the assurance practitioner checked that the entity's process to identify topics to report was comprehensive.
 - that the assurance work was essentially checking the assumptions, methods and inputs into a model.
 - or any other information that could enhance the communicative value of the assurance report.

Recommendation

11. The NZAuASB submission should encourage the IAASB to explore the ways to enhance communicative value of the assurance reports, given different characteristics and nature of the sustainability information and sustainability assurance engagements.

Definition of Sustainability Information and Sustainability Matters

IAASB Consultation question

12. Q5. Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

13. The explanatory memorandum for ED-5000 details (para. 27) acknowledges the importance of having a clear and understandable definition of sustainability information. At the same time, the IAASB recognized that "sustainability information" is difficult to define given the different uses and descriptions of the term in different sustainability reporting standards and frameworks, and in numerous documents and publications.

14. Paragraph 17(uu) defines sustainability information as “Information about sustainability matters. Sustainability information results from measuring or evaluating sustainability matters against the applicable criteria. For purposes of the ISSAs, sustainability information is the equivalent of “subject matter information” in other IAASB assurance standards.”
15. Paragraph 17(vv) defines sustainability matters as “Environmental, social, economic and cultural matters, including: (i) The impacts of an entity's activities, products and services on the environment, society, economy or culture, or the impacts on the entity, and (ii) The entity’s policies, performance, plans, goals and governance relating to such matters.”

Analysis

16. This definition is foundational and fundamental to supporting the scope of the standard. Thinking about the assurance standard in a vacuum, i.e., without reference to what the reporting requirements are is challenging. As we know, the assurance requirements are necessarily inextricably linked to the subject matter, and the underlying criteria.
17. Internally, we continue to have conversations across the XRB as to what we mean by “sustainability reporting”, i.e., is the climate statements a form of sustainability reporting, are there other reporting frameworks that include things not captured by this definition, are product claims a form of “reporting” or is this intended to be limited to entity level reporting, not as broad as information about a specific product.
18. We have been gathering up examples of sustainability reporting frameworks that we know about, and learning about or have had exposure to, not to debate the merit of the reporting, but to consider how an assurance practitioner would assure the output, the various types of sustainability reports.
19. We have then been considering and exploring the qualitative characteristics of sustainability information to consider whether this standard appropriately addresses the aspects of sustainability information.

Feedback requested

20. Do board members consider that these definitions are appropriate to make it clear when this standard would apply? Is it appropriate to focus on attestation engagements, i.e., an engagement in which a party other than the practitioner measures or evaluates the sustainability matters against applicable criteria?
21. Do you consider it would be useful for the standard to describe the underlying characteristics of the information to aid in the understanding of these definitions, to set the context for the requirements?

Reasonable and Limited Assurance

IAASB Consultation question

22. Q7. Does ED-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?

Background

23. The explanatory memorandum for ED-5000 (para.45-46) details that the IAASB heard that it was important to clearly differentiate the work effort between limited and reasonable assurance. As

limited assurance is relative to reasonable assurance, the work effort was likely to be better understood when it is directly compared to reasonable assurance. By including both in the same standard, some disclosures included in the same engagement could be assured to different levels.

Analysis

24. The IAASB has signposted different work effort to be performed for limited and reasonable assurance throughout each stage of the engagement. E.g., In designing and performing risk procedures (para.94), the difference in understanding the entity's control environment (para. 102), and substantive procedures (para. 126).
25. Taking substantive procedures as an example, the main difference is that the any substantive procedures that will be performed for limited assurance are focussed on the disclosures where material misstatements may be likely to occur. For reasonable assurance, procedures are focussed at the assertion level where material misstatements might be likely to arise.
26. We have heard mixed views. As described, ED-5000 may indicate that significant work effort is required for limited assurance and may be over and above what might typically be done in practice. An alternative view, is that the work effort described does not go far enough, and is not reflective of all the work that is performed. It may be that the nature of the work effort necessarily differs depending on the specific sustainability topic that is reported.
27. The difference between limited and reasonable assurance is often not understood by users. We have heard that users may not understand the differing work effort and therefore what degree of assurance can be taken from a limited or reasonable assurance conclusion. We believe that the IAASB has an important role to play in bridging this expectation gap.

Recommendation

28. The NZAuASB submission should encourage the IAASB to reconsider innovative ideas to enhance the communication of the level of assurance for a limited assurance engagement in the assurance report and to coordinate and facilitate the publication of guidance for users to clarify the differences between a limited and reasonable assurance opinion.

Feedback Required

29. What are the Board's views about the work effort required under ISSA 5000 for limited and reasonable assurance?

Forward looking information

IAASB Consultation question

30. Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information? If not, what do you propose and why?" (Question 16)

Background

31. An example of forward-looking information included within climate reporting is scenario analysis. This type of forward-looking information is not intended to be a prediction of the future but is a plausible description of how the future may develop. Scenarios differ from what has been traditionally assured as estimates in the context of financial statements or as prospective financial information.

32. Forward-looking information can be considered either as a forecast (based on assumptions as to future events) or a projection (prepared on the basis of hypothetical assumptions about future events which are not necessarily expected to take place).
33. These two different types of forward-looking information are defined in ISAE 3400 The Examination of Prospective Financial Information. ISAE 3400 includes examples of two different assurance conclusions that are considered appropriate for a forecast and for a projection, as follows:
- a) for a forecast:
- “Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions and is presented in accordance with
 - Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.” (ISAE 3400, para 28)
- b) for a projection:
- “This projection has been prepared for (describe purpose). As the entity is in a start-up phase the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.
 - Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that (state or refer to the hypothetical assumptions). Further, in our opinion the projection is properly prepared on the basis of the assumptions and is presented in accordance with....” (ISAE 3400, para 29)
34. The IAASB illustrative reports do not include both types of assurance conclusion and only include the forecast opinion. The forecast opinion included does not consider the hypothetical nature of the information that is subject to assurance and therefore could imply that the information is more similar to a forecast of future events rather than a projection. The IAASB should consider whether to require wording in the assurance conclusion regarding the hypothetical nature of forward-looking information.

Recommendation

35. The NZAuASB submission should recommend that the IAASB include wording similar to that included in ISAE 3400 for the opinion over projected information.

Key Sustainability Assurance Matters (KSAMs)

IAASB Consultation question

- | |
|---|
| <p>36. “Do you agree with the approach in ED-5000 of not addressing the concept of “key audit matters” for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?” (Question 22)</p> |
|---|

Background

37. The IAASB has not included Key Audit Matters (KAMs) in ED-5000 as they intend to consider addressing KAMs in a future suite of ISSAs. The IAASB considered that KAMs are currently only required by entities with higher public accountability and therefore might not be appropriate for all sustainability assurance engagements. The IAASB considered the results of auditor reporting Post Implementation Review (PIR) and concerns including:
- “Users may perceive a greater level of assurance than is intended to be reported if KAM are included in a limited assurance report;
 - Costs may outweigh benefits to report KAM for assurance engagements; and
 - A need to maintain a clear distinction between other types of assurance engagements and audits of financial statements, including flexibility in reporting for the former. “

Analysis

38. KAM or an equivalent mechanism (e.g., “key sustainability assurance matters”) enables and encourages the communication of significant matters and what has been done to address them. We believe that this would be appropriate in both a limited or reasonable assurance engagement. Given the risk identified above by the IAASB, we consider that the description of how matters have been addressed could be linked to the level of assurance. This could reduce the perceived risk of the level of assurance being greater than intended.
39. Users of traditional audit reports of financial statements are familiar with the reporting frameworks and the form of assurance reports. There is no agreed format for sustainability reporting and these reports can look very different depending on the framework that has been followed. Similarly, the sustainability assurance engagements might be substantially different from financial statements’ audits. KAMS could be useful for the users to understand the different challenges the assurance practitioners dealt with during the sustainability assurance engagements.
40. The scope of sustainability assurance engagements will differ depending on the nature of sustainability information that is subject to the assurance. Explanation of significant matters identified by the assurance practitioners, and how they have been addressed, could contribute to a better understanding of the sustainability assurance engagement.
41. In New Zealand, NZ SAE 1¹ requires a Key Matters paragraph in an assurance report on greenhouse gas emissions disclosures that are subject to mandatory assurance. Key Matters will need to be reported for matters which in the engagement leader’s professional judgement were of most significance in the assurance engagement, are relevant to user’s understanding of the assurance engagement and enhance communicative value of the assurance report.

PIOB Public Interest Issues

42. The PIOB, in its Public Interest Issues updated in August 2023, encourages the IAASB to consider whether it would be in the public interest to allow inclusion of key audit matters in the assurance reports of public interest entities: “Making provision for KAM reporting would enable assurance providers to provide further insight about significant risks assessed, and difficult areas encountered, in the course of the engagement”.

¹ NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

Recommendation

43. We recommend that the NZAuASB submission strongly recommend the inclusion of key audit matters or equivalent (e.g., “key sustainability assurance matters”) in ISSA-5000 as a useful tool for:
- enhancing users understanding about the sustainability assurance engagement. We consider this is important given the different characteristics of sustainability information from traditional financial statements.
 - communicating challenges faced during the engagement by the assurance practitioner and how they have been addressed. This might be used also to highlight the work effort in limited assurance engagements.

Materiality

IAASB Consultation question

44. “Does ED-5000 appropriately address the practitioner’s consideration of the entity’s “materiality process” to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?” (Question 9)
45. “Does ED-5000 appropriately address the notion of “double materiality” in a framework-neutral way, including how this differs from the practitioner’s consideration or determination of materiality? If not, what do you propose and why?” (Question 11)
46. “Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?” (Question 12)

Background

47. The term “materiality” is be used in different contexts in sustainability reporting and in assurance engagements. ED-5000 uses the term of materiality whether it is used by the reporting entity or by the assurance practitioner.

Analysis

“Materiality process” is performed by the reporting entity.

48. ED-5000 requires the assurance practitioner to obtain preliminary knowledge of the sustainability information expected to be reported (para 69 (a)). This is one of the elements to determine whether the preconditions for the engagement are present.
49. The application material encourages the assurance practitioner to consider whether the reporting topics were determined by the entity through an appropriate process (para A156).
50. In this context, the application material explains that the entity’s process to identify and select sustainability topics or aspect of topics to be reported is sometimes referred to as “the process to identify reporting topics”, “materiality assessment” or “materiality process” (para A157).
51. The explanation, that the term materiality might be used by the entity in different meaning than the traditional materiality term used by the assurance practitioners, is helpful.

Double materiality, financial materiality and impact materiality

52. ED-5000 requires the assurance practitioner to evaluate whether the criteria expected to be applied in the preparation of the sustainability information are suitable for the engagement circumstances. This includes evaluation whether the criteria are relevant. (para 72)
53. The application material further encourages the assurance practitioner to consider whether the criteria result in sustainability information that assists decision making by the intended users. (para A179 (a)).
54. In this context, the application material clarifies that information needs of the users might relate either to the impact of sustainability matters on the entity (which may be referred to as financial materiality), and the impacts of the entity on the sustainability matters (which may be referred to as impact materiality) or both (which might be referred to as double materiality” (para A180).
55. The concept of impacts and relating terms is specific to the sustainability related matters (it is not commonly known in the financial reporting and audits), therefore the clarifications in ED-5000 might be useful for many assurance practitioners.

The assurance practitioner’s materiality

56. For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, ED-5000 requires the practitioner for both limited and reasonable assurance to:
 - Consider materiality for qualitative disclosures; and
 - Determine materiality and performance materiality for quantitative disclosures. (para 91 and 92)
 - document factors relevant to the consideration and determination of materiality and the basis for the determination of performance materiality. (para 93).
57. Application material includes examples of factors relevant to the considerations of materiality for qualitative (A278) and quantitative disclosures (A279) relating to sustainability matters:
 - “The number of persons or entities affected by, and the severity of the effect of, the sustainability matter. For example, a hazardous waste spill may impact a small number of people, but the effect of that spill could lead to serious adverse consequences to the environment.
 - The interaction between, and relative importance of, multiple topics and aspects of the topics, such as when a report includes numerous performance indicators.
 - The form of the presentation of the sustainability information when the applicable criteria allow for variations in the presentation.
 - The nature of a potential misstatement and when it would be considered material. For example, the nature of observed deviations from a control when the sustainability information is a statement that a process exists, or the control is effective.
 - Whether a potential misstatement could affect compliance with law or regulation, including whether there is an incentive or pressure on management to achieve an expected target or outcome. For example, a practitioner may consider a potential misstatement to be material if it affected a threshold at which a carbon tax would be payable by the entity.
 - Whether a potential misstatement would be significant based on the practitioner’s understanding of known previous communications to the intended users, on matters relevant to the information needs of those users, for example, in relation to the expected outcome of goals

- or targets, the degree to which a potential misstatement would impact the entity achieving the goal or target.
 - When the sustainability matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
 - If the applicable criteria include the concept of due diligence regarding impacts, the nature and extent of those impacts. For example, a practitioner may consider whether the entity's disclosures omitted or distorted the actions taken to prevent or mitigate negative impacts or ignored additional negative impacts, or the entity's actions to prevent or mitigate negative impacts were not effective.
 - For narrative disclosures, whether the level of detail of the description or the overall tone of the words used to describe the matter, may give a misleading picture to users of the sustainability information.
 - How the presentation of the information influences users' perception of the information. For example, when management presents the disclosures in the form of graphs, diagrams or images, materiality considerations may include whether using different scales for the x- and y-axes of a graph may result in materially misstated or misleading information."
58. ED-5000 clarifies that for the same sustainability assurance engagement, there may be more than one materiality as materiality is ordinarily considered or determined for different disclosures. (para A277)
59. The concepts of the materiality process performed by the entity and impacts and double materiality is included also in the application material in the section on practitioner's materiality. (para A273 and A274). However, there is no clear link how these concepts should be considered in the process of considering and determining the materiality by the assurance practitioners. This could be enhanced in the proposed standard.
60. ED-5000 includes application material on accumulation and consideration of identified misstatements and relation to materiality. It includes guidance on clearly trivial misstatements and how they can be assessed in the context of the materiality process performed by the entity and the impacts, the users might be interested in (para A400). It also includes guidance on what could be considered material uncorrected misstatement and what factors could be considered, including qualitative information (para A417 -A419). The examples are helpful as they relate to sustainability matters.
61. Guidance encourages the assurance practitioner to group misstatements together, for example if they relate to particular aspect of topics, and consider materiality for the aspect of topics (para A414-A416).

Application of materiality by the assurance practitioner in the risk assessment procedures

62. For a limited assurance engagement, the assurance practitioner's work effort is focused on disclosures where material misstatements are likely to arise. ED-5000 includes requirements to design and perform risk procedures to identify these disclosures (para 94L) and to perform further procedures on these disclosures (para 114L).
63. For a reasonable assurance engagement, the assurance practitioner is required to identify and assess the risk of material misstatement at an assertion level for the disclosures. ED-5000 includes a requirement to design and perform risk procedures to identify and assess the risk (para 94R) and to perform further procedures that respond to the assessed risk at the assertion level (para 114R).

64. These requirements do not take into account that the sustainability information will not be homogenous. It might be impractical and time consuming to document considerations for all disclosures considering where a material misstatement is likely to arise and where the risk of material misstatements for all disclosures is for all assertions.
65. In practice, the concept of materiality is helpful in the first instance to identify disclosures that would be material to the users of the sustainability information. For example, information about number of health and safety incidents might be more relevant than a case study about employees planting trees once per year. The assurance practitioner might conclude that risk of misstatement regarding place, time and number of trees planted is high, however regardless of the number disclosed (even if misstated by 100% or more) the error almost never will be material to the users.
66. NZ AS1 (Revised) The Audit of Service Performance Information includes an application material para A52 to consider materiality firstly in the context of what is material to the intended users:
 “The auditor may first consider which elements/aspects of service performance are important to intended users. Having identified those, the auditor may then consider what are 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.”
67. Applying the above to sustainability information, the assurance practitioner might first consider which parts are most important to the users (for example health and safety section) and then consider what are material disclosures in the identified parts (for example mitigation actions applied by the entity and metrics related to number of accidents). A materiality threshold/tolerance for misstatement would be applied to those specific disclosures.
68. Identification of significant disclosures using the concept of materiality would help focus the assurance practitioner on the areas that require further consideration and identification of disclosures where material misstatements might occur (for limited assurance) or risk of material misstatement at assertion level (for reasonable assurance).
69. The above process could be described as two step approach:
- Step 1 – Identify significant disclosures. This step should be built on the understanding of the materiality process performed by the entity. The proposed standard should better explain that the practitioner should understand the entity’s process also for the purpose of identifying what would be material for the user.
 - Step 2 – consider/determine tolerance for error for the disclosures identified in step 1.

Recommendations

70. The NZAuASB submission should:
- Support the IAASB’s clarification of the different concepts of materiality (entity relating process, double materiality, impact materiality)
 - Support the application guidance regarding identified misstatements.
 - Support that that ED-5000 clarifies that different materiality levels will be applied to various disclosures and that when evaluating identified misstatements, they might be grouped together depending on their characteristics (topics/aspect of topics). This recognizes that sustainability information might include disclosures of different nature and it might not be possible to evaluate all the sustainability disclosures in the same way.

- Recommend including more guidance on applying materiality concept to identifying significant disclosures and link it closer to materiality process by the entity and consideration of impact the users might be interested in. This could be explained as a 2 step approach: identify significant disclosers and apply tolerance for error.

Profession agnostic

IAASB Consultation question

71. “Are there any other matters you would like to raise in relation to ED-5000?” (Question 25)

Analysis

72. According to the Explanatory Memorandum: “ED-5000 is intended to be used by both professional accountants and non-accountant assurance practitioners, subject to the fundamental premises in the standard regarding relevant ethical requirements and quality management.”
73. The terminology used in standards is important to aid understanding and implementation. The terminology and structure of the ED will be familiar to those that apply the IAASB’s standards, including those non-accountants that apply ISAE 3000 (Revised) or ISAE 3410, but may not be immediately understood by other professions or those not familiar with the IAASB’s standards.
74. We acknowledge the effort that the IAASB has put into adapting and modifying the terms used including using the term engagement leader rather than engagement partner but want to explore whether these changes are sufficient for wider understanding. To date we have not identified any specific terminology changes to recommend making the draft more profession agnostic.
75. As part of our sustainably outreach, we will be exploring the language and terminology used in ED-5000 with sustainability professionals to see whether they consider ED-5000 language to be profession agnostic.

Recommendation

76. Depending on whether we identify any specific terminology that is causing an issue, the NZAuASB submission may outline suggestions to make the drafting more profession agnostic.

Ethics and quality management

The IAASB consultation question

77. “Is ED-5000 sufficiently clear about the concept of “at least as demanding” as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm’s responsibility for its system of quality management? If not, what suggestion do you have for additional application material to make it clearer?” (Question 4)

Background

78. ED-5000 requires assurance practitioners to comply with the IESBA Code of Ethics and ISQM 1² or requirements at least as demanding. The IAASB’s view is that regulators and national standard setters should share the responsibility for determining what might be considered “at least as

² International Standard on Quality Management (ISQM 1), Quality Management for Firms that Perform audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

demanding” in the respective jurisdictions. This could be determined by legislation or professional requirements or be supplemented by guidance.

Analysis - Ethics

79. An “At least as demanding” test for ethics is when professional requirements, laws or regulations:
- (i) address the matters referred to in the relevant sections of the IESBA Code; and
 - (ii) impose obligations that achieve the aims of the requirements set out in the IESBA Code. (Para A48)
80. The application material (refer to para A44 – A48) in ED-5000 contains detail about the matters that should be addressed and signposts practitioners to specific references within the Code. This includes pointing to matters that may assist practitioners in determining whether other professional requirements, or requirements imposed by law or regulation, address the matters in, and are therefore at least as demanding as, the provisions of the IESBA Code. (Para A48).
81. We support the requirement for a high standard of independence and ethical requirements to be followed by all sustainability assurance practitioners. This is essential to enhancing trust and confidence.
82. Staff view is that ED-5000 is not sufficiently clear, so that all sustainability assurance practitioners will be able to make the assessment consistently. Is the intention that if another code or standard is applied that it must:
- replicate the IESBA code and include exact wording, or
 - is following a similar conceptual framework as the IESBA Code sufficient.
- Could adopting one or the other lead to a different outcomes or behaviour?
83. The IESBA is working on a project to develop a code of ethics and independence requirements that is suitable for sustainability assurance, and we intend to respond to this ED when it is issued in early 2024. As these proposals are still in development, it will be especially tricky for all stakeholders to comment on this proposed requirement.
84. As IESBA move into this emerging field of sustainability assurance, we will encourage the IESBA to be curious and to learn what other professions are doing. We were encouraged to hear that the IESBA is sharing their progress with the International Accreditation Forum and bridge the gap between the two worlds.
85. Requirements in the IESBA Code are those that include the word “shall” and there are more than 300 “shall” words in the Code. If the IAASB’s expectation is that the regulations are at least as demanding if they include almost the same requirements – as in the example (a) above, then the bar is high. Only regulations that are built upon the IESBA Code, for example PES 1³ issued by the XRB, would meet the test. It is highly unlikely that regulations of any other professional bodies other than accountancy would meet these requirements.

