

NZAuASB Board Meeting Agenda

14 February 2024

9:00 am to 5.00 pm, XRB Offices, Level 6, 154 Featherston Street (Wellington Chambers).

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary	
9.15am	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			
9.45am	2	<u>Environmental scanning</u>				<i>AH</i>	
	2.1	International Update	Note	Paper	4		
	2.2	Domestic Update	Note	Paper	7		
	2.3	Update for XRB Board	Note	Paper	8		
	2.4	Update on Australian climate reporting and assurance developments	Note	Late			
10.15am	<i>Morning tea</i>						
10:30am	3	<u>Service Performance Review Standard</u>				<i>LT/BM</i>	
	3.1	Summary paper	Note	Paper	17		
	3.2	Draft exposure draft – first read	Discuss	Paper		<i>1</i>	
11:30am	4	<u>Summer intern research on service performance information</u>					
	4.1	Summary paper	Note	Paper	20		
	4.2	Research report	Note	Late			
11:45am	5	<u>Authority of ISA for Less Complex Entities (LCE)</u>				<i>BM</i>	
	5.1	Summary paper	Note	Paper	21		
	5.2	Issues paper	Discuss	Paper	22		
	5.3	Summary of the authority of ISA for LCE	Note	Paper		34	
	5.4	Summary of audit and reporting requirements in New Zealand	Note	Paper		38	
12:15pm	<i>Lunch</i>						
12.45pm	6	<u>Update on IAASB by Greg Schollum</u>					
	6.1	IAASB Report December 2023	Note	Verbal	29		
1.15 pm	7	<u>Fraud</u>				<i>SW</i>	
	7.1	Summary paper		Late			
	7.2	IAASB Explanatory memorandum and ED		Late		xx	
1.45 pm	8	<u>Narrow Scope Amendments – Public Interest Entities</u>				<i>SW</i>	

Est.Time	Item	Topic	Objective		Page	Supplementary
	8.1	Summary paper	Note		34	
	8.2	NZ consultation document	Consider		36	
	8.3	IAASB Explanatory memorandum & ED	Note			42
2.00pm	9	<u>Responsible Investor Association of Australasia</u>				
	9.1	Summary paper			42	
2:30pm	10	<u>Sustainability Ethics and Independence</u>			<i>KT/AH</i>	
	10.1	Summary Paper	Discuss	Paper	43	
	10.2	Issues Paper – Whiteboard Session	Discuss	Paper	45	
	10.3	IESBA Exposure Draft	Note	Paper		132
	10.4	IESBA Explanatory Memorandum	Note	Paper		382
3:00pm	11	<u>Use of Experts</u>			<i>NCB</i>	
	11.1	Summary Paper	Discuss	Paper	50	
	11.2	Issues Paper – Whiteboard Session	Discuss	Paper	53	
	11.3	IESBA Exposure Draft & Explanatory Memorandum	Note	Paper		429
3:30pm	<i>Afternoon tea</i>					
3.45pm	12	<u>NZAuASB work plan</u>			<i>MP</i>	
	12.1	Summary paper	Note	Paper	60	
	12.2	Prioritisation schedule 2023/24	Note	Paper		486
	12.3	Draft prioritisation schedule 2024/25	Consider	Paper		489
	12.4	NZAuASB 2022-2027 action plan	Note	Paper		492
4:30pm	13	<u>External Confirmations</u>			<i>NCB</i>	
	13.1	Summary Paper	Note	Paper	63	
4.55pm	<u>Closing</u>					

Next meeting: 3 April 2024, Virtual, Teams

NZAuASB Action list

Following November 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	To remove from action list – IAASB will commence a project to revise the standard on Materiality.
Oct 2023	Continue to explore next steps on trust and confidence with the IOD	April 2024	To consider further research opportunities before committing to next steps
Nov 2023	Send out international EDs as soon as possible to allow more time for reading	February 2024	Approved text from experts distributed pre-Christmas. Narrow scope amendments distributed in mid-January.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.1
Meeting date:	14 February 2024
Subject:	Environmental scan – international
Date:	31 January 2024
Prepared By:	Anna Herlender

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 15 November 2023. This agenda item is for information purposes.

Background

2. The updates from international organisations have been categorised into topics and their relevance to the NZAuASB work plan:
 - a. **Category 1: Hot topics** section includes articles of the highest interest to the Board and directly linked with the issues explored during recent or coming Board’s meetings
 - b. **Category 2: Other publications** includes articles relating to the Board’s work plan or from the organisations with direct impact on emerging audit and assurance issues
 - c. **Category 3: Wider scan** includes articles that might be of interest to the Board members, provide wider perspective on current Board’s topics or topics that might arise in future.
3. Appendix 1 includes list of organisations whose websites were reviewed for updates.
4. 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 the latest XRB Board meeting and includes matters not directly relating to audit or assurance but that might impact the XRB or entities within the XRB ecosystem. It is provided to NZAuASB for information purposes (after removing articles with restricted access/copyrights attached).