³ Professional and Ethical Standard 3 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)

Recommendation

86. The NZAuASB submission should:
- (a) Encourage the IAASB to clarify the intent of the at least as demanding test.
 - (b) Encourage consideration of a transition period to be included to set a runway for sustainability practitioners who are new to these requirements and to work closely and jointly with the IESBA on non-authoritative guidance that assists those that are not familiar with the IAASB's and the IESBA's standards to navigate, and understand to enable these practitioners to make this assessment, rather than creating a barrier to entry.

Analysis - quality management

87. An "at least as demanding" test for system of quality management is when other professional requirements, laws or regulations deal with firm responsibilities to design, implement and operate a system of quality management that:
- (i) Addresses the requirements of ISQM 1; and
 - (ii) Imposes obligations on the firm to achieve the objectives of ISQM 1 (para A56)
88. The objectives of ISQM 1 are high level and cover the design, implementation and operation of a quality management system that is risk based. It would be reasonable to expect that any quality management system in an assurance organisation would be set up to respond to these or similar objectives. These requirements are at the organisation/firm level.
89. The wording of ED-5000 suggests that only regulations that are based on ISQM 1 or have added to ISQM 1, as for example PES 3⁵ issued by the XRB, could meet the test of "at least as demanding". It is highly unlikely that any other profession would have a standard or regulation addressing exactly the same requirements.
90. We support a high level of quality management based on a standard that is scaleable and risk based. We do acknowledge that this standard may be new for a number of sustainability assurance practitioners and encourage the IAASB to allow these practitioners time to transition to put this test into practice, and time to adjust practices as needed, noting that those familiar with the IAASB standards have already made this transition, and had time to do so.
91. The IAASB has a key role to play to facilitate and assist in developing guidance to assist those not familiar with ISQM 1 to transition. We encourage the IAASB to work with others, to learn more about the quality management requirements others apply, and to co-ordinate global mapping exercises to facilitate application of the "at least as demanding test", and to facilitate any transition that may be needed. In doing, so the IAASB may also learn more about other quality management practices to inform a post implementation review of the IAASB's ISQM 1 standards in due course.

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

Recommendation

92. The NZAuASB submission should:

- (a) Clarify the at least as demanding test for quality management.
- (b) Include a transition period to enable time for practitioners to perform the at least as demanding assessment and to make and adjustments as needed for sustainability practitioners who are new to these requirements. We recommend that this includes a sufficient time-period for adoption and potentially first-time adoption provisions.
- (c) Emphasise the critical role that we believe the IAASB could play at a global level in coordinating and facilitating the mapping of various quality management frameworks and publication of implementation guidance for quality management.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	18 October 2023
Subject:	GHG Assurance – Quality Management Guidance
Date prepared:	5 October 2023
Prepared by:	Nimash Bhikha

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Agenda Item Objective

1. This objective of this agenda item is for the Board to **CONSIDER** whether the planned approach to support the implementation of quality management principles within NZ SAE 1¹ is appropriate, and whether there are other quality management topics which we should consider at this stage.

Background

2. As we get closer to finalising guidance on ethics and independence, the next area we are exploring, is whether and what guidance to progress to support the quality management principles in NZ SAE 1.
3. Quality management is an important principle within NZ SAE 1 that all GHG assurance practitioners need to focus on. NZ SAE 1 outlines several dimensions of quality management, including at both an assurance organisation and engagement level.

Feedback from current GHG assurance practitioners

4. We have reached out to various assurance practitioners to help inform if and where guidance around quality management would be beneficial. There was a strong message that the quality management principles in NZ SAE 1 were clear and well understood. However, some areas for guidance were mentioned, including:
 - Dealing with consultations around difficult and contentious issues; and
 - Documentation requirements around quality management.
 - Guidance on the use of quality reviewers on individual engagements by smaller assurance organisations.

¹ NZ SAE 1: Assurance Engagements on Greenhouse Gas Statements

5. It was also highlighted to us that guidance would be beneficial around the use of Quality Reviewers, in particular:
 - The skills/training which may be needed when challenging colleagues;
 - How to resolve differences in opinion between the Quality Reviewer and engagement leader; and
 - Documentation requirements around the challenges made by the Quality Reviewer.

Matters for Consideration

6. Given the feedback received, and the strong focus on the Quality Reviewer requirements within NZ SAE 1, we recommend preparing Frequently Asked Questions (FAQs) around the Quality Reviewer, to support the implementation of NZ SAE 1. Indicative questions we might cover include:

NZ SAE 1 Quality Reviewer FAQs

- What is the timing and extent of the involvement of the Quality Reviewer? *(for example: the level of involvement needed when there are highly material judgements made by management around scope 3 emissions).*
- What sort of soft skills may Quality Reviewers need to perform the Quality Review effectively? *(for example: Being able to challenge peers/colleagues effectively).*
- What is the difference between a Quality Reviewer and a consultation?
- What factors should be considered when resolving differences in opinion between the Quality Reviewer and Engagement Leader?
- What are the documentation requirements around the Quality Reviewer, at an engagement, and assurance organisation, level?
- How can smaller assurance organisations implement the Quality Reviewer requirements?

7. For other areas of quality management, including organisational level quality management, from the feedback received so far, it appears that guidance would not be considered necessary at this time.
8. We will continue to engage with assurance organisations as NZ SAE 1 is implemented and will add to the FAQs around any other areas of quality management over time, as considered necessary.

Recommendations

9. We recommend the Board:
 - **CONSIDER** whether the planned approach to prepare quality management FAQss focussed on the Quality Reviewer is appropriate at this time, and
 - **FEEDBACK** on whether there are other topics where quality management guidance would be beneficial to support NZ SAE 1.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.2
Meeting date:	18 October 2023
Subject:	GHG Assurance – Independence Guidance
Date prepared:	5 October 2023
Prepared by:	Nimash Bhikha

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Agenda Item Objective

1. The objective of this agenda item is for the Board to:
 - **CONSIDER** the updated draft independence guidance, and illustrative assurance reports, and whether this guidance would be useful to GHG assurance practitioners; and
 - **AGREE** next steps, given the diverse feedback provided on previous drafts.

Background

2. NZ SAE 1 was issued in August 2023. The first year of greenhouse gas (GHG) emissions disclosures subject to mandatory assurance is for the year ended 31 December 2024. NZ SAE 1 is a principles-based standard that leverages off two international standards and is open to all independent and competence assurance practitioners.
3. To aid assurance practitioners in understanding and applying the ethical and independence principles, we developed non-authoritative guidance.
4. The Board considered this guidance at the August meeting and subsequently provided offline comments on updated drafts in September. We have reflected on the comments received and made updates to the guidance documents accordingly, which are summarised below.

Updated GHG Assurance Independence Guide

Previous Guidance

5. The independence guide provided to the Board in September provided an overview of the independence requirements, and provided example scenarios across each threat category, with matters for practitioners to consider when evaluating and addressing threats (across 7 example scenarios in total).

Board Feedback

6. The feedback provided by the Board was diverse, with some Board members noting the scenarios provided reasonable guidance and examples for practitioners to consider further their independence, with others Board members noting these could cause confusion and misinterpretation of the fundamental principles.
7. There were requests to develop new or updated scenarios which more closely aligned to PES 1, questions over whether the safeguards used were applicable and in line with PES 1, whether new safeguards could be developed and not repeated across multiple scenarios. There were also comments on whether the scenarios and safeguards would be understood by, and be applicable to, both larger and smaller GHG assurance practitioners.
8. The diverse nature of the Board's comments has created difficulty in addressing the comments in a way which would satisfy all Board members, and in finding an appropriate balance within the guidance.
9. Potential options to address the Board's comments could be to develop more scenarios to cover more specific examples, however this creates the risk of becoming prescriptive around these requirements. Alternatively, we could also remove scenarios and allow practitioners to use their judgement to evaluate their specific situations, based on the plain English overviews, however this creates the risk of misinterpretation of theoretical principles.

XRB staff changes

10. In response to the Board's comments, we have removed the example scenarios across each threat category and replaced these with two overall scenarios which demonstrate the full independence threat assessment process. The guidance provides examples of practitioners to consider when assessing independence, rather than providing conclusions on each scenario.

Updated Transitional provision Independence Case Study

Previous Guidance

11. The transitional provision guidance provided to the Board in September provided an overview of the transitional requirements and provided an example walkthrough to an example case study.

Board Feedback

12. The feedback provided by the Board included requests to ensure the language used was balanced to communicate that the transitional provision did not automatically allow for assurance practitioners to provide assurance services.
13. Some Board members also requested stronger language be used for self-review threats. They suggested that some of the potential safeguards may be better positioned as considerations when evaluating threats and highlighted that there was confusion between threats at both an organisation level, and individual level. Comments were also raised to cross-refer this guidance to the independence guide, so both are read in conjunction with each other.

XRB staff changes

14. In response to the Board's comments, we have updated the guidance to be more balanced around the transitional provision not permitting or precluding practitioners from providing services and splitting the terminology between assurance organisation and practitioners to differentiate organisational level considerations from individual level considerations.

15. The considerations around evaluating threats (step 3), and the considerations of safeguards (step 4) has also been updated and re-ordered. The transitional provision guidance has also been cross-referenced to the independence guide.

Updated Illustrative assurance reports

Previous Guidance

16. The illustrative assurance reports provided to the Board in September contained examples of how NZ SAE 1 and ISAE 3410 or ISO 14064-3: 2019 compliant assurance reports may look.

Board Feedback

17. The feedback provided by the Board was minimal, with some requests of repositioning certain paragraphs (relating to certain headings) and aligning wording more closely with the wording used within NZ SAE 1. Comments were also raised on whether fees for non-assurance services should also be disclosed, when disclosing other relationships with the assurance client.

XRB staff changes

18. In response to the Board's comments, minor revisions were made to the illustrative reports. No examples were included around the level of fees for non-assurance services, as this was not a requirement under NZ SAE 1, although practitioners may voluntarily report this.
19. In addition, the opinion wording has also been updated to reflect that the GHG reporting framework (NZ CSs) is a fair presentation framework, rather than a compliance framework. As a result, the opinion wording has been more specifically tailored to reference gross GHG emissions and the mandatory disclosures which are subject to assurance.
20. Differing shading has also been incorporated within the assurance reports to differentiate between requirements of NZ SAE 1 which need to be tailored, and optional disclosures which are encouraged by the standard, but not required.

Matters for Consideration

21. The updated draft guidance documents are included as a separate agenda item for consideration (Agenda item 6.3 – 6.5). Previous versions shared with the Board in September are included as supplementary papers (Agenda items 6.3A).
22. We would appreciate the Board's views on whether the revised guidance is useful for GHG assurance practitioners, considering the Board's diverse comments on previous drafts.

Recommendations

23. We recommend the Board **AGREE** next steps.

Material presented

- Agenda Item 6.3 – NZ SAE 1 GHG Assurance Independence Guide (UPDATED DRAFT)
- Agenda item 6.3A (Supplementary) – NZ SAE 1 GHG Assurance Independence Guide (PREVIOUS DRAFT)
- Agenda Item 6.4 – NZ SAE 1 Transitional Provision Case Guide (UPDATED DRAFT)
- Agenda Item 6.5 – NZ SAE 1 Illustrative Assurance Report Requirements (UPDATED DRAFT)

Staff Guidance

Independence Considerations for GHG Emissions Assurance Practitioners

Non-Authoritative Guidance to NZ SAE 1 Assurance
Engagements over Greenhouse Gas Emissions Disclosures

The background of the lower half of the cover is a warm, golden-brown color. It features a hand holding a magnifying glass over a wooden block with a person icon. To the right, there are three circular patterns of white dots connected by thin lines, resembling a network or data visualization. The date 'October 2023' is written in white at the bottom left.

October 2023



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Purpose of this Independence Guide

Introduction

NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* is a new standard covering the mandatory assurance of Greenhouse Gas (GHG) disclosures. Independent assurance plays a key role in building trust and confidence and is essential to the provision of high-quality GHG assurance services.

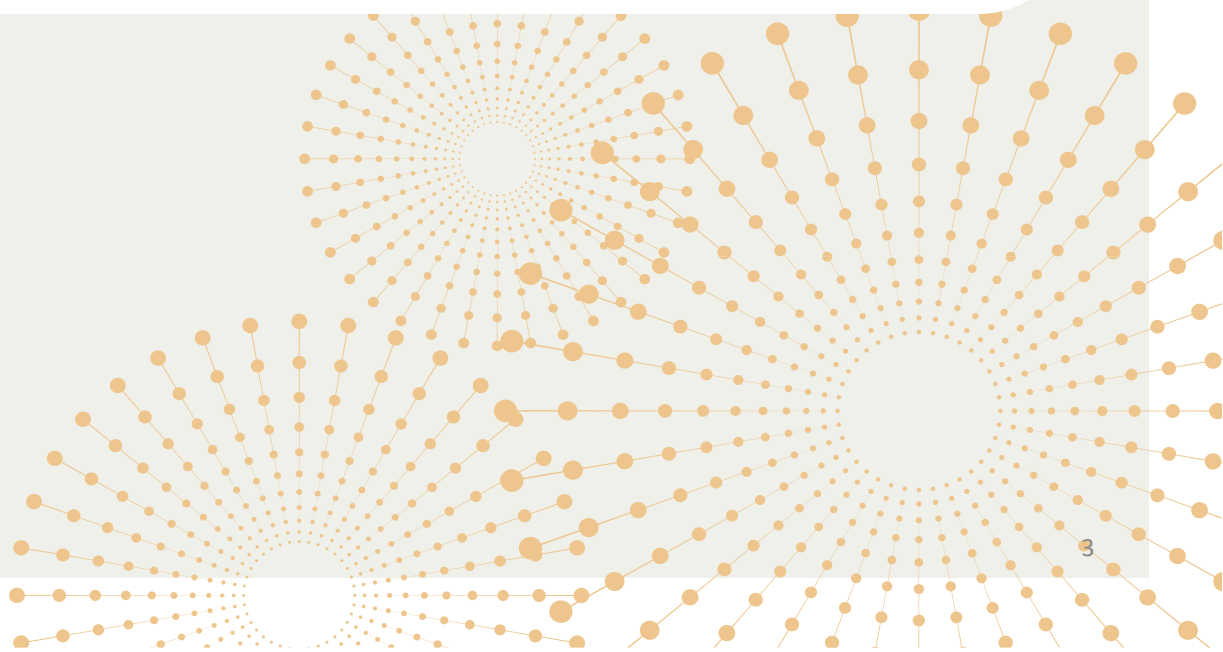
The provision of GHG assurance services is open to all competent and independent practitioners. The External Reporting Board acknowledges that the independence terminology used in NZ SAE 1 may not be familiar to all assurance practitioners. Different professions may use differing terminology around independence (for example: in some professions certain NZ SAE 1 independence concepts may be similar, but not identical, to the concept of “impartiality”).

This non-authoritative guidance provides an overview of the principles of independence, threats to independence and includes examples of how independence principles can be applied to certain situations. GHG assurance practitioners are encouraged to look past specific words and focus on applying the principles of independence required by NZ SAE 1, and the spirit of this guidance. They should ensure they act in ways that maintain trust and confidence in their assurance conclusion.

This guidance focuses on the assessment of threats to independence before they compromise independence and does not address how practitioners should respond to breaches. Once an independence breach has been identified, it cannot be mitigated or safeguarded against, and organisations and practitioners should take steps to ensure they do not perform assurance services when they are not independent.

This guidance has been developed for all assurance organisations and practitioners, however smaller practitioners may need to consider engaging external resources to assist with evaluating and responding to independence risks, if sufficient internal resources are not available.

This guidance is not intended to be an exhaustive list and is not a substitute for reading NZ SAE 1.





Purpose of this Independence Guide (continued)

Fundamental Principles

NZ SAE 1 requires assurance organisations and practitioners who provide GHG assurance services to comply with the following fundamental principles:

Independence

- *Freedom from conditions or relationships which would compromise, or could be seen to compromise, integrity or objectivity.*

Integrity

- *To be straight forward and honest; complying with the spirit as well as the letter of applicable principles.*

Objectivity

- *To be impartial, to be free from bias, conflict of interest or influence from others.*

Professional Competence and Due Care

- *To attain and maintain knowledge and skills necessary to perform the GHG assurance engagement and act diligently and in accordance with applicable Standards, laws and regulations.*

Confidentiality

- *To respect the confidentiality of information acquired as a result of undertaking the assurance engagement.*

Professional Behaviour

- *To comply with relevant laws and regulations, behave in a manner consistent with the responsibility to act in the public interest, and avoid any conduct that the assurance practitioner knows, or should know, might discredit the assurance profession.*

While each of the above fundamental principles are inter-related and important for high quality assurance engagements, **independence in both mind and appearance**, is paramount. GHG assurance organisations and practitioners may encounter situations or relationships which could threaten their ability to act independently, or be seen to threaten independence, which may impact on compliance with the fundamental principles.

Assurance organisations and practitioners need to continuously evaluate their independence throughout the assurance engagement. This is one of the most important judgements that will need to be made before accepting, and while performing, an assurance engagement.



Overview of Independence Threats



Common types of independence threats

Independence threats typically fall into one or more of the categories outlined below. One situation may result in multiple threats, and some threats may not be immediately obvious. It may require personal reflection, or discussions with those charged with governance or third parties, to identify and understand how a situation may threaten independence.



One threat alone may compromise independence, and assurance organisations and practitioners should evaluate each threat individually, as well as in combination with other similar threats.

Independence in mind and appearance

Independence threats may be present where a condition or relationship creates:

- An actual conflict for assurance organisations and practitioners (independence in mind); or
- A perceived conflict for assurance organisations and practitioners (independence in appearance).



Assurance organisations and practitioners must act in ways that maintain trust and confidence in their assurance work. It is important that assurance organisations and practitioners use their professional judgement to evaluate whether a reasonable and informed third party would consider their independence to be threatened.

A third-party perspective is critical in all stages of evaluating independence, as third parties may perceive the same threats differently to assurance practitioners.

Overview of Independence Threats (continued)



Other assurance services may impact on independence

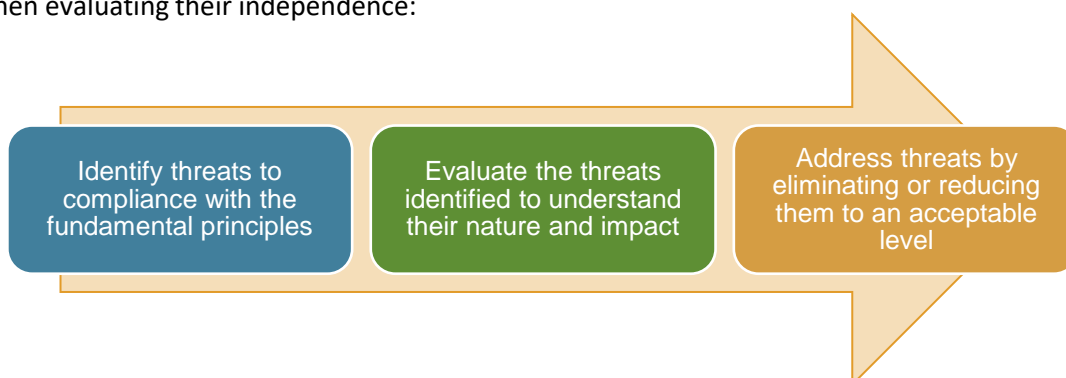
NZ SAE 1 has been developed to allow all competent independent practitioners to provide GHG assurance services. Climate reporting entities may engage their financial statement auditor or may appoint another practitioner who specialises in GHG assurance, to assure their GHG reporting. The audit of financial statements is a separate engagement from the assurance of GHG emission disclosures. As a result, performing the audit of financial statements does not, in itself, cause a threat to the provision of GHG assurance services to the same client.