Category 1: Hot topics

Hot Topic 1: Center of Audit Quality in US published a report that examines users perspective on audit: “**Perspectives on Corporate Reporting, the Audit, and Regulatory Environment: Institutional Investor Research Findings**”, 17 November 2023, [Read here](#).

Hot Topic 2: Auditing and Assurance Standards Board in Australia published “**Feedback Statement – Decision Not to Adopt the ISA for LCE Standard in Australia**”, 21 December 2023, [Read here](#).

Category 2: Other relevant publications

Audit methodology and technology

FRC publishes thematic review of audit sampling, 24 November 2023, [Read here](#).

Audit considerations relating to an entity using service organizations: strengthening audit quality”
CPAB, 27 November 2023, [Read here](#).

Audit evidence, technology, and judgement: A review of the literature in response to ED-500, Dereck Barr-Pulliam, Christopher G. Calvin, Marc Eulerich, Arpine Maghakyan, Journal of International Financial Management & Accounting, 5 October 2023, [Read here](#)

Audit oversight

FRC publishes inspection findings for the Tier 2 and 3 audit firms, 13 December 2023, [Read more here](#).

FRC publishes annual review of competition in the audit market, 14 December 2023, [Read here](#).

Observations From the Target Team’s 2022 Inspections, PCAOB, December 2023, [Read here](#).

IFIAR Statement on Sustainability Assurance Oversight, 4 December 2023, [Read here](#).

Audit reports

IAASB Issues Guidance for Assurance Practitioners When Citing IFRS Accounting Standards, 8 December 2023, [Read here](#).

Governance

FRC Revises UK Corporate Governance Code, 22 January 2024, [Read summary about changes here](#).

Sustainability assurance

“AASB-AUASB Joint Research Report: Trends in climate-related disclosures and assurance in the Annual Reports of ASX-listed entities”, 27 November 2023, [Read here](#).

“Building Trust in Sustainability Reporting: The Urgent Need for Integrated Internal Control”, IFAC, 30 November 2023, [Read here](#).

“Research on extended external reporting assurance: An update on recent developments”, Elmar R. Venter, Joanna Krasodomska, Journal of International Financial Management & Accounting, 15 January 2024, [Read here](#).

Category 3: wider scan relating to audit and assurance ecosystem

Various articles on sustainability reporting including: EER, nature, biodiversity:

“TNFD in a Box”. It is a downloadable capacity building tool that supports the adoption and implementation of the Taskforce on Nature-related Financial Disclosures recommendations, December 2023, [Read here](#)

“Transparency standard to inform global response to biodiversity crisis”, 25 January 2024, GRI released new standard: GRI 101: Biodiversity 2024. [Read more here](#).

“Navigating the Reporting Landscape”, Accounting For Sustainability, 27 November 2023. A4S published the third edition of the overview that summarises key developments in sustainability reporting from accounting perspective. [Read here](#).

“Unlocking Materiality as a Source of Value Creation”, Accounting for Sustainability, 28 November 2023. A4S article on the materiality concept and links to other resources on materiality. [Read here](#).

AUASB Research Report 10: Deakin-AUASB Sustainability Assurance Research Workshop, 22 December 2023, [Read here](#).

“The fifth EY Climate Risk Barometer shows an increase in companies reporting on climate but falling short of their carbon ambitions”, 27 November 2023, [Read here](#).

“Investors want to know how companies are managing sustainability and emerging technologies like AI, but they lack confidence in much of the information they have about both. It’s time for companies—and their leaders—to take action”, by James Chalmers and Nadja Picard, PwC, 15 November 2023, [Read here](#).

“New resource on emissions reporting using GRI and ISSB Standards. IFRS Foundation and GRI publish summary of interoperability considerations for GHG emissions”, 8 January 2024, [Read here](#)

“46% of businesses have no emissions plan in place despite the climate emergency, reveals new report from ACCA, IFAC and PwC. New research underlines urgent need for strategies and transition plans to combat climate change, remain successful and meet stakeholder expectations”, 30 November 2023, [Read here](#).

“IOSCO publishes a final report presenting supervisory practices across its members to address greenwashing”, 4 December 2023, [Read here](#).

News and reports from IFAC

“IFAC Announces Plan to Revise International Education Standards for Sustainability Reporting and Assurance”, 11 December 2023, [Read here](#).