Where assurance organisations and practitioners provide other assurance services to the client, this may require different considerations compared to standalone GHG assurance engagements. In particular:


- **Assurance organisations and practitioners may perform the audit of the financial statements** – Assurance organisation and practitioners who perform the audit or review of financial statements must comply with International Independence Standards (New Zealand), as set out in Part 4A of Professional and Ethical Standard 1 (PES 1). Users expect GHG assurance practitioners, who also audit or review the financial statements, to comply with the most stringent independence requirements across both engagements.
- **Assurance organisations and practitioners may be engaged to assure other aspects of the climate statement** – Assurance organisations and practitioners who are also engaged to assure other aspects of the climate statement should be mindful of potential threats when evaluating independence. Additional independence threats may be created if services have been provided which impact on the client’s climate reporting (for example: services around preparing climate scenarios). Assurance organisations and practitioners should carefully evaluate potential threats in the context of the scope of their assurance engagement.

Independence Assessment Framework

NZ SAE 1 is underpinned by a framework for assurance organisations and practitioners to follow when evaluating their independence:



How individual threats can be addressed will differ based on the facts and circumstances of each situation.



Overview of Independence Threats (continued)

Safeguards which apply in one situation may not be appropriate for another, and certain situations may not have any effective safeguards which could be implemented. The facts of each situation will be different and will inform how assurance organisations and practitioners respond to identified threats. In some cases, a combination of safeguards may be necessary.

Where there are possible self-review threats created through non-assurance services, or where the assurance organisation or practitioner has taken on management’s responsibilities, safeguards cannot be applied to reduce the threat to an acceptable level. In such situations, where the non-assurance service has already commenced, the GHG assurance engagement cannot be completed and should be ended. Where the non-assurance service has not commenced, that service should be ended, before GHG assurance engagement commences.

Documentation

Assurance practitioners should document their judgements, along with supporting evidence and consultations, when arriving at their independence conclusions. It is of equal importance for assurance organisations and practitioners to demonstrate that they have maintained their independence, as well as obtained sufficient evidence to support their assurance conclusions.

All documentation should be retained on the individual assurance files and cover the full thought process around the identification and evaluation of threats and how threats are addressed, including the determination and implementation of safeguards.

Additional Guidance

Assurance organisations and practitioners may look toward ethical and independence guidance in other relevant professional standards where appropriate where a matter is not covered by NZ SAE 1. This may include:

- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*; or
- International Organization for Standardisation (ISO) Standards relevant to independence, including but not limited to:
 - ISO 9001: 2015 *Quality management systems – Requirements*.
 - ISO 14065: 2020 *General principles and requirements for bodies validating and verifying environmental information*.
 - ISO 17029: 2019 *Conformity assessment — General principles and requirements for validation and verification bodies*.
 - ISO 19011: 2018 *Guidelines for auditing management systems*.

Overview of Independence Threats (continued)

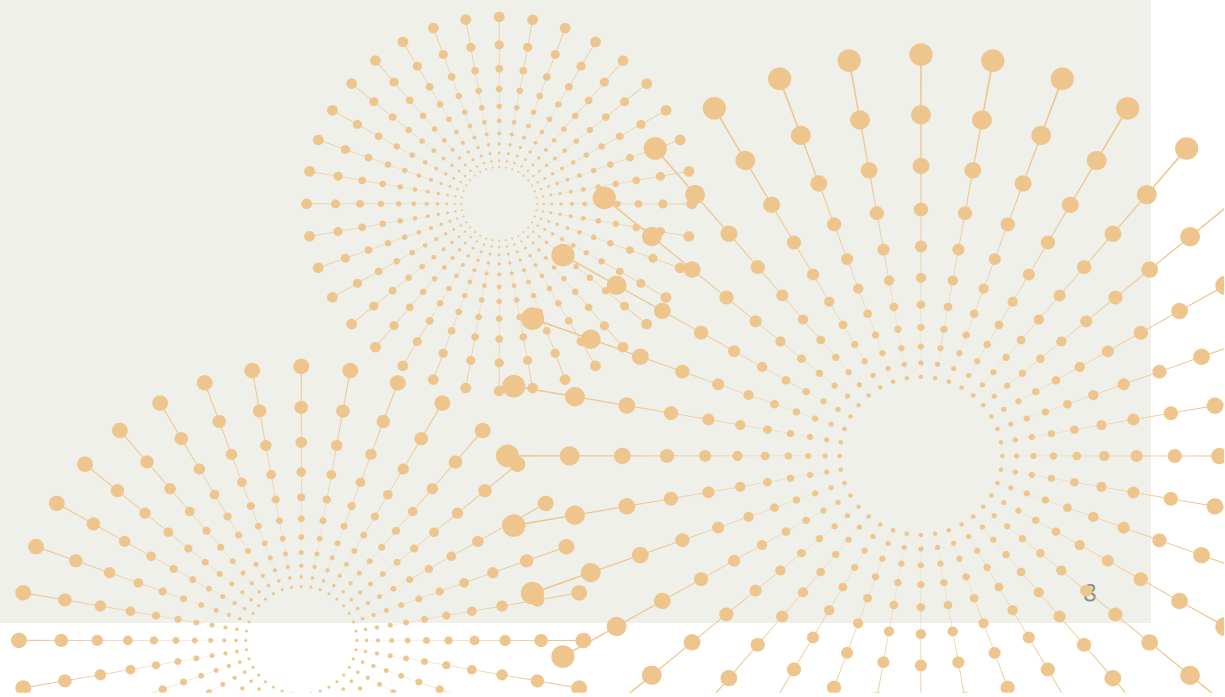


Transparency

NZ SAE 1 requires the assurance report to disclose a statement as to the existence of any relationships (other than undertaking the GHG assurance engagement) which the assurance organisation, and assurance practitioners involved in the engagement, have with the reporting entity.

This may include details of any non-assurance services provided to the entity, services provided in previous periods which are included in the scope of the transitional provision, or personal relationships which assurance practitioners involved in the engagement have with management or those charged with governance of the entity. Transparency about other relationships should enhance users trust and confidence in the GHG assurance regime, however personal details and confidential information should not be included.

Assurance organisations and practitioners should ensure independence is at the forefront throughout the engagement. To assist in ensuring the disclosures in the assurance report are complete and accurate, personal and business relationships should be identified and evaluated throughout the assurance engagement.





Self-Review Threats



Marking your own homework – Self-review threats are risks that an assurance practitioner may 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.

Self-review threats compromise independence and cannot be mitigated

NZ SAE 1 includes a prohibition on assurance organisations and practitioners, or components thereof:

- Preparing GHG information and then assuring GHG disclosures derived from that work,
- Providing any other services which might possibly create a self-review threat in relation to the GHG disclosure, or
- Assuming a management's responsibility in relation to GHG disclosures.

A self-review threat to the current year GHG disclosures cannot be eliminated, or reduced, by applying safeguards, even if the assurance work and non-assurance work is performed by different teams within the assurance organisation for the same client.

The self-review prohibition is designed to capture a broad range of non-assurance services which might possibly impact on the GHG disclosures. Non-assurance services which might possibly create a self-review threat may include services which produce source data, assumptions or methodologies, tools, systems, or controls that are used by a climate reporting entity to prepare GHG disclosures.

Before accepting a GHG assurance engagement, or a non-assurance engagement which may impact on GHG information, it is critical that assurance organisation and practitioners evaluate the nature of the non-assurance service, what period they relate to, and how the outputs are utilised by clients, to evaluate whether any services might create possible self-review threats.

The External Reporting Board recognises that this prohibition is a higher requirement than the principles in Part 4B of PES 1 and/or in other professional and ethical standards. This may necessitate significant changes to some assurance organisations, as this prohibition covers all possible self-review threats, and cannot be safeguarded against.

This prohibition is important to ensure that reasonable informed third parties see assurance organisations and practitioners to be acting independently and without bias.

It is essential that all climate reporting entities and GHG assurance organisations and practitioners understand the self-review threat prohibitions, and recognise that previously provided non-assurance services, which may never have been questioned or caused concerns previously, may be prohibited under NZ SAE 1.

Self-Review Threats (continued)



Examples of circumstances which may cause possible self-review threats

Below are some examples of circumstances which might create possible self-review threats. Assurance organisations and practitioners will need to use their professional judgement to identify whether situations create possible self-review threats based on their circumstances and not perform GHG assurance engagements where these threats are present.

- **Emission factor calculations** – The assurance organisation or practitioner assists in calculating GHG emission factors, by providing underlying source data, which is not publicly available, based on their experience and knowledge of other entities within the same industry.
- **IT tools and implementation services** – The assurance organisation or practitioner provides IT services around a new system which can be used to measure and quantify emissions. This may involve using an advisory team, to assist in implementing the software and integrating into the client's other existing systems.
- **Climate statement preparation** – The assurance organisation or practitioner prepares other climate related disclosures which are included within the client's climate statement and directly impact on their GHG disclosures and the overall presentation and understanding of the GHG emissions.
- **Preparation services to the supply chain** – The assurance organisation or practitioner provides preparation services to organisations within the same GHG emissions supply chain, where the assurance client's scope 3 GHG emissions are heavily dependent upon the source information from these other organisations.
- **Previous preparation services** – The assurance organisation or practitioner has provided GHG preparation services in previous periods, and the previous services continue to form the basis of the client's current year GHG reporting and used in trend assessments.

Remember

All non-assurance services which create possible self-review threats to the current reporting period's GHG information are prohibited, and these cannot be mitigated to an acceptable level through any combination of safeguards. Assurance organisations and practitioners should not accept, or perform, the GHG assurance engagement in these situations.

For staff guidance around the transitional provisions within NZ SAE 1, which is also relevant to independence considerations, refer to the External Reporting Board's [website](#).



Self-Interest Threats

Getting personal benefits – *Self-interest threats are the risk that a financial or other interest may inappropriately influence an assurance practitioner's judgement or behaviour.*



Self-interest threats can significantly impact independence and need to be considered

NZ SAE 1 prohibits any direct financial interest, or a material indirect interest, to be held by the assurance organisation, assurance practitioner, or their immediate family member, within the client, or the parent entity of the client. The existence of these financial interests creates an unmanageable independence threat.

Assurance organisations and practitioners should be aware of their financial interests (including investments held through trusts where the practitioner is a trustee, collective investment schemes and pension schemes) to ensure that all direct and indirect financial interests are identified and evaluated in a timely manner before GHG assurance engagements are accepted or performed.

It is also important to be aware of the level of fees being earned from clients, and where these fees represent a substantial level of revenue for the assurance organisation, considering whether this creates any threats to independence, and the assurance practitioner's ability to challenge management effectively.

Familiarity Threats

Being cosy with clients – *Familiarity threats are the risk that due to a long or close relationship with a client, an assurance practitioner may be too sympathetic to their interests or too accepting of their work.*



Familiarity threats may be common and should be actively considered

NZ SAE 1 requires assurance organisations and practitioners to address familiarity threats that arise due to long associations with clients. Individuals may have a long-standing history with a client through services provided prior to the start of the mandatory GHG assurance regime. It is important that assurance organisations and practitioners evaluate the length and nature of their previous dealings with the client, to ensure they can be objective and sceptical in their decision-making.

Furthermore, given the relatively small number of individuals with expertise around GHG measurement, assurance organisations and practitioners may have had previous dealings with GHG experts used by clients. It is important that familiarity threats are considered against both the client, and any experts which clients may use.



Advocacy Threats

Promoting your clients – *Advocacy threats are the risk that an assurance practitioner may promote a client's position to the point that the assurance practitioner's objectivity is compromised. This can occur when the client and the assurance practitioner have multiple business relationships, beyond just the GHG assurance engagement.*



Advocacy threats may be present and require careful consideration

Assurance organisations and practitioners should ensure they do not promote their client's position, as this may cause actual or perceived threats that they cannot act objectively when subsequently assuring the client's position.

NZ SAE 1 also prohibits assurance organisations and practitioners from assuming management's responsibilities. It is critical that assurance organisations and practitioners evaluate whether management have the appropriate ability to discharge their responsibilities. Where the assurance organisation or practitioner have doubts over management's competence, this may increase the risk of advocacy threats, if third parties believe practitioners are making decisions on management behalf.

As GHG reporting and measurement processes are rapidly changing, there may be new types of advocacy threats which emerge, due to new subject matter. It is important that clients and assurance practitioners openly communicate and learn from each other, to ensure independence is maintained throughout the assurance engagement.

Intimidation Threats

Being pressured by clients – *Intimidation threats are the risk that an assurance practitioner may be deterred from acting objectively because of actual or perceived pressures, including attempts by others to exercise undue influence over the assurance practitioner.*



Intimidation threats may occur due to the nature of GHG measurement

As GHG measurement and reporting evolves, there may be heightened intimidation risks as management and experts gain specialised subject matter knowledge and look to ensure their GHG messaging is appropriately communicated to the public.

Assurance organisations and practitioners should remain aware of the risks around management bias and fraud in GHG reporting, and the potential for management to be reluctant to include information which unfavourably impacts on their reporting. There may also be risks of management potentially pressuring assurance organisations and practitioners to avoid any non-standard assurance conclusions.



Applying the principles to scenarios

Applying the principles of independence to each scenario is fundamental

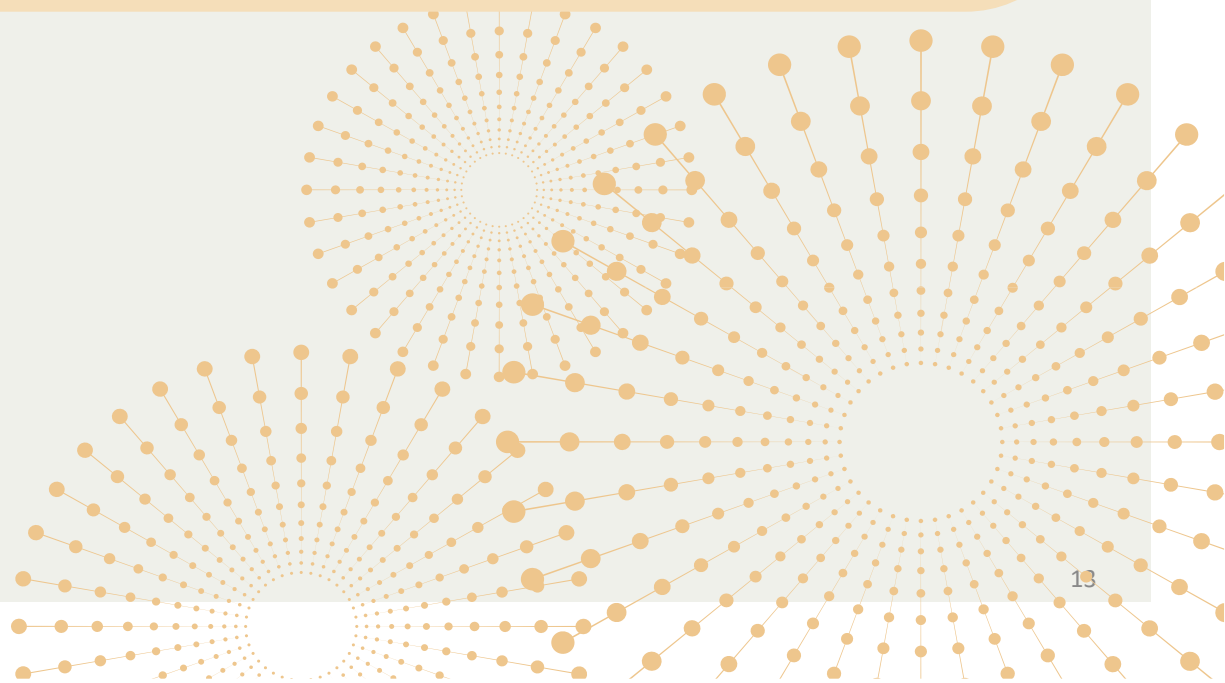


The unique circumstances of each individual situation will inform the types of independence threats an assurance organisation and practitioner may identify, how they are evaluated and how they can be addressed. The need for professional judgement, and sufficient time and resources to consider independence, before accepting an assurance engagement, and throughout the assurance engagement as circumstances change is paramount.

The following pages outline some considerations which may be relevant for assurance organisations and practitioners, when applying the independence principles of NZ SAE 1 to specific situations.

Remember:

- **While the independence principles should be applied consistently in similar situations, it is important that assurance organisations and practitioners use their professional judgement to identify and evaluate threats to independence which are relevant to them.**
- **Assurance organisations and practitioners should be cautious of taking the same actions as other organisations or practitioners, or actions they have done previously, without carefully evaluating the threats relevant to their current situation. Assurance organisations and practitioners who appear to be in similar situations may reach different conclusions, based on the facts and circumstances of their specific situation.**
- **Assurance organisations and practitioners should stand back throughout the independence assessment and consider whether there are any other independence threats which a reasonably informed third-party may identify in this situation, and whether they would consider the actions taken to address each threat to be reasonable.**





Applying the principles to scenarios (continued)

Example 1 – Personal financial interests by assurance practitioner

The assurance practitioner, and their spouse, are trustees of a trust which holds investments in several listed entities, which includes the GHG assurance client.

<p>IDENTIFY Considerations when identifying threats to independence</p>	<ul style="list-style-type: none"> • Self-Interest threats – The assurance practitioner’s judgement and behaviour may be inappropriately influenced if they are more concerned with obtaining information to understand the value of their financial interests, compared to providing objective assurance to stakeholders over GHG emissions. • Advocacy threats – The financial interest may result in the assurance practitioner being deterred from acting objectively and promoting the client’s position to better their own financial interest.
<p>EVALUATE Factors to consider when evaluating threats to independence</p>	<ul style="list-style-type: none"> • Direct interest or indirect interests – Direct interests (including where a beneficial owner has control over an intermediary, or ability to influence its investment decisions) are prohibited and cause an independence breach. Where indirect interests are identified (where individuals do not have control or ability to influence investment decisions), practitioners need to evaluate how personally material that interest is. This may involve significant judgements, considerations of an individual’s net worth, and discussions with other individuals. • Timing of investments – Where financial interests are created part way into the assurance engagement, assurance practitioners need to evaluate these threats in real-time and assess whether there are any self-interest threat impacts on their independence, before significant assurance work is completed.
<p>ADDRESS Possible actions to address threats to independence</p>	<ul style="list-style-type: none"> • Apply safeguards to reduce threats to an acceptable level – No safeguards can be applied in a situation where a financial interest is directly held, or where an identified indirect financial interest is material. For an immaterial indirect interest, safeguards to address self-interest threats may include a combination of: <ul style="list-style-type: none"> - Having an appropriate reviewer who was not involved in the assurance engagement, to review the assurance work completed by the assurance practitioner who holds an immaterial indirect interest. - Restructuring the responsibilities of individual members on the assurance team, so that those individuals are not involved in significant judgements on the assurance engagement. • Eliminate circumstances – Disposing of the financial interests, as soon as practicably possible, may remove the self-interest threat. However, if the GHG assurance work has already commenced, then replacing the engagement leader with an individual who does not have any financial interests throughout the entire engagement process, and re-performing any assurance work which was already performed, may eliminate the circumstances. • Decline or end engagement - If the assurance organisation and practitioner cannot eliminate the circumstances creating the threats and no sufficient safeguards are not available to reduce the threats to an acceptable level, then the organisation and practitioner should resign from, or not accept, the assurance engagement.



Applying the principles to scenarios (continued)

Example 2 – Gifts or hospitality provided from client

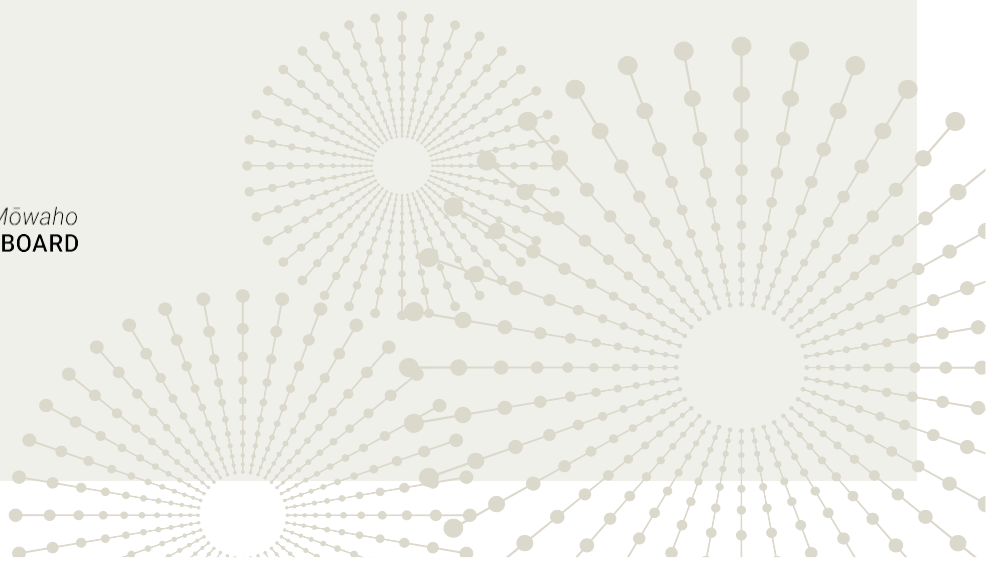
The engagement leader, and certain long-standing members of the assurance team are invited by those charged with governance of the client to attend a corporate box for an upcoming event. The cost of the corporate box will be paid for by the assurance client.

<p>IDENTIFY Considerations when identifying threats to independence</p>	<ul style="list-style-type: none"> • Self-Interest threats – The engagement leader and assurance team’s judgement and behaviour may be inappropriately influenced given the hospitality which has been offered. • Familiarity threats – The hospitality offered may create a perception of the assurance practitioner is being too familiar with and sympathetic to the client, impairing professional scepticism and objectivity. • Intimidation threats – The hospitality may also come with conditions, or an expectation of reciprocation which may intimidate or unduly influence the engagement leader and assurance team’s behaviour.
<p>EVALUATE Factors to consider when evaluating threats to independence</p>	<ul style="list-style-type: none"> • Value of gifts and hospitality – The value of any gifts and hospitality may impact on extent of familiarity and self-interest threats, as higher valued items, may create more significant threats, while lower valued hospitality (like a cup of coffee), may not create any threats. • Timing of gifts and hospitality – The timing of potential gifts and hospitality may impact on the nature of the threats. Gifts and hospitality received during the engagement may create more significant threats than those after the assurance engagement is completed.
<p>ADDRESS Possible actions to address threats to independence</p>	<ul style="list-style-type: none"> • Apply safeguards to reduce threats to an acceptable level – Safeguards to address familiarity and self-interest threats may include a combination of: <ul style="list-style-type: none"> - Informing the assurance organisation’s leadership of the level of hospitality which is expected to occur with clients, to ensure hospitality does not impact on independence and is pre-approved before being offered/accepted. - Engaging another assurance practitioner, or an external expert, who was not included in the hospitality, to perform work on specific areas of the assurance engagement, based on professional judgement, to provide an objective assessment of management’s judgements and disclosures • Eliminate circumstances – The assurance practitioner declining all hospitality and paying for their own expenses, may help prevent and eliminate self-interest, familiarity and intimidation threats caused by client gifts/hospitality. • Decline or end engagement - If the assurance organisation and practitioner cannot eliminate the circumstances creating the threats and no sufficient safeguards are not available to reduce the threats to an acceptable level, then the organisation and practitioner should resign from, or not accept, the assurance engagement.



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Staff Guidance

Applying the transitional provision in NZ SAE 1

October 2023

What is the transitional provision?

NZ SAE 1, paragraphs 5 and 6, includes a transitional provision in relation to both assurance organisation's and assurance practitioner's independence.

The transitional provision states that if the following circumstances apply before NZ SAE 1 takes effect:

- (a) The assurance organisation and practitioner has been engaged to provide non-assurance services that relate to the GHG information of the assurance client, and
 - (b) Work on the non-assurance services has already commenced, and
 - (c) The non-assurance services are provided for reporting periods prior to, or ending on, 31 December 2023,
- then those services can continue to be provided in accordance with the original engagement terms for those non-assurance services until completed.



What does the transitional provision mean?

If non-assurance services are provided in line with the transitional provision, then these services will not necessarily prevent an assurance organisation or practitioner from performing the GHG assurance engagement under NZ SAE 1 for accounting periods ending 31 December 2024 onwards. This means the assurance organisation and practitioner may be able to provide GHG assurance under the mandatory assurance regime.

Assurance organisations and practitioners still need to assess whether those non-assurance services create independence threats. If independence threats are identified, then they shall:

- Apply safeguards to eliminate or reduce those threats to an acceptable level, and
- Document their considerations of threats and safeguards, and
- Discuss the threats and safeguards with those charged with governance of the client, and
- Disclose the existence of these services in their assurance report.

The transitional provision does not automatically mean the GHG assurance engagement can be accepted if non-assurance services have been provided in the past to prospective clients. Assurance organisations and practitioners still need to use their professional judgement to evaluate whether they are independent to perform the GHG assurance engagement.



For staff guidance around independence considerations under NZ SAE 1, refer to the External Reporting Board's [website](#).

Why does NZ SAE 1 include a transitional provision?

Transitional provisions are common practice when standards introduce or change independence and ethical requirements. The External Reporting Board does not want to preclude assurance organisations and practitioners from this regime due to services provided prior to knowing that those services may have impacted on their ability to operate in the GHG assurance regime.

Timing of non-assurance services

GHG assurance organisations and practitioners are required to apply the independence requirements set in NZ SAE 1, which prohibits performing the assurance of GHG information if there are possible self-review threats associated with that information.

The transitional provision is designed to help transition into these requirements, rather than creating different requirements itself, and is only relevant to services provided in the lead-up to the mandatory GHG assurance regime (that is for accounting periods ending on, or before, 31 December 2023).

Remember

- **If assurance organisations and practitioners cannot mitigate threats to an acceptable level, at both an organisational and individual level, they cannot accept or perform the GHG assurance engagement.**
- **Non-assurance services relating to reporting periods beginning on, or after, 1 January 2024 are outside the scope of the transitional provision. If the provision of those services might create a possible self-review threat, then they are prohibited under NZ SAE 1.**

Self-Review Threats

Examples of the types of non-assurance services that might be provided in the lead up to the mandatory assurance regime, and cause a possible self-review threat are:

Non-assurance services which need to be evaluated further



Advice on how to measure particular emissions, including methodologies to use, and how to capture source data or on appropriate disclosures to meet the standards requirements.

It is not the XRB's intention to prohibit advice, however assurance practitioners need to be cautious that they do not assume a management responsibility when providing advice, which is prohibited under NZ SAE 1.

Provision of IT tools such as a database of emissions information that categorises and quantifies emissions from pre-loaded factors.

Design and implementation of IT systems to capture source data and calculate emissions.

Developing bespoke emission factors to quantify the emissions.

Calculating financed emissions across the full value-chain.

There are many different scenarios which an assurance organisation and practitioner may encounter when transitioning into the mandatory GHG assurance regime. Assurance organisations and practitioners must use their professional judgement to ensure the transitional provision principles are appropriately applied.





It is important that assurance organisations and practitioners stand-back and evaluate their independence from a reasonable and informed third party perspective. This is to ensure independence in fact and appearance is appropriately considered.

Assurance organisations and practitioners should also be guided not merely by the words of the transitional provision, but by the spirit of the principle of independence. They should ensure they act in ways that maintain trust and confidence in their assurance conclusion.

Example

The assurance organisation has provided an IT tool which aids management in calculating their GHG emissions. The tool utilises a pre-determined methodology and calculates emissions by applying factors to inputs entered by management, for the 31 December 2022 and 31 December 2023 reporting periods. An assurance practitioner, within the same assurance organisation, intends to provide assurance over GHG emission disclosures for the period ending 31 December 2024, and wants to apply NZ SAE 1.

Thought process to illustrate how the transitional provision might apply

Apply professional judgement to evaluate independence threats arising from the non-assurance services provided in the past

1. Consider the nature of the IT tool and how it will impact on the current year GHG disclosures. In particular, how significant the tool is to management's reporting and underlying record-keeping.
2. Identify independence threats resulting from the IT tool provided in previous reporting periods. For example: self-review, self-interest, and familiarity threats.
3. Evaluate the threats identified. Considerations may include:
 - The materiality of the emissions which are calculated through the IT tool.
 - The fees charged for the IT tool in the past and whether this impacts on the assurance organisations ability to make objective judgements.
 - The level of reliance management places on the IT tool for the current year emission disclosures, including whether these form part of the entity's record-keeping, and whether there have been changes in management's processes since the IT tool was provided.
 - Whether management has the appropriate skills, competence, and experience to take responsibility for the current year GHG disclosures and that unintentional reliance is not placed on the IT tool provided in the past.
 - Which members of the assurance organisation performed the IT tool (including their seniority and authority within the organisation), and whether the assurance team could objectively challenge the outputs from that tool.
 - Whether the prior year disclosures prepared by the IT tool, had been voluntarily assured by an independent third-party and if so, the type of conclusion expressed.

Stand-back assessment

- Consider how a reasonable and informed third-party would assess the situation, and what independence threats they would perceive.
- Evaluate whether performing the assurance engagement in this situation is in line with the spirit of the fundamental principle of independence.

<p>Apply professional judgement to apply safeguards to eliminate or reduce identified threats to an acceptable level</p>	<ol style="list-style-type: none"> 4. Determine safeguards to reduce identified threats to an acceptable level or eliminate the identified threats to both the assurance organisation, and individual assurance practitioner's, independence. Example of a combination of safeguards which may be appropriate could include: <ul style="list-style-type: none"> • Using an external expert on the assurance engagement, who has not been previously involved, to specifically challenge historical judgements made through the IT tool which are relevant to the current year emission disclosures (<i>organisational level threats</i>). • Holding a pre-issuance panel of experts and assurance practitioners to review the assurance conclusion and to evaluate how safeguards have been implemented (<i>individual level threats</i>). 5. Implement those safeguards and monitor that these are effective throughout the engagement. All independence threats must be appropriately mitigated to an acceptable level to allow for the practitioner to remain independent. <p>Stand-back assessment</p> <ul style="list-style-type: none"> • Consider how a reasonable informed third-party would assess the safeguards applied and whether they would consider the assurance practitioner to be independent. • Evaluate whether performing the assurance engagement in this situation, is in line with the spirit of the fundamental principle of independence.
<p>Prepare documentation around independence considerations</p>	<ol style="list-style-type: none"> 6. Document considerations around independence, including threats created from the non-assurance services, and the nature and timing of the safeguards applied. 7. Retain documentation on the GHG assurance file and show how the assurance practitioner has evaluated a reasonable informed third-party perspective of the threats and safeguards.
<p>Discuss these threats, and actions, with those charged with governance of the assurance client</p>	<ol style="list-style-type: none"> 8. Discuss the independence considerations, including identified threats and safeguards, with those charged with governance of the climate reporting entity in a timely manner. Sufficient information should be provided to those charged with governance to enable them to make an informed assessment about the assurance organisation's, and practitioner's, independence. 9. Respond to any questions raised by those charged with governance and update documentation to address any additional threats and safeguards which were considered, before concluding on whether to accept the GHG assurance engagement.
<p>Disclose the services with the assurance client in the assurance report in accordance</p>	<ol style="list-style-type: none"> 10. When preparing the assurance report for the GHG assurance engagement, disclose the nature and timing of historical non-assurance services provided within the assurance report. <p><i>All non-assurance services which were evaluated under the transitional provision, including a summary of which accounting period they were provided for, should be disclosed.</i></p>

It is important that assurance organisations and practitioners take sufficient time to evaluate whether they are independent, and to consider whether they are seen to be acting independently by third parties. If there are any doubts around independence, then further analysis should be performed before the assurance engagement is accepted and performed.



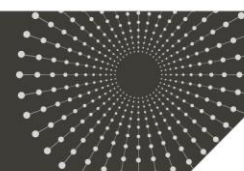
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Staff Guidance

Illustrative NZ SAE 1 Assurance Reports

Non-Authoritative Guidance to NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

October 2023



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Purpose of this Guidance

Introduction

The External Reporting Board has prepared illustrative assurance reports, which illustrate the requirements of NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, and either:

- ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Emissions*; or
- ISO 14064-3: 2019 *Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements*.

These illustrative assurance reports are applicable to the mandatory assurance over Greenhouse Gas (GHG) emission disclosures required by legislation, which NZ SAE 1 has been developed for, and are not intended to be applicable other situations.

- Text shaded in light orange represent required assurance report disclosures which should be tailored to the assurance engagement where applicable.
- Text shaded in dark orange represent encouraged assurance report disclosures but are not mandatory under NZ SAE 1.

These illustrative reports will also need to be tailored depending upon:

- **The scope and specific assurance levels of the assurance engagement;**
- **The professional and ethical standards and accreditation body requirements which are applied by the assurance organisation and practitioner; and**
- **Any other reporting responsibilities.**

Important note – References to Inherent Uncertainty

NZ SAE 1, paragraph 55, requires all assurance reports to note that GHG quantification is subject to inherent uncertainty. This wording has been included in ABC's responsibilities section within the illustrative reports.

This does not replace the requirements to include emphasis of matter (EOM) paragraphs, where applicable. EOM paragraphs should be used to highlight to the user's attention disclosures around significant uncertainties, where they are fundamental to the users understanding of the reported GHG emissions.





Illustrative Assurance Report

1. Unmodified Mixed Assurance Report applying ISAE (NZ) 3410

INDEPENDENT ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) DISCLOSURES

[Appropriate Addressee]

Our Assurance Conclusion

Reasonable Assurance Conclusion

In our opinion, the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our reasonable assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are fairly presented and prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our limited assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are not fairly presented and not prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Scope of the Assurance Engagement

We have undertaken a reasonable assurance engagement over the following GHG disclosures on pages [XX] to [XX] of the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

We have also undertaken a limited assurance engagement over the GHG disclosures on pages [XX] to [XX] of the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

Our assurance engagement does not extend to any other information included, or referred to, in the climate statements on pages [XX] to [XX]. We have not performed any procedures with respect to the excluded information and, therefore, no conclusion is expressed on it.

References

Addressee - ISAE (NZ)
3410 Paragraph 75(b)

Audit conclusion upfront - NZ SAE 1
Paragraph 45

Applicable criteria reference - ISAE (NZ)
3410 Paragraph 75(h)

Split of reasonable and limited assurance - NZ SAE 1
Paragraph 46

Identification of assured information - NZ SAE 1
Paragraph 43(a)

Identification of excluded information and no procedures performed - NZ SAE 1
Paragraph 43(b)-(c)

Unmodified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

Key Matters to the GHG assurance engagement

In this section we present those matters that, in our professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures. These matters were addressed in the context of our assurance engagement of the GHG disclosures, and in forming our conclusion. We did not reach a separate assurance conclusion on each individual key matter.

Key Matter	Procedures to address the Key Matter
[Explanation of why the matter is a key matter]	[Outline of what the assurance practitioner has done to address the matter]
	[Findings for the key matters identified]

Emphasis of Matter

[We draw attention to the disclosures on page [XX] which describe a significant uncertainty in relation to XXX. Our assurance conclusion is not modified in respect of this matter.]

Other Matter(s)

[Description of Other Matter which reflects that the matter is not disclosed in the GHG disclosures.]

[Comparative Information]

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have not been subject to assurance. As such, these disclosures are not covered by our assurance conclusion.

OR

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have been subject to reasonable and limited assurance by [Predecessor Assurance Provider's Name], with their assurance report dated on [DATE] and [DATE].

[Materiality]

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

[Competence and Experience of the engagement team]

[Our work was carried out by an independent and multi-disciplinary team including assurance practitioners, engineers and environmental scientists. The assurance practitioner retains overall responsibility for the assurance conclusion provided.]

Key Matters Section (where applicable) - NZ SAE 1 Paragraph 48-50

Findings for Key Matters (where considered appropriate) - NZ SAE 1 Paragraph 50

Emphasis of Matter Section (where applicable) - NZ SAE 1 Paragraph 51-52

Other Matter Section (where applicable) - NZ SAE 1 Paragraph 53-54

Comparatives not assured (where applicable) - NZ SAE 1 Paragraph 36

Comparatives subject to assurance by predecessor assurance practitioner (where applicable) - NZ SAE 1 Paragraph 37

Specific others matters useful for users (where considered appropriate) - NZ SAE 1 Paragraph A55

Unmodified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

ABC's Responsibilities for the GHG disclosures

ABC is responsible for the preparation and fair presentation of the GHG disclosures in accordance with the [Applicable Criteria]. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation of GHG disclosures that are free from material misstatement.

Inherent Uncertainty in preparing GHG disclosures

As discussed on page [XX] of the climate statements, the GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Our Responsibilities

We are responsible for:

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

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

Other relationships

In addition to the provision of the assurance engagement over GHG disclosures, we also have the following relationships, or interests, in ABC, which did not compromise our overall independence:

- [XXX]

OR

Other than in our capacity as assurance practitioners, and the provision of the assurance for this engagement [and the provision of assurance over ABC's separate Greenhouse Gas Report], we have no relationship with, or interests, in ABC.

Independence and Quality Management Standards applied

This assurance engagement was undertaken in accordance with NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, issued by the External Reporting Board (XRB). NZ SAE 1 is founded on the fundamental principles of independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Management Responsibilities - ISAE (NZ) 3410
Paragraph 75(e)

Inherent Uncertainty - NZ SAE 1 Paragraph 55

Assurance Practitioner Responsibilities - ISAE (NZ) 3410
Paragraph 75(k)

Statement on prohibition on GHG preparation - NZ SAE 1
Paragraph 58

Disclosure of other relationships (where applicable) - NZ SAE 1
Paragraph 57

Applied standards - NZ SAE 1 Paragraph 56

Unmodified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

We have also complied with the following professional and ethical standards and accreditation body requirements:

- [Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*];
- [Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*];
- [Professional and Ethical Standard 4: *Engagement Quality Reviews*]; and
- [Other professional and ethical standards and accreditation body requirements as appropriate].

Summary of Work Performed

Reasonable Assurance Conclusion

Our reasonable assurance engagement was performed in accordance with NZ SAE 1, and ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Emissions*. This involves performing procedures to obtain evidence about the quantification of emissions and related information in the GHG disclosures. The nature, timing and extent of procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, in the GHG disclosures.

In making those risk assessments, we considered internal control relevant to ABC's preparation of the GHG disclosures. A reasonable assurance engagement also includes:

- Assessing the suitability in the circumstances of ABC's use of [Applicable Criteria], applied as explained on page [XX] of the GHG disclosures, as the basis for preparing the GHG disclosures;
- Evaluating the appropriateness of quantification methods and reporting policies used, and the reasonableness of estimates made by ABC; and
- Evaluating the overall presentation of the GHG disclosures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limited Assurance Conclusion

Our limited assurance engagement was performed in accordance with NZ SAE 1, and ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Emissions*. This involves assessing the suitability in the circumstances of ABC's use of [Applicable Criteria] as the basis for the preparation of the GHG disclosures, assessing the risks of material misstatement of the GHG disclosures whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the GHG disclosures.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Statement of compliance with Ethical Standards - ISAE (NZ) 3410
Paragraph 75(i-j)

Informative summary of work performed - ISAE (NZ) 3410
Paragraph 75(k(ii))

Applied standards - ISAE (NZ) 3410 - NZ SAE 1
Paragraph 56 and ISAE (NZ) 3410 Paragraph 75(k(i))

Unmodified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

The procedures we performed were based on our professional judgement and included enquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. In undertaking our limited assurance engagement on the GHG disclosures, we:

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

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

[Assurance Organisation's or Engagement Leader's signature]

[Name of Engagement Leader]

[Location where the Engagement Leader resides]

[Name of Assurance Organisation]

[Date of the assurance report]

Limitation for limited assurance procedures - ISAE (NZ) 3410
Paragraph 75(k(ii))

Engagement Leader name - NZ SAE 1
Paragraph 59



Illustrative Assurance Report

2. Modified Mixed Assurance Report applying ISAE (NZ) 3410

INDEPENDENT ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) DISCLOSURES

[Appropriate Addressee]

Our Assurance Conclusion

Reasonable Assurance Conclusion

In our opinion, except for the matters described in the *Basis for Modified Opinion* section of our report, the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our reasonable assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are fairly presented and prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Limited Assurance Conclusion

Except for the matters described in the *Basis for Modified Opinion* section of our report, based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our limited assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are not fairly presented and not prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Basis for Modified Opinion

[Explanation of why a Modified Opinion is being expressed]

Scope of the Assurance Engagement

We have undertaken a reasonable assurance engagement over the following GHG disclosures within the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

We have also undertaken a limited assurance engagement over the GHG disclosures within the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

References

Addressee - ISAE (NZ)
3410 Paragraph 75(b)

Audit conclusion up-front - NZ SAE 1
Paragraph 45

Applicable criteria reference - ISAE (NZ)
3410 Paragraph 75(h)

Split of reasonable and limited assurance - NZ SAE 1
Paragraph 46

Identification of assured information - NZ SAE 1
Paragraph 43(a)

Modified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

Our assurance engagement does not extend to any other information included, or referred to, in the climate statements on pages [XX] to [XX]. We have not performed any procedures with respect to the excluded information and, therefore, no conclusion is expressed on it.

Key Matters to the GHG assurance engagement

In this section we present those matters that, in our professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures. These matters were addressed in the context of our assurance engagement of the GHG disclosures, and in forming our conclusion. We did not reach a separate assurance conclusion on each individual key matter.