“New IFAC and CPA Canada Report Explores the Central Role of Whistleblower Protection in Supporting a Speak-Up Culture and Championing Whistleblowers’ Protection”, 6 December 2023, [Read here](#).

“IFAC Publishes Sustainability & Education Literature Review”, 10 January 2024, [Read here](#)

“IFAC Technology Matrix”, 20 December 2023. This is a compilation of technology related resources published by IFAC [Read here](#).

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.2
Meeting date:	14 February 2024
Subject:	Environmental scan - domestic
Date:	31 January 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 10 November 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 considered to be the most relevant for the NZAuASB:

Hot topic 1

FMA publishes Audit Quality Monitoring Report 2023, 27 November 2023. The report summarises findings from the quality reviews we carried out between 1 July 2022 and 30 June 2023. [Read here.](#)

Hot topic 2

Do the financial statements of NZX50 June-September 2023 reporters reflect the impact of climate change?, PwC, 12 December 2023. 4 reporters mentioned climate change in KAMs [Read here.](#)

No other relevant publications identified.

Note: this is document was prepared for the XRB Board. It is provided for NZAuASB for information purposes.

Memorandum

Date: 23 November 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 13 October 2023 to 23 November 2023.

Purpose and impact

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

International

- (a) IASB Research forum focuses on [Intangibles](#)
- (b) ISSB launches its [Transition Implementation Group](#) on IFRS S1 and IFRS S2
- (c) Australian Government announcement about the [governance of sustainability](#) standards in Australia.

Domestic

- (d) New [Coalition Government](#) announced – developments of relevance to the XRB;
- (e) FMA publishes an update to its [CRD scenario analysis information sheet](#); and
- (f) Auditor-general article on [Performance measurement](#) in the public sector.

Recent Climate reports

- (g) Fonterra and the Ministry for the Environment 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 October 2023 report: [IFAC Global Regulatory Report October 2023](#)

IASB Research Forum – Focus on Intangibles

5. The basis of the intangibles discussion was EFRAG’s research paper *Better information on Intangibles. Which way to go?* Questions discussed included:
- (a) the usefulness of guidance in IFRS Accounting Standards as a starting point for a research project on accounting for intangibles;
 - (b) diversity in practice in the absence of authoritative guidance;
 - (c) comparability;
 - (d) the scope of current standards; and
 - (e) the intent and type of evidence most useful to the IASB.
6. Other topics discussed at the research forum were:
- (a) accounting for software costs;
 - (b) goodwill;
 - (c) carbon credit accounting;
 - (d) companies’ and investors’ views on intangible assets;
 - (e) economic consequences of purchase price allocation; and
 - (f) tax versus capital market incentives in choosing accounting standards.

[IFRS - Key highlights and recordings from the 2023 IASB Research Forum](#)

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ISSB: Transition Implementation Group on IFRS S1 and IFRS S2 (TIG)

7. The TIG was set up to inform the ISSB about implementation questions that could arise when entities implement the two new sustainability standards. The first meeting took place on 21 November 2023, and was of an introductory nature with members commenting on implementation to date.

Introductory agenda paper: [PowerPoint Presentation \(ifrs.org\)](#)

8. The ISSB is encouraging stakeholders to submit potential implementation questions for consideration of discussion by the TIG as soon as possible: [ISSB TIG - Submission guidelines](#).

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IFRS Foundation Managing Director, Lee White moving to IFAC as CEO:

9. The IFRS Foundation and IFAC have announced that Lee White has been named to succeed Kevin Dancey as CEO. Mr. White will assume his new post in March 2024 and will be based in London. Mr. White spent nine years at CA ANZ, including six years as its CEO, having been instrumental in the merger of ICAA with CAANZ. Earlier in his career, Mr. White was Chief Accountant of the ASIC.

[IFRS - Lee White to depart IFRS Foundation early 2024](#)

[Lee White named as next CEO of IFAC](#)

Scientific American - Politico's COP28 Special Report: The State of the Planet in 10 Numbers

10. COP28 started on 28 November in Dubai and this article assesses a global climate efforts to date since signing the 2015 Paris climate accord. The article concludes that some progress has been made but not enough, and asks what will COP28's response be?
11. Statistics include:
 - (a) GHG emissions must fall by 43% by 2030 to reach the 1.5 degree cap from the Paris agreement to limit global warming. However, a United Nations assessment suggests that GHG emissions have only fallen by 2% in the last decade.
 - (b) Contributing to the slow fall in GHG emissions is the fact that worldwide fossil fuel subsidies totalled a record high of \$US7trillion in 2022.

[The State of the Planet in 10 Numbers | Scientific American](#)

Opinion - Dr Carol Adams: The future of corporate reporting aligned with sustainable development

12. Carol Adams covers:
 - (a) The purpose of corporate reporting
 - (b) Is all information in Annual Reports financial information?
 - (c) Who is the user of GRI standards?