Key Matter	Procedures to address the Key Matter
[Explanation of why the matter is a key matter]	[Outline of what the assurance practitioner has done to address the matter]
	[Findings for the key matters identified]

Emphasis of Matter

[Significant Uncertainty]

[We draw attention to the disclosures on page [XX] which describe a significant uncertainty in relation to XXX. Our assurance conclusion is not modified in respect of this matter.]

Other Matter(s)

[Description of Other Matter which reflects that the matter is not disclosed in the GHG disclosures.]

[Comparative Information]

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have not been subject to assurance. As such, these disclosures are not covered by our assurance conclusion.

OR

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have been subject to reasonable and limited assurance by [Predecessor Assurance Provider's Name], with their assurance reports dated on [DATE] and [DATE].

Identification of excluded information and no procedures performed - NZ SAE 1 Paragraph 43(b)-(c)

Key Matters Section (where applicable) - NZ SAE 1 Paragraph 48-50

Findings for Key Matters (where considered appropriate) - NZ SAE 1 Paragraph 50

Emphasis of Matter Section (where applicable) - NZ SAE 1 Paragraph 51-52

Other Matter Section (where applicable) - NZ SAE 1 Paragraph 53-54

Comparatives not assured (where applicable) - NZ SAE 1 Paragraph 36

Comparatives subject to assurance by predecessor assurance practitioner (where applicable) - NZ SAE 1 Paragraph 37

Modified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

[Materiality]

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

[Competence and Experience of the engagement team]

[Our work was carried out by an independent and multi-disciplinary team including assurance practitioners, engineers and environmental scientists. The assurance practitioner retains overall responsibility for the assurance conclusion provided.]

ABC's Responsibilities for the GHG disclosures

ABC is responsible for the preparation and fair presentation of the GHG disclosures in accordance with the [Applicable Criteria]. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation of GHG disclosures that are free from material misstatement.

Inherent Uncertainty in preparing GHG disclosures

As discussed on page [XX] of the climate statements, the GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Our Responsibilities

We are responsible for:

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

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

Other relationships

In addition to the provision of the assurance engagement over GHG disclosures, we also have the following relationships, or interests, in ABC, which did not compromise our overall independence:

- [XXX]

OR

Other than in our capacity as assurance practitioners, and the provision of the assurance for this engagement [and the provision of assurance over ABC's separate Greenhouse Gas Report], we have no relationship with, or interests, in ABC.

Specific others matters useful for users (where considered appropriate) - NZ SAE 1 Paragraph A55

Management Responsibilities - ISAE (NZ) 3410 Paragraph 75(e)

Inherent Uncertainty - NZ SAE 1 Paragraph 55

Assurance Practitioner Responsibilities - ISAE (NZ) 3410 Paragraph 75(k)

Statement on prohibition on GHG preparation - NZ SAE 1 Paragraph 58

Disclosure of other relationships (where applicable) - NZ SAE 1 Paragraph 57

Modified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

Independence and Quality Management Standards applied

This assurance engagement was undertaken in accordance with NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, issued by the External Reporting Board (XRB). NZ SAE 1 is founded on the fundamental principles of independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We have also complied with the following professional and ethical standards and accreditation body requirements:

- [Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*];
- [Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*];
- [Professional and Ethical Standard 4: *Engagement Quality Reviews*]; and
- [Other professional and ethical standards and accreditation body requirements as appropriate].

Summary of Work Performed

Reasonable Assurance Conclusion

Our reasonable assurance engagement was performed in accordance with NZ SAE 1, and ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Emissions*. This involves performing procedures to obtain evidence about the quantification of emissions and related information in the GHG disclosures. The nature, timing and extent of procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, in the GHG disclosures.

In making those risk assessments, we considered internal control relevant to ABC's preparation of the GHG disclosures. A reasonable assurance engagement also includes:

- Assessing the suitability in the circumstances of ABC's use of [Applicable Criteria], applied as explained on page [XX] of the GHG disclosures, as the basis for preparing the GHG disclosures;
- Evaluating the appropriateness of quantification methods and reporting policies used, and the reasonableness of estimates made by ABC; and
- Evaluating the overall presentation of the GHG disclosures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Applied standards - NZ SAE 1 Paragraph 56

Statement of compliance with Ethical Standards - ISAE (NZ) 3410 Paragraph 75(i-j)

Informative summary of work performed - ISAE (NZ) 3410 Paragraph 75(k(ii))

Applied standards - ISAE (NZ) 3410 - NZ SAE 1 Paragraph 56 and ISAE (NZ) 3410 Paragraph 75(k(i))

Modified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

Limited Assurance Conclusion

Our limited assurance engagement was performed in accordance with NZ SAE 1, and ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Emissions*. This involves assessing the suitability in the circumstances of ABC's use of [Applicable Criteria] as the basis for the preparation of the GHG disclosures, assessing the risks of material misstatement of the GHG disclosures whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the GHG disclosures.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and included enquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. In undertaking our limited assurance engagement on the GHG disclosures, we:

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

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

Limitation for limited assurance procedures - ISAE (NZ) 3410 Paragraph 75(k(ii))

Modified ISAE (NZ) 3410 - Illustrative Assurance Report (continued)

[Assurance Organisation’s or Engagement Leader’s signature]

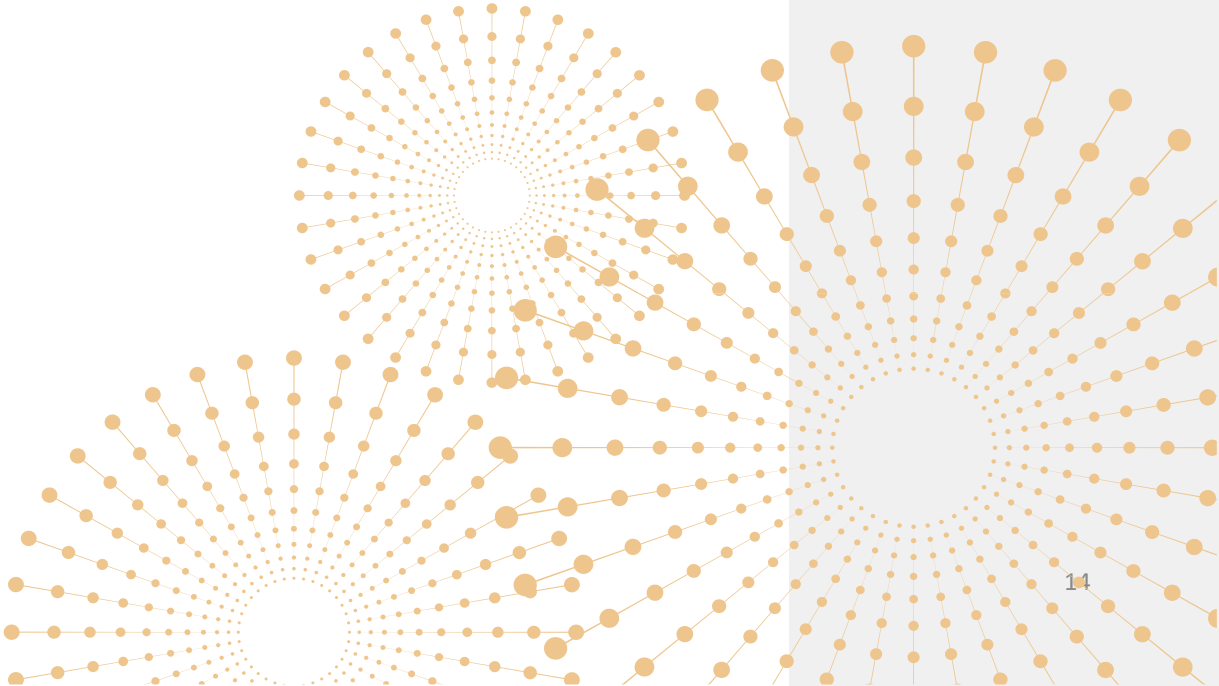
[Name of Engagement Leader]

[Location where the Engagement Leader resides]

[Name of Assurance Organisation]

[Date of the assurance report]

Engagement Leader name - NZ SAE 1
Paragraph 59





Illustrative Assurance Report

3. Unmodified Mixed Assurance Report applying ISO 14064-3: 2019

INDEPENDENT ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) DISCLOSURES

[Appropriate Addressee]

Our Assurance Conclusion

Reasonable Assurance Conclusion

In our opinion, the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our reasonable assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are fairly presented and prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our limited assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are not fairly presented and not prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Validation over forecasts

Furthermore, nothing comes to our attention which causes us to believe that the assumptions used for the [GHG Emissions Category] on pages [XX] to [XX] are not fairly presented and do not provide a reasonable basis for the forecast of gross GHG emissions and, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB).

Actual future emissions are likely to be different from the forecast as the estimates are based on assumptions that may change in the future, and since anticipated events frequently do not occur as expected and the variation may be material.

Scope of the Assurance Engagement

We have undertaken a reasonable assurance verification engagement over the following GHG disclosures within the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

References

Identification of GHG-related activity/entity - ISO 14064-3
Paragraph 9.3(a)

Audit conclusion up-front - NZ SAE 1
Paragraph 45

Applicable criteria reference - ISO 14064-3
Paragraph 9.3(d)

Split of reasonable and limited assurance - NZ SAE 1
Paragraph 46

Separate validation conclusion over forecasts- ISO 14064-3
Paragraph 9.3(g)

Statement of future emission reductions & removals - ISO 14064-3
Paragraph 9

Identification of assured information - NZ SAE 1
Paragraph 43(a)

Unmodified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

We have undertaken a limited assurance verification engagement over the GHG disclosures within the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

Furthermore, we have also undertaken a limited assurance validation engagement over assumptions used for forecast GHG emissions for the following emission categories for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

Our assurance engagement does not extend to any other information included, or referred to, in the climate statements on pages [XX] to [XX]. We have not performed any procedures with respect to the excluded information and, therefore, no conclusion is expressed on it.

Key Matters to the GHG assurance engagement

In this section we present those matters that, in our professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures. These matters were addressed in the context of our assurance engagement of the GHG disclosures, and in forming our conclusion. We did not reach a separate assurance conclusion on each individual key matter.

Key Matter	Procedures to address the Key Matter
[Explanation of why the matter is a key matter]	[Outline of what the assurance practitioner has done to address the matter]
	[Findings for the key matters identified]

Emphasis of Matter

[We draw attention to the disclosures on page [XX] which describe a significant uncertainty in relation to XXX. Our assurance conclusion is not modified in respect of this matter.]

Other Matter(s)

[Description of Other Matter which reflects that the matter is not disclosed in the GHG disclosures.]

[Comparative Information]

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have not been subject to assurance. As such, these disclosures are not covered by our assurance conclusion.

Identification of excluded information and no procedures performed - NZ SAE 1 Paragraph 43(b)-(c)

Key Matters Section (where applicable) - NZ SAE 1 Paragraph 48-50

Findings for Key Matters (where considered appropriate) - NZ SAE 1 Paragraph 50

Emphasis of Matter Section (where applicable) - NZ SAE 1 Paragraph 51-52

Other Matter Section (where applicable) - NZ SAE 1 Paragraph 53-54

Comparatives not assured (where applicable) - NZ SAE 1 Paragraph 36

Unmodified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

OR

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have been subject to reasonable and limited assurance by [Predecessor Assurance Provider's Name], with their assurance report dated on [DATE] and [DATE].

[Materiality]

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

[Competence and Experience of the engagement team]

[Our work was carried out by an independent and multi-disciplinary team including assurance practitioners, engineers and environmental scientists. The assurance practitioner retains overall responsibility for the assurance conclusion provided.]

ABC's Responsibilities for the GHG disclosures

ABC is responsible for the preparation and fair presentation of the GHG disclosures in accordance with the [Applicable Criteria]. This responsibility includes the designing, implementing and maintaining a data management system relevant to the preparation and fair presentation of GHG disclosures that is free from material misstatement.

The forecast of GHG emissions included within the GHG disclosures are based on the following assumptions:

- Assumptions used for forecast GHG emissions for GHG Emissions Category on page [XX]

Inherent Uncertainty in preparing GHG disclosures

As discussed on page [XX] of the climate statements, the GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Our Responsibilities

Our responsibility is to express an opinion on the GHG disclosures based on our verification and express an opinion on the forecast based on our validation. We are responsible for planning and performing the verification to obtain assurance that the onsite GHG disclosures are free from material misstatement, and for planning and performing the validation to reach a conclusion as to whether the forecast in the GHG disclosures is based on reasonable assumptions.

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

Comparatives subject to assurance by predecessor assurance practitioner (where applicable) - NZ SAE 1 Paragraph 37

Specific others matters useful for users (where considered appropriate) - NZ SAE 1 Paragraph A55

Management Responsibilities - ISO 14064-3 Paragraph 9.3(c)

Inherent Uncertainty - NZ SAE 1 Paragraph 55

Statement on prohibition on GHG preparation - NZ SAE 1 Paragraph 58

Unmodified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

Other relationships

In addition to the provision of the assurance engagement over GHG disclosures, we also have the following relationships, or interests, in ABC, which did not compromise our overall independence:

- [XXX]

OR

Other than in our capacity as assurance practitioners, and the provision of the assurance for this engagement [and the provision of assurance over ABC's separate Greenhouse Gas Report], we have no relationship with, or interests, in ABC.

Independence and Quality Management Standards applied

This assurance engagement was undertaken in accordance with NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, issued by the External Reporting Board (XRB). NZ SAE 1 is founded on the fundamental principles of independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We have also complied with the following professional and ethical standards and accreditation body requirements:

- [ISO 9001: 2015 – *Quality management systems – Requirements*]
- [ISO 14065: 2020 – *General principles and requirements for bodies validating and verifying environmental information*];
- [ISO 14066: 2021 – *Greenhouse gases – Competence requirements for greenhouse gas validation teams and verification teams*];
- [ISO 17029: 2019 – *Conformity assessment – General principles and requirements for validation and verification bodies*];
- [[ISO 19011: 2018 – *Guidelines for auditing management systems*];
- [Joint Accreditation System of Australia and New Zealand Accreditation Requirements]; or
- [Other professional and ethical standards and accreditation body requirements as appropriate].

Summary of Work Performed

Reasonable Assurance Conclusion

Our reasonable assurance engagement was performed in accordance with NZ SAE 1, and ISO 14064-3: 2019 – *Specification with guidance for the verification and validation of greenhouse gas statements*, issued by the International Organization for Standardization (ISO). This requires that we comply with ethical requirements (as outlined above), and plan and perform the verification to obtain assurance that the onsite GHG disclosures are free from material misstatement.

Disclosure of other relationships (where applicable) - NZ SAE 1 Paragraph 57

Applied standards - NZ SAE 1 Paragraph 56

Declaration of compliance with ISO - ISO 14064-3 Paragraph 9.3(e)

Unmodified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

Our verification strategy used a combined data and controls testing approach. Evidence-gathering procedures included but were not limited to:

- [Description of verification procedures]

The data examined during the verification were historical in nature. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limited Assurance Conclusion

Our limited assurance engagement was performed in accordance with NZ SAE 1, and ISO 14064-3: 2019 – *Specification with guidance for the verification and validation of greenhouse gas statements*. This requires that we comply with ethical requirements (as outlined above), and plan and perform the verification to obtain assurance that the onsite GHG disclosures are free from material misstatement, and plan and perform the validation to reach a conclusion as to whether the forecast in the GHG disclosures is based on reasonable assumptions.

Our verification strategy used a combined data and controls testing approach. Evidence-gathering procedures included but were not limited to:

- [Description of verification procedures performed]

Our validation assessed the:

- [Description of validation procedures]

The data examined during the verification were historical in nature, while the data examined during the validation were projected in nature.

[Engagement Leader's signature]

[Name of Engagement Leader]

[Location where the Engagement Leader resides]

[Name of Assurance Organisation]

[Date of the assurance report]

**Engagement Leader
name - NZ SAE 1
Paragraph 59**



Illustrative Assurance Report

4. Modified Mixed Assurance Report applying ISO 14064-3: 2019

INDEPENDENT ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) DISCLOSURES

[Appropriate Addressee]

Our Assurance Conclusion

Reasonable Assurance Conclusion

In our opinion, except for the matters described in the *Basis for Modified Opinion* section of our report, the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our reasonable assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are fairly presented and prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Limited Assurance Conclusion

Except for the matters described in the *Basis for Modified Opinion* section of our report, based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the gross GHG emissions, additional required disclosures of gross GHG emissions, and gross GHG emissions methods, assumptions and estimation uncertainty, within the scope of our limited assurance engagement (as outlined below) included in the climate statements for the year ended 31 December 20XX, are not fairly presented and not prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB), and measured in accordance with [Applicable Criteria], as explained on page [XX] of the climate statements.

Validation over forecasts

Furthermore, except for the matters described in the *Basis for Modified Opinion* section of our report, nothing comes to our attention which causes us to believe that the assumptions used for the [GHG Emissions Category] on pages [XX] to [XX] are not fairly presented and do not provide a reasonable basis for the forecast of gross GHG emissions and, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the External Reporting Board (XRB).

Actual future emissions are likely to be different from the forecast as the estimates are based on assumptions that may change in the future, and since anticipated events frequently do not occur as expected and the variation may be material.

Basis for Modified Opinion

[Explanation of why a Modified Opinion is being expressed]

References

Identification of GHG-related activity/entity - ISO 14064-3 Paragraph 9.3(a)

Audit conclusion upfront - NZ SAE 1 Paragraph 45

Applicable criteria reference - ISO 14064-3 Paragraph 9.3(d)

Split of reasonable and limited assurance - NZ SAE 1 Paragraph 46

Separate validation conclusion over forecasts - ISO 14064-3 Paragraph 9.3(g)

Statement of future emission reductions & removals - ISO 14064-3 Paragraph 9

Modified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

Scope of the Assurance Engagement

We have undertaken a reasonable assurance verification engagement over the following GHG disclosures within the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

We have undertaken a limited assurance verification engagement over the GHG disclosures within the climate statements for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

Furthermore, we have also undertaken a limited assurance validation engagement over assumptions used for forecast GHG emissions for the following emission categories for the year ended 31 December 20XX:

- [GHG Emissions Category] on page [XX]

Our assurance engagement does not extend to any other information included, or referred to, in the climate statements on pages [XX] to [XX]. We have not performed any procedures with respect to the excluded information and, therefore, no conclusion is expressed on it.

Key Matters to the GHG assurance engagement

In this section we present those matters that, in our professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures. These matters were addressed in the context of our assurance engagement of the GHG disclosures, and in forming our conclusion. We did not reach a separate assurance conclusion on each individual key matter.

Key Matter	Procedures to address the Key Matter
[Explanation of why the matter is a key matter]	[Outline of what the assurance practitioner has done to address the matter]
	[Findings for the key matters identified]

Emphasis of Matter

[We draw attention to the disclosures on page [XX] which describe a significant uncertainty in relation to XXX. Our assurance conclusion is not modified in respect of this matter.]

Other Matter(s)

[Description of Other Matter which reflects that the matter is not disclosed in the GHG disclosures.]

Identification of assured information -
NZ SAE 1
Paragraph 43(a)

Identification of excluded information and no procedures performed - NZ SAE 1
Paragraph 43(b)-(c)

Key Matters Section (where applicable) - NZ SAE 1
Paragraph 48-50

Findings for Key Matters (where considered appropriate) - NZ SAE 1
Paragraph 50

Emphasis of Matter Section (where applicable) - NZ SAE 1
Paragraph 51-52

Other Matter Section (where applicable) - NZ SAE 1
Paragraph 53-54

Modified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

[Comparative Information]

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have not been subject to assurance. As such, these disclosures are not covered by our assurance conclusion.

OR

The comparative GHG disclosures (that is GHG disclosures for the period ended 31 December 20XX and 31 December 20XX) have been subject to reasonable and limited assurance by [Predecessor Assurance Provider's Name], with their assurance report dated on [DATE] and [DATE].

[Materiality]

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

[Competence and Experience of the engagement team]

[Our work was carried out by an independent and multi-disciplinary team including assurance practitioners, engineers and environmental scientists. The assurance practitioner retains overall responsibility for the assurance conclusion provided.]

ABC's Responsibilities for the GHG disclosures

ABC is responsible for the preparation and fair presentation of the GHG disclosures in accordance with the [Applicable Criteria]. This responsibility includes the designing, implementing and maintaining a data management system relevant to the preparation and fair presentation of GHG disclosures that is free from material misstatement.

The forecast of GHG emissions included within the GHG disclosures are based on the following assumptions:

- Assumptions used for forecast GHG emissions for GHG Emissions Category on page [XX]

Inherent Uncertainty in preparing GHG disclosures

As discussed on page [XX] of the climate statements, the GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Comparatives not assured (where applicable) - NZ SAE 1 Paragraph 36

Comparatives subject to assurance by predecessor assurance practitioner (where applicable) - NZ SAE 1 Paragraph 37

Specific others matters useful for users (where considered appropriate) - NZ SAE 1 Paragraph A55

Management Responsibilities - ISO 14064-3 Paragraph 9.3(c)

Inherent Uncertainty - NZ SAE 1 Paragraph 55

Modified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

Our Responsibilities

Our responsibility is to express an opinion on the GHG disclosures based on our verification and express an opinion on the forecast based on our validation. We are responsible for planning and performing the verification to obtain assurance that the onsite GHG disclosures are free from material misstatement, and for planning and performing the validation to reach a conclusion as to whether the forecast in the GHG disclosures is based on reasonable assumptions.

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

Other relationships

In addition to the provision of the assurance engagement over GHG disclosures, we also have the following relationships, or interests, in ABC, which did not compromise our overall independence:

- [XXX]

OR

Other than in our capacity as assurance practitioners, and the provision of the assurance for this engagement [and the provision of assurance over ABC's separate Greenhouse Gas Report], we have no relationship with, or interests, in ABC.

Independence and Quality Management Standards applied

This assurance engagement was undertaken in accordance with NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, issued by the External Reporting Board (XRB). NZ SAE 1 is founded on the fundamental principles of independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We have also complied with the following professional and ethical standards and accreditation body requirements:

- [ISO 9001: 2015 – *Quality management systems – Requirements*]
- [ISO 14065: 2020 – *General principles and requirements for bodies validating and verifying environmental information*];
- [ISO 14066: 2021 – *Greenhouse gases — Competence requirements for greenhouse gas validation teams and verification teams*];
- [ISO 17029: 2019 – *Conformity assessment — General principles and requirements for validation and verification bodies*];
- [[ISO 19011: 2018 – *Guidelines for auditing management systems*];

Statement on prohibition on GHG preparation - NZ SAE 1 Paragraph 58

Disclosure of other relationships (where applicable) - NZ SAE 1 Paragraph 57

Applied standards - NZ SAE 1 Paragraph 56

Modified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

- [Joint Accreditation System of Australia and New Zealand Accreditation Requirements]; or
- [Other professional and ethical standards and accreditation body requirements as appropriate].

Summary of Work Performed

Reasonable Assurance Conclusion

Our reasonable assurance engagement was performed in accordance with NZ SAE 1, and ISO 14064-3: 2019 – *Specification with guidance for the verification and validation of greenhouse gas statements*, issued by the International Organization for Standardization (ISO). This requires that we comply with ethical requirements (as outlined above), and plan and perform the verification to obtain assurance that the onsite GHG disclosures are free from material misstatement.

Our verification strategy used a combined data and controls testing approach. Evidence-gathering procedures included but were not limited to:

- [Description of verification procedures]

The data examined during the verification were historical in nature. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limited Assurance Conclusion

Our limited assurance engagement was performed in accordance with NZ SAE 1, and ISO 14064-3: 2019 – *Specification with guidance for the verification and validation of greenhouse gas statements*. This requires that we comply with ethical requirements (as outlined above), and plan and perform the verification to obtain assurance that the onsite GHG disclosures are free from material misstatement, and plan and perform the validation to reach a conclusion as to whether the forecast in the GHG disclosures is based on reasonable assumptions.

Our verification strategy used a combined data and controls testing approach. Evidence-gathering procedures included but were not limited to:

- [Description of verification procedures performed]

Our validation assessed the:

- [Description of validation procedures]

The data examined during the verification were historical in nature, while the data examined during the validation were projected in nature.

Declaration of compliance with ISO - ISO 14064-3 Paragraph 9.3(e)

Modified ISO 14064-3: 2019 - Illustrative Assurance Report (continued)

[Engagement Leader’s signature]

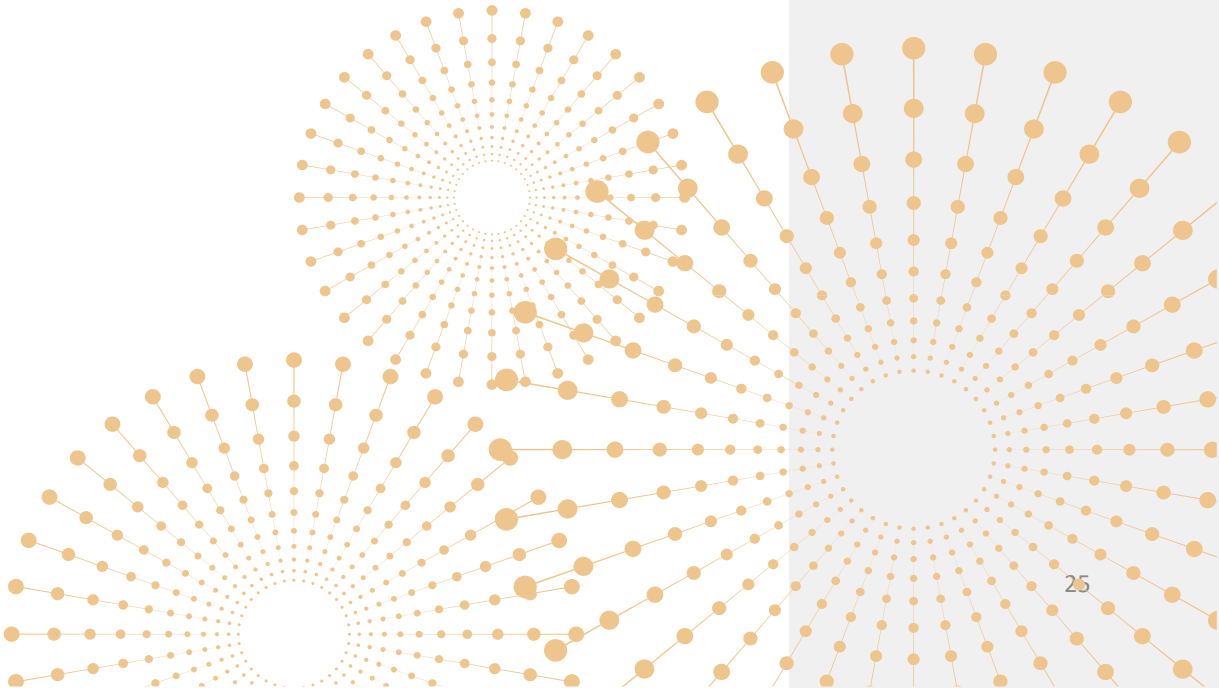
[Name of Engagement Leader]

[Location where the Engagement Leader resides]

[Name of Assurance Organisation]

[Date of the assurance report]

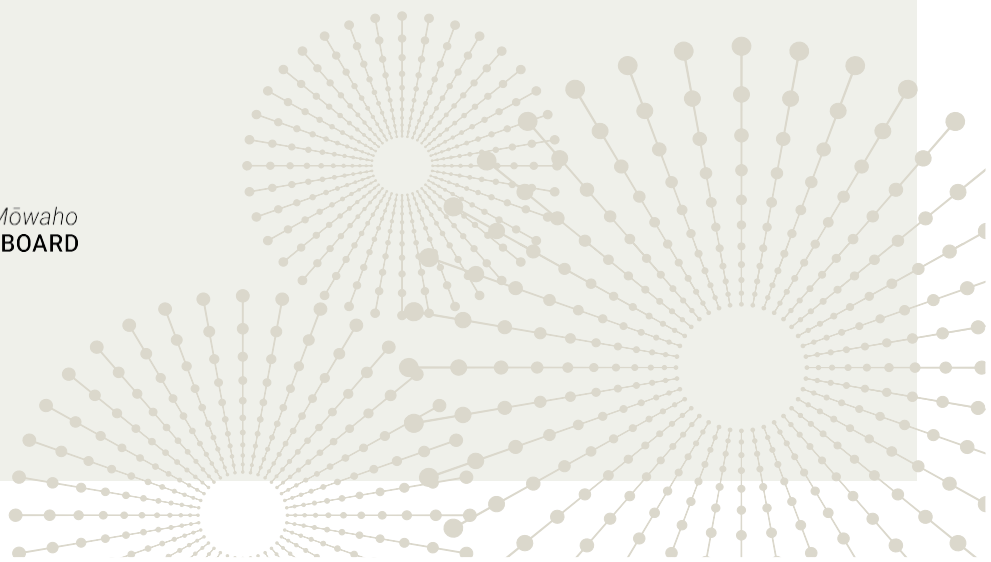
Engagement Leader name - NZ SAE 1 Paragraph 59





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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	18 October 2023
Subject:	NZ SRE 1: Review of Service Performance Information
Date:	4 October 2023
Prepared By:	Bruce Mcniven

Action Required

For Information Purposes Only

Agenda Item Objective

1. The objective of this agenda item is for the Board to PROVIDE feedback on items identified to date in relation to the developing Review standard for Service Performance Information.

Background

1. In the absence of a specific assurance standard on service performance information, the umbrella standard, ISAE (NZ) 3000 (Revised)¹ was the most relevant assurance standard. The XRB issued guidance, EG Au 9² in 2013 to fill a gap and to explain how a practitioner would apply ISAE (NZ) 3000 (Revised), while it commenced work to develop both an audit and then a review standard specific to service performance information.
2. Currently, assurance practitioners are using EG Au 9 in conjunction with ISAE (NZ) 3000 (Revised) to undertake reviews of service performance information of tier 3 charities. This guidance was issued in 2015 and was designed to be temporary guidance until a review standard on service performance information was issued. The development of the review standard was further delayed because the auditing standard for service performance information was still being developed and revised.
3. At its August meeting, the NZAuASB approved the updated project plan to develop a review standard on service performance information. It has been agreed to create a new domestic review standard based on, but tailoring, the auditing standard as a base. The review standard will be applied in conjunction with ISRE (NZ) 2400³, the existing standard used by practitioners to review financial statements.
4. The Board agreed that a sub-committee comprising of Marje Russ, Mark Maloney and Wendy Venter will provide guidance for staff when required.
5. We recommend that we call the standard New Zealand Standard on Review Engagements 1 (NZ SRE 1) *Review of Service Performance Information*. NZ SRE 1 will establish requirements not addressed by ISRE (NZ) 2400 with respect to service performance information.

¹ [ISAE \(NZ\) 3000 \(Revised\)](#), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (issued July 2014)

² [EG Au 9](#), *Guidance on the Audit or Review of the Performance Report of Tier 3 Not- For-Profit Public Benefit Entities* (issued Dec 2015)

³ [ISRE \(NZ\) 2400](#), *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity* (issued Dec 2013)

6. Together, NZ SRE 1 with ISRE (NZ) 2400 will set out requirements for limited assurance over service performance information. NZ SRE 1 will apply when law or regulation requires, or an entity voluntarily seeks a review of both the financial and the service performance information prepared in accordance with the applicable financial reporting framework.
7. To begin, staff have drawn on EG Au 9, ISAE (NZ) 3000 (Revised), NZ AS 1 (Revised)⁴, and ISRE (NZ) 2400, mindful to align with ISRE (NZ) 2400.
8. We have prepared the attached issues paper (agenda item 7.2) that outlines the key issues for consideration as we begin drafting the review standard.

Matters to Consider

9. Board members are asked for views on the following key issues explored in agenda item 7.2:
 - Does the Board agree in principle to retain the two-step approach for a review?
 - Does the Board agree that:
 - i. The work effort for the review standard regarding the *suitability of criteria/ the appropriate and meaningful* should be the same regardless of the level of assurance?
 - ii. The review standard should align with the language used in NZ AS 1 (Revised), i.e., whether the service performance information is “appropriate and meaningful”?
 - Does the Board agree to adopt the description of the three layers of service performance from NZ AS 1 (Revised) in the review standard?
 - We seek the Board’s views on the proposed requirements and application guidance for the review procedures section. Are there any additional requirements or guidance required specifically for the procedures section that the Board wishes to be included?
 - Does the Board agree that other information should not be included in NZ SRE 1. If it does not agree, what does it recommend?

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Issues paper

⁴ [NZ AS 1 \(Revised\)](#), *The Audit of Service Performance Information* (issued Jul 2023, applies from 1 Jan 2024)

NZAuASB Board Meeting Issues Paper

1. This issues paper outlines the key issues identified to date for consideration as we draft NZ SRE 1 *Review of Service Performance Information*.

Two-step approach

2. NZ AS 1 (Revised)¹ and extant NZ AS 1² provide a two-step approach to auditing SPI. The two-step approach is due to service performance reporting requirements being generally less prescribed than financial information which may result in varied service performance reporting between similar entities and industries. Therefore, the auditor needs to assess whether “what” has been reported is appropriate and meaningful before assessing whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.
3. EG Au 9³ currently provides guidance for assurance practitioners auditing SPI in accordance ISAE (NZ) 3000 (Revised)⁴. EG Au 9 uses a similar two-step approach in that it focusses on “Are the identified outcomes, outputs, and quantification of the outputs to the extent practicable, suitable?” and determining whether “the entity information and the SSP is fairly stated in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)”.
4. We propose using the two-step approach in the review standard, written appropriately for a review engagement. An example of how this could look is shown in table one below, and the contents of this two-step approach is discussed further in the following sections.

Appropriate and meaningful (suitability of criteria)

5. Put simply, this issue explores the work effort required by the practitioner over the “what” and “how” elements of service performance reported by the preparer.
6. In 2021 the Board discussed and agreed in principle that the requirements for “suitability of service performance criteria” (referred to as “appropriate and meaningful” in NZ AS 1 (Revised)) would be the same regardless of the level of assurance i.e., for both the audit and review standard.

Suitability of Criteria

7. Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Suitability of criteria is a pre-condition for assurance engagements:
 - “A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are *suitable* and available to intended users.” (ISRE (NZ) 2400⁵, paragraph A39)
 - The Framework for Assurance Engagements, establishes that a pre-condition for an assurance engagement is that “the criteria that the assurance practitioner expects to be applied in the preparation of the subject matter information are *suitable* to the engagement circumstances, including that they exhibit the [qualitative] characteristics [of relevance, completeness, reliability, neutrality, and understandability].” (EG Au1A⁶, paragraph 22(b)(ii))
 - The Framework also states that “The *suitability of criteria* is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa.” (EG Au1A, paragraph 41).

¹ [NZ AS 1 \(Revised\)](#), *The Audit of Service Performance Information*. The two-step approach of NZ AS 1 (Revised) is shown in the left column of Table One of [Appendix One](#) of this document.

² [NZ AS 1](#), *The Audit of Service Performance Information*

³ [EG Au9](#), *Guidance on the Audit or Review of the Performance Report of Tier 3 Not- For-Profit Public Benefit Entities*

⁴ [ISAE \(NZ\) 3000 \(Revised\)](#), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁵ [ISRE \(NZ\) 2400](#), *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

⁶ [EG Au1A](#), *Framework for Assurance Engagements*

Appropriate and Meaningful

8. The assurance practitioner is required to evaluate whether the service performance information (SPI) is reported in accordance with the applicable financial reporting framework.
9. Both in Tier 3 (NFP)⁷ and Tier 3 (PS)⁸ Standards require the entity to report SPI that is “appropriate and meaningful”.
10. Evaluating if service performance information is *appropriate and meaningful* is fundamentally the same as evaluating the *suitability of criteria* (of extant NZ AS 1 and ISRE (NZ) 2400) in that it requires balancing the qualitative characteristics and appropriate balancing of the pervasive constraints:
 - NZ AS 1 (Revised), paragraph A35, says “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.”
11. Using the term *appropriate and meaningful* provides:
 - Consistency with language used in the Tier 3 (NFP) and (PS) Standards, so preparers and assurance practitioners in this tier will be using the same terminology.
 - Consistency of language between audit and review engagements: Auditors will use the same language for both audit and review engagements of service performance information, meaning that they will assess whether SPI is *appropriate and meaningful* for both levels of assurance.

Tier 4 reporting standards

12. Tier 4 (NFP)⁹ and Tier 4 (PS)¹⁰ Standards do not use the terminology *appropriate and meaningful*.
13. The Tier 4 standards require an entity to provide in its statement of service performance (SSP): information about the entity’s main activities (being a description of those activities and quantification, as far as possible, of those activities). When selecting the information to include in its SSP the entity must consider the information needed for readers to gain an overall understanding of what it has done during the financial year to achieve its objectives. An entity may present the information in the Statement of Service Performance using whichever format it considers to be the most helpful to provide readers with an understanding of the entity’s main activities.
14. The reason for not requiring entities to provide service performance information that is *appropriate and meaningful* is because the Tier 4 standards are based on a compliance framework, and not a fair presentation framework. The Tier 4 standards are also designed to be simple and easy to understand for a wide range of users, including those who may not have a lot of accounting knowledge, therefore do not use such terminology as appropriate and meaningful.
15. There is no statutory obligation for a tier 4 charity (or incorporated society) to obtain a review.

Options

16. There are two options to describe the work effort required by the practitioner:
 - Use the term *Appropriate and Meaningful*, which is reflective of the applicable financial reporting frameworks.
 - Use the framework neutral terminology *Suitable Criteria* which we moved away from in NZ AS 1 (Revised).

⁷ [Tier 3 \(NFP\) Standard](#), Reporting Requirements for Tier 3 Not-for-Profit Entities

⁸ [Tier 3 \(PS\) Standard](#), Reporting Requirements for Tier 3 Public Sector Entities

⁹ [Tier 4 \(NFP\) Standard](#), Reporting Requirements for Tier 4 Not-for-Profit Entities

¹⁰ [Tier 4 \(PS\) Standard](#), Reporting Requirements for Tier 4 Public Sector Entities

Staff recommendation

17. Given the options explored above, the fact that statutory limited assurance is only required for entities that apply the tier 3 framework and the indicative population of who might use the review standard, we recommend that we adopt the “appropriate and meaningful” terminology (option One of table one, below).
18. The benefit of aligning the review standard with NZ AS 1 (Revised) would be consistency of language between both SPI standards for auditor’s performing both review and audit engagements.
19. The risk is that it does not align with the tier 4 reporting framework language. In the same way that an auditor of a Tier 4 entity can apply NZ AS 1 (Revised), an assurance practitioner reviewing a tier 4 entity should be able to apply the new review standard, but it will require application as appropriate to the applicable financial reporting requirements. As illustrated in [appendix one](#) we do not anticipate there to be a large number of reviews of tier 4 service performance information.
20. We believe that the benefits of aligning the new review standard with the *appropriate and meaningful* terminology from the auditing standard outweigh the risks. How these options might be described in NZ SRE 1 is shown in the table below. In both cases we assume the two-step approach is used.

TABLE ONE

NZ AS 1 (Revised)	NZ SRE 1 Option One <i>Appropriate and Meaningful</i>	NZ SRE 1 Option Two <i>Suitability of criteria</i>
<p>The auditor may achieve the objective of this NZ AS by considering the following two steps:</p> <p>(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:</p> <ul style="list-style-type: none"> • 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. <p>(b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.</p>	<p>The assurance practitioner may achieve the objective of this NZ SRE by considering the following two steps:</p> <p>(a) Assess whether anything has come to the assurance practitioner’s attention that causes them to believe that each of the following aspects of the service performance information are not appropriate and meaningful in accordance with the applicable financial reporting framework:</p> <ul style="list-style-type: none"> • 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. <p>(b) Assess whether anything has come to the assurance practitioner’s attention that causes them to believe that the reported service performance information do not present fairly, in all material respects, (or do not give a true and fair view of) the actual service performance.</p>	<p>The assurance practitioner may achieve the objective of this NZ SRE by considering the following two steps:</p> <p>(a) Assess whether anything has come to the assurance practitioner’s attention that causes them to believe that the service performance criteria are not suitable in accordance with the applicable financial reporting framework to determine whether they meet the qualitative characteristics of Relevance, Completeness, Reliability, Neutrality, and Understandability.</p> <p>(b) Assess whether anything has come to the assurance practitioner’s attention that causes them to believe that the reported service performance information do not present fairly, in all material respects, (or do not give a true and fair view of) the actual service performance.</p>

21. **Does the Board agree in principle to retain the two-step approach for a review?**
22. **Does the Board agree that:**
 - **The work effort for the review standard regarding the *suitability of criteria/ the appropriate and meaningful* should be the same regardless of the level of assurance?**
 - **The review standard should align with the language used in NZ AS 1 (Revised), i.e., whether the service performance information is “appropriate and meaningful” (Option One)?**

The 3 layers of service performance information (service performance criteria)

23. EG Au 9 and extant NZ AS 1 refer to “service performance criteria”.
24. In NZ AS 1 (Revised), the term “service performance criteria”, was replaced with a 3 layered description of service performance information related back to the Tier 3 standard requirement for an entity to provide information about what the entity has done by selecting an appropriate mix of performance measures and/or descriptions. This change was made to address the OAG’s concerns with the term “service performance criteria” and to introduce a layered description of service performance information related back to the financial reporting standard.
25. We propose aligning the review standard with NZ AS 1 (Revised) and use the same language to describe the three layers of service performance:
 - 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 the entity has done in relation to those elements/aspects of service performance during the period.
 - The **measurement basis or evaluation method** used to measure or evaluate the performance measure and/or description.
26. The benefit of aligning the new review standard with the auditing standard would be the consistency of language between both SPI standards for auditor’s performing both review and audit engagements over SPI. However, the risk here also is that it does not necessarily align with the tier 4 reporting framework.
27. As we noted in the previous section, we do not anticipate there to be a large amount of reviews of tier 4 service performance information.
28. While the 3 layers of SPI would be described in the same way, the procedures carried out by the auditor to assess whether the service performance information is appropriate and meaningful, may be different for a review and this is discussed in the procedures section, below.

29. **Does the Board agree to adopt the description of the three layers of service performance from NZ AS 1 (Revised) in the review standard?**

Procedures

30. A key difference between an audit and a review is the extent of work effort. The nature of the procedures may be similar, however the extent may differ between limited and reasonable assurance.
31. In the September 2021 meeting, the Board agreed with the recommendation that the nature of the work effort focus on enquiry, analytical procedures and other procedures for designing and performing procedures related to the review of service performance information.

32. Keeping in mind that we want to keep the standard principals based and short in length, we propose requirements and application guidance as detailed in Table Two and Table Three, below.

TABLE TWO – NZ SRE 1

Designing and Performing procedures	
1.	In evaluating whether the service performance information is Appropriate and Meaningful, the assurance practitioner's enquiries of management and others within the entity, as appropriate, shall include the following: <ul style="list-style-type: none"> (a) 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 to report. (b) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users. (c) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users. (d) 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.
2.	In obtaining sufficient appropriate evidence as the basis for a conclusion on the service performance information, the assurance practitioner shall design and perform enquiry and analytical procedures and other procedures: <ul style="list-style-type: none"> (a) To address all material service performance information; and (b) To focus on addressing areas where material misstatements are likely to arise.
3.	Where possible the assurance practitioner shall draw on relationships that exist between the service performance information and the financial statements.

A review is focused on enquiry, analytical and other procedures. The above content is based on paragraphs 47-49 of ISRE (NZ) 2400. The specific enquiries are based on paragraphs 17(b) to 17(e) of NZ AS 1 (Revised).

In comparison NZ AS 1 (Revised) requires more work to obtain sufficient appropriate audit evidence, particularly around the 3 aspects of SPI. There is no focus on enquiry procedures in an audit like there is in a review:

TABLE TWO A – NZ AS 1 (REVISED)

Audit Evidence	
37.	The auditor shall obtain sufficient appropriate audit evidence that the: (Ref: Para. A64-A66) <ul style="list-style-type: none"> (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.
38.	Where possible the auditor shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. A67-A68)
...	

TABLE THREE – NZ SRE 1

Designing and Performing procedures

- A1. The mix of procedures to be performed may vary compared with the mix used in regard to the financial statements, but the nature of the information in the service performance information does not alter the level of evidence required.
- A2. The practitioner chooses a combination of procedures to gain the required level of limited assurance including performing enquiry and analytical review procedures.
- A3. The nature of the information reported and the quality of evidence available about the reported measures, may have an effect on the mix of procedures used. The assurance practitioner uses professional judgement to determine if procedures including inspection, observation, confirmation, re-calculation and re-performance should be performed.
- A4. The fact that the assurance practitioner may deem it necessary to perform other procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the service performance information.
- A5. The assurance practitioner 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.

Our draft Application Material for designing and performing procedures is above. This is based on the current guidance provided in EG Au 9, NZ AS 1 (Revised) and ISRE (NZ) 2400. It is in similar length to the current guidance and standard.

In comparison the Application Material for NZ AS 1 (Revised) states:

TABLE THREE A – NZ AS 1 (REVISED)

Audit Evidence (Ref: Para. 37-40)

- 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.
- 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.
- 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.
- 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.
- A68. The auditor's procedures may include:
- Agreeing or reconciling amounts reported in the service performance information to any underlying financial and non-financial records.
 - Agreeing cross references between the service performance information and the financial statements.

...

33. **We seek the Board's views on the proposed requirements and application guidance for the review procedures section shown above.**
34. **Are there any additional requirements or guidance required specifically for the procedures section that the Board wishes to be included?**

Other information

35. When undertaking a review of financial statements ISRE (NZ) 2400 (Revised) does not require consideration of other information included in a report accompanying the financial statements. The Basis for Conclusions for ISRE 2400¹¹ published by the IAASB in September 2012, has no discussion on other information and why it was not included in the standard.
36. When undertaking a review of non-financial information ISAE (NZ) 3000 (Revised) (and EG Au 9) requires the assurance practitioner to read the other information to identify material inconsistencies. Because of this, assurance practitioners who review a statement of service performance in the scope of their review are currently required to consider other information that accompanies a performance report. However, the requirements of ISAE (NZ) 3000 (Revised) will not form part of NZ SRE 1.
37. In the September 2021 the board recommended that the review standard should address the responsibility related to other information, with a request to staff to consider if this sits in ISRE (NZ) 2400 or the developing service performance review standard.
38. On further consideration, staff believe that other information should not be considered as part of the review of service performance information because:
- There is no requirement to consider other information in ISRE (NZ) 2400. Any amendments to ISRE (NZ) 2400 would mean the NZ standard does not align with the requirements of the international review engagement standard.
 - We do not see there being any compelling reasons to amend ISRE (NZ) 2400 to include considerations of other information. It is also not in this project's scope to amend ISRE (NZ) 2400.
 - Removing the requirement to consider other information would simplify the review process and enable practitioners to focus on core review procedures.
 - If we were to add an additional requirement in NZ SRE 1 to consider other information only when reviewing service performance information, this would create inconsistencies between reviews of performance reports which include SPI which use NZ SRE 1, and reviews of just financial statements which do not use NZ SRE 1, just ISRE (NZ) 2400.
 - It is also difficult to see how the consideration of other information is relevant solely to the review of service performance information, particularly in the context of NZ SRE 1 being used in conjunction with ISRE (NZ) 2400.

39. **Does the Board agree that other information should not be included in NZ SRE 1. If it does not agree, what does it recommend?**

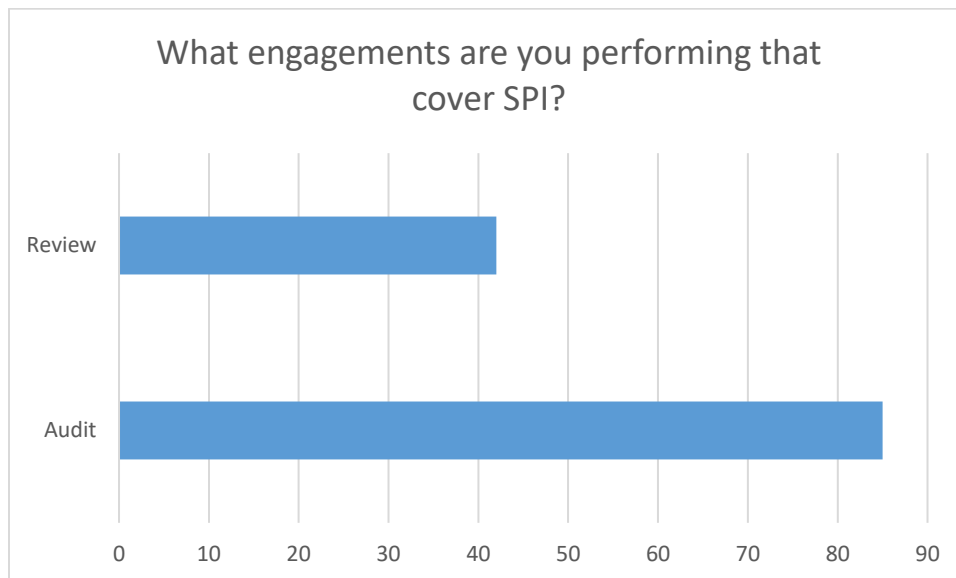
¹¹ [Basis for Conclusions for ISRE 2400](#), September 2012. Similarly, there is no discussion on other information in the XRB publication [Explanation of Decisions made by the NZAuASB in Finalising ISRE \(NZ\) 2400](#)

Appendix One

Analysis of who NZ SRE 1 will apply to

Practitioners

We asked attendees at the SPI deep dive webinar what engagements they were involved in that cover service performance information (SPI). The majority of answers were audits, however 44% of the 96 participants stated they undertook reviews and audits. Looking deeper into the data, we noted that there were no assurance practitioners who only undertook reviews.



Practitioners of tier 4 charities

40. In our ISA for LCE survey – 44/54 practitioners audited tier 4 charities. However, our survey didn't dive into whether those audits (or reviews) included assurance over statement of service performance (SSP).
41. It was raised by a participant at the Service Performance Information Deep Dive webinar that entities do not have their SSP audited or reviewed when it is not legally required (i.e. for charities with expenditure under \$550k – that includes all Tier 4 charities). This aligns with XRB's [messaging](#) when EG Au 9 was released "The demand for assurance is not established by law below this level, rather the assurance is demanded for another reason – either members still demand it, funders demand it etc... the demand for assurance will establish whether the whole performance report, including the statement of service performance needs to be covered or just one aspect of it."
42. For the ISA for LCE project, staff undertook research into the tier 4 market over July/August. We looked at a sample of 85 performance reports from the charities register focussing on entities between \$120k-\$140k of expenditure (i.e. eligible to report under the tier 4 framework, and no legal requirement to have assurance).
 - 54/85 entities did not receive an audit or review. The remaining 31 did have some level of assurance, as follows:
 - 22/31 reported under the tier 3 framework and had varying levels of assurance, of note:
 - i. 2/22 of those had SSP's that were reviewed.
 - ii. 3/22 of those had SSP's that were audited.

- iii. 6/22 had audits or reviews with reports that were not aligned with XRB standards.
 - iv. 11/22 had audits or reviews over just the financial statements.
 - 9/31 reported under the tier 4 framework and had varying levels of assurance, of note:
 - i. No tier 4 entities had their SSPs audited.
 - ii. 2/9 entities had their SSP's that were reviewed. Both were reviewed by CA/CPA firms.
 - iii. 6/9 had audits or reviews with reports that were not aligned with XRB standards.
 - iv. 1/9 had a review over just the financial statements.
43. So what does this research tell us? We would be looking at a very small number of assurance practitioners looking to use this standard to undertake a review of a tier 4 charity. Those that would use this standard are likely to be qualified auditors who use NZ AS 1 (Revised) and should be familiar with the concepts of the NZ AS 1 (Revised) standard and the technical differences between the tier 3 and tier 4 reporting framework.
44. Towards the end of the year, the XRB will be engaging a summer intern to undertake academic research assurance of service performance information to look at the types of assurance undertaken over SPI, how much of that assurance is voluntary, who provides the assurance services, and what assurance standards were used.

Who has to be reviewed?

Here is a summary of who we anticipate that NZ SRE 1 could apply to

Entities that NZ SRE 1 could apply to	Assurance Required
Tier 3 Registered Charities with total expenditure between \$550,000 to \$1.1 million	Required by the Charities Act to be Audited or Reviewed - over the whole performance report/ financial report which includes service performance information.
Tier 3 Registered Charities with total expenditure below \$550,000	Voluntary assurance – audit or review. This may or may not include service performance information.
Tier 4 Registered Charities (those with total expenditure below \$140,000)	Voluntary assurance – audit or review. This may or may not include service performance information.
Incorporated Societies with total expenditure below \$3 million (which is the legal threshold for an audit. There is no requirement for an Incorporated Society have a review engagement). These Incorporated Societies could be reporting under Tiers 2-4 or the small society requirements – summarised here .	Voluntary assurance – audit or review. This may or may not include service performance information.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1
Meeting date: 18 October 2023
Subject: Guidance related to the Audit of Service Performance Information
Date: 2 October 2023
Prepared By: Lisa Thomas

Action Required **For Information Purposes Only**

Agenda Item Objectives

1. The objective for this agenda item is for the Board to NOTE guidance to support the implementation of NZ AS 1 (Revised) *The Audit of Service Performance Information*.

Background

2. NZ AS 1 (Revised) *The Audit of Service Performance Information* was issued in July 2023. To support implementation of the standard a Deep Dive webinar was held on 14 September which was attended by 145 participants. The webinar walked participants through the benefits of the revised standard, key audit steps in auditing service performance information and highlighted key changes to extant NZ AS 1.
3. We have also published a [FAQ](#) to explain what auditing standards can be applied by Practitioners to audit service performance information until NZ AS 1 (Revised) is mandatory. This was shared with the Board at the last meeting, and is available on our website.

Matters to Consider

4. We have developed the following guidance and aim to issue this following the board discussions:
 - a. An interactive flowchart at agenda item 8.2 highlighting what is different between NZ AS 1 and NZ AS 1 (Revised) to assist those who early adopted extant NZ AS 1 to transition to the revised standard.
 - b. Frequently asked Questions (FAQs). These are available at agenda item 8.3. and will be added to as further areas are identified.
5. The main topic addressed by the FAQs is audit evidence. As more entities start reporting service performance information, we have heard frustrations emerging between the preparer and the practitioner. Preparers are wanting to tell their stories on the back of systems that may not be as mature as their financial reporting systems, and the auditor is needing to obtain sufficient appropriate audit evidence to support a reasonable assurance conclusion.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Interactive flowchart
Agenda item 8.3	Frequently asked Questions

Frequently Asked Questions

Scope

When is service performance information part of the audit?

If a public benefit entity, across the public and not-for-profit sectors, has a statutory requirement to have its financial statements audited, the service performance information will be included as part of the audit engagement.

If an entity does not have a statutory requirement to have an audit of its financial statements, it may decide whether to have an audit and what to have audited. An audit may be over one element of the financial statements, for example over the bank balance or grant money. Alternatively, an entity may seek to have its full financial report (financial statements plus the statement of service performance) audited. This decision may be informed by the entity's rules or constitution.

Why is the statement of service performance audited as part of the financial statements?

The Financial Reporting Act 2013 defines financial statements as the statements for the entity as at a balance date, that are required to be prepared in respect of that entity by an applicable financial reporting standard or a non-GAAP standard. If an entity is required by one of the financial reporting standards issued by the XRB (regardless of tier) to prepare a statement of service performance information, it is part of the financial statements as defined.

Audit Evidence

Do I have to apply ISA (NZ) 500 on audit evidence when auditing service performance information under NZ AS 1 (Revised)?

Yes, an auditor is required to apply ISA (NZ) 500 *Audit Evidence* when auditing service performance information. NZ AS 1 (Revised) together with the full ISAs (NZ), set out the requirements to obtain reasonable assurance over service performance information. How audit evidence is obtained however, may vary and need to come from new, and possibly multiple sources.

How is the process different for obtaining sufficient appropriate audit evidence for service performance information?

Obtaining sufficient appropriate audit evidence for service performance information may differ compared to financial information as the nature, types and sources of available evidence may be different. The auditor will likely need to think outside the box, beyond traditional financial reporting systems, and challenge themselves to identify alternative sources not normally considered when auditing financial information. However, the auditor's objectives in designing procedures and gathering evidence are described in ISA (NZ) 500 *Audit Evidence*.

How is the source of audit evidence different for service performance information?

The auditor may need to consider more than one source of information, gathering audit evidence from various sources to collectively obtain sufficient and appropriate evidence. It may not be possible to gather sufficient appropriate evidence from one source only.

Identifying appropriate sources may come from the auditor's understanding of the entity and its environment, the entity's internal controls and the service performance information reported. The sources may not come from traditional systems or processes used in financial reporting and may be more varied due to the wide range of service performance information reported.

For example, photos, a Facebook event pages, receipts from ticket sales, and board minutes may collectively provide persuasive evidence for the occurrence and existence of event.

It is a matter of professional judgement whether individually or collectively these are sufficient appropriate audit evidence.

In practice, the evidence-gathering process is iterative, and the considerations may be revisited as new information comes to light during the engagement. Audit evidence may also be obtained through procedures in accordance with other ISAs (NZ). Some performance measures may include information that can be tied through to corroborating work performed on the financial statements. Alternatively, the financial statements may be able to be used as a sense check, for example a movement in revenue or expense line collating with a similar movement in a service performance activity reported.

Example 7 in the IAASB [support material](#) to *IAASB Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements* provides an illustrative example of an auditor considering various sources of evidence.

What if my client's systems for service performance information aren't as mature as their financial systems?

For many organisations having their service performance information audited is new. There may not be robust systems and processes in place. Systems previously relied upon by preparers for information to tell their story to funders and users, may or may not provide the reliability needed for an audit.

There may be aspects however that could be relied upon as part of building a body of sufficient appropriate audit evidence.

Providing meaningful feedback to entities on improving the robustness of these systems through their management letters may enable the auditor to place greater reliance on an entity's processes over time. Tailoring the recommendations to the entity's nature and size and drawing on experiences from other engagements will add further value.

How much evidence do I need to have obtained sufficient appropriate audit evidence?

ISA (NZ) 500 *Audit Evidence* and other relevant ISAs (NZ) establish requirements on the auditor's considerations in obtaining sufficient appropriate audit evidence.

Ultimately, obtaining sufficient appropriate audit evidence is a matter of professional judgement based on the specific context of the engagement.

The source of audit evidence for service performance information may affect the auditor's evaluation of the quality of audit evidence. The quality of audit evidence depends on its relevance and reliability. The higher the quality, then generally the more persuasive the evidence is.

The auditor may need to consider the characteristics of the source, the nature of the audit procedures that can be performed and what the procedures are trying to achieve when concluding whether evidence is sufficient and appropriate.

What if I cannot obtain sufficient appropriate audit evidence?

If the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information of the entity is not free from material misstatements, they will need to consider the impact on the audit opinion.

Example 11, of the IAASB [support material](#) to *IAASB Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements* provides an illustrative example of this scenario.

Attribution

How does the auditor determine whether service performance is inappropriately attributed to the entity?

When evaluating whether service performance information is appropriate and meaningful, an auditor may consider whether service performance has been inappropriately attributed to the entity... (NZ AS 1 (Revised) Para. A36)

The auditor needs to exercise professional judgement in making this evaluation based on a good understanding of the entity. The auditor’s understanding may be informed by:

- reading relevant entity documents, e.g., the constitution, memorandum of understanding, funding agreements,
- speaking to staff, volunteers and Board of Trustees,
- observing the activities of the entity,
- previous audit engagements.

Factors the auditor may consider in exercising professional judgement include:

a) What is the core purpose of the entity?

How does the performance measure relate to the core purpose of the entity? Is there a direct correlation between the entity’s core purpose and the performance measure? An entity may report a performance measure that appears to be relevant as it relates to an element or aspect of the entity’s core purpose, but on closer evaluation it is not the entity’s core purpose.

For example, an entity’s core purpose may be to provide funding for a service rather than delivery of the service itself. If the activity doesn’t relate to the entity’s core purpose, it may be an indicator that it is inappropriately attributed to the entity.

b) Is the entity accountable or responsible for performance of that measure?

Considering what the entity is accountable or responsible for can be useful when a performance measure is performed by a third party.

For example, if a third party is responsible for the delivery of service performance reported this may be an indicator that it is not appropriate for the entity to report the service performance. Information regarding who is responsible may be identified in documents such as contracts or memorandums of understanding.

c) Does the entity have control over the performance activity?

If the entity’s service performance reports the effects of a project or the entity’s work, then the auditor may consider what performance the entity can control in relation what is being

reported. Or put another way, what other external factors may have contributed to the effects reported which are beyond the entity's control.

Service performance may not always be attributed to a single entity or within the control of a single entity, however if the entity cannot demonstrate a level of control over the performance measure, this may be an indicator it is inappropriately attributed to the entity.

d) Can the entity demonstrate a cause-and-effect relationship for the service performance they are reporting?

If so, what is the proximity of the entity's service performance to the effect reported taking into consideration such things as time lag. If the entity cannot demonstrate a cause-and-effect relationship, then it may not be appropriate to attribute the service performance to the entity.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1
Meeting date: 18 October 2023
Subject: ISA for Less Complex Entities
Date: 2 October 2023
Prepared By: Bruce Mcniven

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objectives of this agenda item are to:
 - a. provide the Board with an UPDATE of our survey on whether to adopt ISA for Less Complex Entities (LCE);
 - b. seek AGREEMENT on whether the XRB should adopt the ISA for LCE in New Zealand.

Background

2. The IAASB approved the ISA for LCEs at its September meeting. A key issue discussed was the maintenance of the ISA for LCE, and whether there should be a period of stability before the ISA for LCE is updated for changes in the ISAs. Refer to the IAASB report for more details. PIOB approval of the standard is expected in December and we anticipate that the standard will be issued late 2023 or early 2024.
3. The XRB consulted on the exposure draft of this standard in 2021 and provided a submission to the IAASB in January 2022. In its [submission](#), the XRB expressed support of a standalone auditing standard for less complex entities at a global level. A key concern was the blanket exclusion of group audits, which has since been resolved with the inclusion of Part 10, Groups within the ISA for LCE. The XRB submission also raised concern that a separate standalone standard might signal that an LCE audit is less than an ISA audit, or imply a two-tier auditing environment.
4. In anticipation of this approval, at the August 2023 meeting, the board approved a project to explore the adoption of the ISA for LCE in New Zealand and Board provided feedback on draft questions to include in a survey to gather further information.
5. We issued a survey (open from 29 August to 25 September) to gauge support for the ISA for LCE in NZ and gain insights into who the ISA for LCE should apply to. The survey included nine questions exploring whether the participant supports adoption of the ISA for LCE, the types of clients they audited, what type of threshold they think could be used (tiers/dollar/number of employees), whether the audit of service performance information should be included in the scope of the standard, and any other comments.

Update

6. We received 78 survey responses. Along with 3 email responses. A summary of the survey responses, and who we reached out to is, in Supplementary Agenda item 9.2.
7. 89.74% (70 of 78) of the survey participants supported the adoption of the ISA for LCE in New Zealand. Those supporting the adoption of the ISA for LCE include audit practices, OAG, CAANZ, and regulators in the charity, education and not-for-profit sectors; with the most support coming from the public sector and auditors of tier 3 and 4 charities.
8. 51 of 69 participants supported the use of the ISA for LCE for the audit of service performance information (SPI).
9. The key common themes noted by survey participants for supporting the adoption of the ISA for LCE, included: That the standard will reduce complexity and simplify the audit process which leads into a reduction in compliance costs and time involved in the audit process. Supporters also noted that the standard is appropriate for small entities and therefore suits the NZ economy.
10. There were no common themes from those 8 who did not support adoption of the ISA for LCE but some comments included that it may introduce a two tier system of auditing, the ISAs are already scalable, additional training and methodologies will be required, and the firm won't use it if the global methodology doesn't permit it.

Issue to consider

11. The ISA for LCE is a standalone standard that is designed specifically for audits of less complex entities and is based on the underlying concepts from the International Standards on Auditing (ISAs).
12. Although it is standalone auditing standard, the IAASB have confirmed that there is nothing prohibiting a national standard setter from adding to the ISA for LCE for jurisdiction specific matters. In New Zealand, the XRB may need to consider whether to include a section on service performance information, given that auditors have expressed in using the ISA for LCE in sectors where service performance information will need to be audited concurrently with the financial statement information.
13. There is clear support from survey participants for enabling SPI to be audited when an auditor is using the ISA for LCE. There are two options for us to allow this to happen:
 - a. Add a Part 11, Audit of Service Performance Information, to ISA (NZ) for LCE. This supports the goal of the ISA for LCE being a standalone standard. It would work similar to how Part 10 *Groups audits* would work in that it would only be applicable if the audit of SPI is within the scope of the audit. Although it will add extra length to the standard, with the digitisation of standards on the horizon, we do not see this as being an issue. This is the preferred approach.
 - b. Amend NZ AS 1 (Revised) to allow its use by auditors of both the full ISAs (NZ) and the ISA (NZ) for LCE. This option does not support the goal of the ISA for LCE being a standalone standard, and would require more editing to NZ AS 1 (Revised) which is not ideal given that it is a new standard and will only be applicable from next year. This will make NZ AS 1 (Revised) unnecessarily longer, particularly if we have multiple appendices with examples of reports and letters under ISA (NZ) and the ISA for LCE.

Recommendations

14. We recommend the Board agrees to the development of a NZ Exposure draft of ISA (NZ) for LCE proposing to adopt the standard in New Zealand.
15. We recommend that the XRB's exposure draft should include a section on the audit of service performance information.
16. If the Board agrees with these recommendations, we will continue to reflect on the feedback we received in the survey and develop any NZ specific paragraphs regarding the application of the standard for discussion at the November NZAuASB meeting.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Supplementary Agenda item 9.2	Survey Results
Supplementary Agenda item 9.3	Preliminary recommendations around quantitative thresholds

NZASB Board Meeting Summary Paper

AGENDA ITEM NO. 10.1
Meeting date: 18 October 2023
Subject: Modified Auditor's Reports
Date: 19 September 2023
Prepared By: Bruce Mcniven

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to:
 - a. CONSIDER the application of the modified audit reports policy paper **at agenda item 10.2**.
 - b. AGREE that there are no implications for the auditing and assurance standards from the modified audit reports received from 1 October 2022 to 31 August 2023.

Background

2. The application of the modified audit reports policy paper at **agenda item 10.2** has been prepared jointly by the assurance team and the accounting team. It will be considered by NZASB members at their 19 October NZASB meeting.
3. We received 17 modified audit reports during the period of the review. There have been no issues identified with the assurance standards.
4. In our August Need to Know assurance webinar, we reminded auditors that, when required, they need to use our portal to file their modified audit reports and financial statements. The Assurance Alert following that webinar also provided a link to our portal.
5. During the year, we worked on re-designing the [portal](#), with an improved layout and added questions to capture data (particularly around the type of entity and legislative reasons for filing the report).
6. We expect that from next year we will start receiving modified audit reports for Incorporated Societies, due to the commencement of the Incorporated Societies Act 2022 from October 2023.

Recommendation

7. We recommend that the Board AGREES any current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2022 to 31 August 2023.

Material Presented

Agenda item 10.1	Board Meeting Summary Paper
Agenda item 10.2	Memorandum
Supplementary 10.3	Policy

Date: 19 September 2023

To: NZASB Members and NZAuASB Members

From: Alex Stainer and Bruce Mcniven

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

Purpose and introduction

1. The purpose of this paper is to inform the Boards of the modified audit reports received from 1 October 2022 to 31 August 2023 and to consider whether there are any implications for the accounting standards or the auditing and assurance standards.
2. Modified audit reports are received from auditors who are required to submit modified audit reports to the XRB under the Companies Act 1993 and the Financial Markets Conduct Act 2013¹. Auditors of Incorporated Societies registered under the Incorporated Societies Act 2022 will also be required to submit modified audit reports to the XRB – societies can be registered under this Act from October 2023. The Financial Markets Conduct Act has also been amended² to require, from 2024, modified assurance practitioner’s reports of GHG emissions disclosures to be sent to the XRB (and other specified parties).

Recommendation

3. We recommend that, from the modified audit reports received from 1 October 2022 to 31 August 2023:
 - (a) The NZASB Board AGREES that there are no current implications for the accounting standards.
 - (b) The NZAuASB Board AGREES that there are no current implications for the auditing and assurance standards.

Background

4. The Companies Act 1993³, Incorporated Societies Act 2022⁴ and the Financial Markets Conduct Act 2013⁵ require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of those Acts have not been complied with.
5. The Modified Audit Reports Policy (the Policy) sets out the processes to be followed by the XRB Board and its sub-Boards, the NZASB and the NZAuASB, in respect of such audit reports.

¹ Our legislative mandate does not extend to reviewing modified audit reports for Public Sector Entities and Charities.

² [Financial Sector \(Climate-related Disclosures and Other Matters\) Amendment Act 2021](#)

³ [Section 207C](#)

⁴ [Section 107](#)

⁵ [Section 461G](#)

The Policy also applies when modified audit reports are referred to the XRB by any other party.

6. The Policy is included at **agenda item 10.3** (supporting papers) for reference purposes. The policy will be updated in due course for legislative changes.
7. The key aspects of the Policy in respect to the Boards' review are as follows:
 - (a) For the NZASB – focus on modified audit opinions in relation to material misstatements in the financial statements.
 - (b) For the NZAuASB – focus on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
 - (c) For both Boards – consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any potential issues about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
8. No action needs to be taken by the Boards if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard. Non-compliance is a matter for the appropriate regulator.

Modified audit reports received in the review period

9. In the period from 1 October 2022 to 31 August 2023, we have received 17 modified audit reports. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website, via mail, and via email.
10. Of the 17 modified audit reports received, 5 relate to FMC entities (whose audit reports are sent to us under the Financial Markets Conduct Act 2013), the remaining 12 relate to Companies.
11. As part of our process prior to preparing this board paper, we engaged with the FMA and the Companies Office to share information on modified audit reports received to ensure we have a complete set of modified audit reports (as some entities may submit to the regulator and/or Companies Office and not the XRB even though there is a legal requirement to do so). Two reports were received via the FMA as part of this process.
12. [Appendix A](#) provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.
13. [Appendix B](#) provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from the Accounting Team and the Assurance Team. In all cases the proposed action is 'None' as we have not identified any modified audit reports that indicate an issue with the accounting standards or the auditing and assurance standards.

Current review period observations

14. In the current review period, of the 17 modified audit reports received:
- (a) four of the modifications are the same as for the previous review period. This is because the reason for the modification in the previous reporting period often impacts on the next period (e.g., valuation of property, plant and equipment), or the auditor issues a modification on an ongoing matter for which they are unable to obtain sufficient appropriate audit evidence (e.g., where a client is unwilling to undertake impairment testing).
 - (b) four of the modifications have more than one reason. In Appendix A, each basis for modification is noted separately.

No current implications for the accounting standards

15. The Accounting Team’s review has not identified any current implications for the accounting standards from the modified audit reports received from 1 October 2022 to 31 August 2023. However, we have noted the mixed group measurement issues identified during our review (see [Appendix B](#)—entry #456 and #463). We are aware that such mixed group measurement issues could continue given the IPSASB’s *Measurement* project and inclusion of concepts such as Current Operational Value that are not used in the for-profit accounting standards.

No implications for the auditing and assurance standards

16. The Assurance Team’s review has not identified any current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2022 to 31 August 2023.

Question for the NZASB Board

Q1A. Does the NZASB Board AGREE that there are no current implications for the accounting standards from the modified audit reports received from 1 October 2022 to 31 August 2023?

Question for the NZAuASB Board

Q1B. Does the NZAuASB Board AGREE that there are no current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2022 to 31 August 2023?

Attachments (in supporting papers)

Agenda item 10.3: Modified Audit Reports Policy

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

(Prior-period figures are in brackets. The prior period covered 1 December 2021 to 30 September 2022)

Modification in relation to:	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Unable to obtain sufficient appropriate audit evidence
Opening balances - unaudited	–	1	–
Service Performance Information	–	–	1(1)
Going concern	–	2 (4)	(1)
Valuation of inventory, including Opening balances - inventory	–	1(2)	3 (1)
Valuation of receivables or WIP	–	(2)	1
Valuation of property, plant and equipment	–	–	4 (5)
Accounting of Investments in Associates and Joint Ventures	–	2 (3)	4
Accounting of shares (liabilities or equity)	–	1	–
Valuation of biological assets	–	–	1
Carrying amount of goodwill and other indefinite life intangibles	–	–	(1)
Accounting records	–	(1)	–
Valuation of related party advances	–	–	(1)
Valuation of Cash-generating unit (division)	–	1	–
Accounting for the acquisition of a business combination	–	1	–
Valuation of taxation balances	–	1(1)	–
Carrying amount of right-of-use asset	–	(1)	–
Share-based compensation	–	(1)	–
Revenue and accrued income recognition	–	(1)	–
Sub-total	0	10 (16)	14 (10)
Total			24⁶ (26⁷)

⁶ 17 audit reports received in this period, but in three instances (#456, #462 and #464) there is more than one reason for the modification.

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

Appendix B — Modified Audit Reports received in the review period

This is a high-level summary of the modified audit reports that we have received.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion - summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
1.	449 Agricultural Equipment Dealer. BD: May 31, 2022 AR: Nov 10, 2022	Qualified Opinion <ul style="list-style-type: none"> Accounting of Investments in Associates and Joint Ventures (Not equity accounting results and position of two Associate Companies as the financial statements were not yet completed.) 	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	N/A – New this year.	No issues identified with accounting standards. This was a timing issue. The accounts included a note disclosing that the financial statements of the associates were not yet completed and prevented the Company from being able to equity account (presumably before its own financial reporting deadline).	None. No issues identified with assurance standards.
2.	450 General distribution and sale of fibre cement products. BD: Jun 30, 2022 AR: Nov 29, 2022	Qualified Opinion <ul style="list-style-type: none"> Opening balances – inventory (unable to attend stocktake due to being appointed after 30 June 2022 stocktake occurred. Unable to undertake alternative procedures.) 	NZ IAS 2 <i>Inventories</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion - summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
3.	451 Wine producer and exporter. BD: Jun 30, 2022 AR: Dec 2, 2022	Qualified Opinion <ul style="list-style-type: none"> Accounting of Investments in Associates and Joint Ventures (unable to obtain appropriate audit evidence in relation to the financial information of associate.) 	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
4.	452 Telecommunications network construction and maintenance services. BD: Jun 30, 2022 AR: Dec 2, 2022	Qualified Opinion <ul style="list-style-type: none"> Valuation of WIP (could not obtain sufficient appropriate audit evidence regarding the recoverability of the work in progress asset.) 	NZ IFRS 9 <i>Financial Instruments</i> and NZ IFRS 15 <i>Revenue</i>	N/A – New this year.	No issues identified with accounting standards. This issue seems primarily related to the preparer’s records and internal process around recording revenue rather than an issue with the standard.	None. No issues identified with assurance standards.
5.	453 Trailer Equipment Supplies. BD: Dec 31, 2021 AR: Dec 12, 2022	Qualified Opinion <ul style="list-style-type: none"> Opening balances – inventory (unable to attend stocktake due to being appointed after 31 December 2021 stocktake occurred. Unable to undertake alternative procedures.) 	NZ IAS 2 <i>Inventories</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
6.	454 Design, manufacture and distribution of roofing tiles and related products.	Disclaimer of Opinion <ul style="list-style-type: none"> Opening balances – unaudited. 	N/A	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion - summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
	BD: Dec 31, 2021 AR: Oct 31, 2022					
7.	455 Cultivation of tulip bulbs. BD: Jun 30, 2022 AR: Jan 27, 2023	Qualified Opinion <ul style="list-style-type: none"> Valuation of biological assets (unable to verify quantity of bulbs.) 	NZ IAS 41 <i>Agriculture</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
8.	456 Council Controlled Organisation (CCO). BD: Jun 30, 2022 AR: Nov 30, 2022	Qualified Opinion <ul style="list-style-type: none"> Valuation of property, plant and equipment (No impairment testing: The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). The subsidiary has concluded, under PBE accounting standards, that certain PP&E assets (held for operational purposes) are not impaired. However, the Group is a for-profit entity, which requires it to assess the value of the assets on a commercial basis to determine whether there is an impairment under NZ IAS 36 (as there is an indicator of impairment) – this was not done by the Group) Valuation of property, plant and equipment (Limited evidence to support the written-down values of property plant and equipment) Lack of supporting Evidence for SPI (Limited evidence to support the “Shareholder’s funds to total assets” and “Net profit after tax” performance measures.) 	NZ IAS 36 <i>Impairment of Assets</i> PBE FRS 48 <i>Service Performance Reporting</i>	Yes	None. No issues identified with accounting standards. However, we are aware that such mixed group issues will continue.	None. No issues identified with assurance standards.
9.	457 Retail. BD: Nov 30, 2021 AR: Apr 5, 2023	Qualified Opinion <ul style="list-style-type: none"> Valuation of inventory (Due to certain limitations in the Company’s inventory management process, auditors have been unable to obtain sufficient appropriate audit evidence through observation of physical inventory 	NZ IAS 2 <i>Inventories</i>	N/A – New this year.	None.	None.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion - summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
		counts and performing roll forward procedures with respect to the existence and completeness of inventory quantities.)			No issues identified with accounting standards.	No issues identified with assurance standards.
10.	458 Construction. BD: Dec 31, 2020 AR: May 8, 2023	Disclaimer of Opinion <ul style="list-style-type: none"> Accounting for joint arrangements (unable to obtain sufficient and appropriate audit evidence pertaining to Joint Arrangements in which the company has an interest.) 	NZ IFRS 11 <i>Joint Arrangements</i>	Yes	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
11.	459 Distributor of semi-finished metal products. BD: Dec 31, 2022 AR: May 29, 2023	Qualified Opinion <ul style="list-style-type: none"> Valuation of property, plant and equipment and intangible assets (Lack of evidence to support assets acquired through a business combination.) 	NZ IFRS 3 <i>Business Combinations</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
12.	460 Primary industry. BD: Aug 31, 2022 AR: Jun 16, 2023	Qualified Opinion <ul style="list-style-type: none"> Accounting of Investments in Associates and Joint Ventures (unable to attend stocktake and obtain evidence on the existence of inventories transferred to the joint venture and the associated impact on the equity accounted loss and carrying value of the investment in the joint venture.) 	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
13.	461 Technology. BD: Mar 31, 2023 AR: Jul 18, 2023	Disclaimer of opinion <ul style="list-style-type: none"> Going concern (Unable to obtain sufficient appropriate audit evidence on going concern.) 	NZ IAS 1 <i>Presentation of Financial Statements</i> FRS 44 <i>New Zealand</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion - summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
			<i>Additional Disclosures</i>			
14.	462 Primary industry. BD: Aug 31, 2022 AR: Aug 4, 2023	Disclaimer of opinion <ul style="list-style-type: none"> Accounting for the acquisition of a business combination (unable to obtain evidence that supported the purchase was at fair value, including the associated goodwill, and gain recorded on the derecognition of the equity accounted investment) Accounting of Investments in Associates and Joint Ventures (Due to being appointed in May 2022, unable to attend stocktake on 1 Dec 2021 and obtain evidence on the existence of inventories transferred to the joint venture at that date and the associated impact on the equity accounted loss and carrying value of the investment in the joint venture.) Valuation of inventory from acquisition (unable to attend stocktake of inventory obtained on the acquisition of entity on 1 Aug 2021, due to being appointed in May 2022.) This inventory was then transferred to the joint venture, above. Accounting for shares (unable to obtain evidence that supports the classification of shares as either liabilities or equity of the Group.) 	NZ IFRS 3 <i>Business Combinations</i> NZ IAS 28 <i>Investments in Associates and Joint Ventures</i> NZ IAS 2 <i>Inventories</i> NZ IAS 32 <i>Financial Instruments: Presentation</i>	No, different reason this year (due to restructure of organisation and thus different issues and new auditor)	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
15.	463 Council controlled trading organisation. BD: Jun 30, 2022 AR: Nov 23, 2022	Qualified Opinion <ul style="list-style-type: none"> Valuation of property, plant and equipment (No impairment testing. The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). The subsidiary has concluded, under PBE accounting standards, that certain property, 	NZ IAS 36 <i>Impairment of Assets</i>	Yes	No issues identified with accounting standards. However, we are aware that such	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion - summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
		plant and equipment, used for operational purposes, are not impaired. However, the Group is a for-profit entity, which requires it to assess the value of the assets on a commercial basis to determine whether there is an impairment under NZ IAS 36 (as there is an indicator of impairment) – this was not done by the Group.)			mixed group issues will continue.	
16.	464 Software development service BD: Jun 30, 2022 AR: Oct 6, 2022	Disclaimer of opinion <ul style="list-style-type: none"> Going Concern (Unable to obtain sufficient appropriate audit evidence on going concern.) Valuation of Cash-generating unit (Unable to obtain sufficient appropriate audit evidence on key assumptions applied in valuation of the cash-generating unit) Valuation of deferred tax asset (Unable to obtain sufficient appropriate audit evidence on the level of future taxable profits expected to be available to the group in relation to the deferred tax asset) 	NZ IAS 1 <i>Presentation of Financial Statements</i> FRS 44 <i>New Zealand Additional Disclosures</i> NZ IAS 36 <i>Impairment of Assets</i> NZ IAS 12 <i>Income Taxes</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
17.	465 Fund manager BD: Mar 31, 2023 AR: Jul 28, 2023	Qualified Opinion <ul style="list-style-type: none"> Accounting for investment in associate (Unable to obtain sufficient appropriate audit evidence in relation to investment in associate) 	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.