- (d) The relationship between standards and greenwashing

She then comments on the future of corporate reporting aligned with sustainable development.

[The future of corporate reporting aligned with sustainable development \(drcaroladams.net\)](https://drcaroladams.net)

Australian Treasury: Governance of sustainability standards

13. The Australian Parliament has amended the Australian Securities and Investments Commission Act 2001 on 16 November 2023 to:
 - (a) provide the Australian Accounting Standards Board with functions to develop and formulate sustainability standards;
 - (b) expand the Auditing and Assurance Standards Board's functions to include formulating auditing and assurance standards for sustainability purposes; and
 - (c) expand the Financial Reporting Council's oversight and governance powers to account for the development of sustainability standards;
14. The new governance structure is proposed to be operational from 1 July 2026.

[Streamlining financial reporting architecture | Treasury Ministers](#)

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Domestic

New Coalition Government

15. The new Coalition Government has the following Ministerial allocations of relevance to the XRB:
 - (a) Andrew Bayly – Minister of Commerce and Consumer Affairs
 - (b) Simon Watts – Minister of Climate Change
 - (c) Louise Upston – Minister for Community and Voluntary Sector (Charities Services)
16. David Seymour² has been appointed Minister for Regulation and a new Regulation agency will be established funded by the disestablishment of the Productivity Commission. The new agency will assess the quality of new and existing regulation, so XRB standards may come under its purview.

² Act Leader, and Deputy Prime Minister for the second 18 months of the three year term from 31 May 2025.

17. Also announced was that public sector agencies will each have expenditure reduction targets “informed by the back office head count at that agency since 2017”.
18. Of broader interest is the:
 - (a) new Government supporting a Treaty Principles Bill to Select committee; ACT's policy to hold a Treaty of Waitangi principles referendum will not go ahead.
 - (b) halting of the current review of the Emissions Trading Scheme “to restore confidence and uncertainty into the carbon trading market”. Also
 - (c) ban on offshore oil and gas exploration is to be repealed.

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FMA: CRD Scenario analysis information sheet - update published

19. The FMA has published an update to its 22-page information sheet detailing their compliance expectations for disclosures on scenario analysis under the CRD regime.
20. The information sheet was updated in October 2023 to address questions raised during engagement with climate reporting entities and industry bodies.
21. The substantive updates are inclusion of:
 - (a) additional details and clarification regarding quantification in the context of scenario analysis; and
 - (b) an illustrative diagram to explain the relationship and links between the Strategy disclosures in NZ CS 1 and how they may inform or support one another (page 22.)

[Climate-related Disclosures – Scenario analysis information sheet | Financial Markets Authority \(fma.govt.nz\)](#)

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Auditor-General: Performance measurement in the Public Sector

22. A new article has been published on Performance reporting in the public sector. The Auditor-General advises that “It has long been unclear to the public and Parliament what outcomes are being achieved with public spending. To maintain trust and confidence in government, we all need to understand what value we are getting from our taxes, and what difference this spending is making to our lives.”

23. For the 2023 Budget, OAG focused on spending by public organisations in six key areas:
 - (a) Vote Health;
 - (b) Vote Business, Science and Innovation;
 - (c) Vote Social Development;
 - (d) Vote Education;
 - (e) Vote Transport; and
 - (f) Vote Agriculture, Biosecurity, Fisheries and Food Safety.

24. OAG found three weaknesses that urgently need addressing:
 - (a) Performance measures that are not meaningful or comprehensive.
 - (b) Gaps in measuring what difference is being made with public spending.
 - (c) Poor measures for assessing the stewardship, oversight, and monitoring functions of departments.

25. Examples included:
 - (a) The Ministry for Primary Industries has budgeted \$365.2 million for biosecurity in 2023/24. The performance measures for these appropriations focus on the Ministry's activities to prevent, monitor, and manage biosecurity risks. One, for example, measures the "percentage of international air passengers that comply with biosecurity requirements by the time they leave the Biosecurity Control Area at the airport." The measures, while helpful, focus more on the Ministry's activities rather than the impact of these activities and whether they resulted in better protection from biosecurity risks.
 - (b) Conversely, performance information for the fisheries and food safety appropriations generally provide a meaningful assessment of how well the Ministry is delivering its services and achieving better outcomes. The performance measures in these two areas include a mix of measures that assess how well the Ministry is delivering its services and the outcomes it intends to achieve — for example, the rate of a common food-borne illness per 100,000 people, and the percentage of scientifically evaluated fish stocks with no sustainability issues.

26. Overall, OAG found that the public and Parliament are not given the performance information they need to effectively scrutinise how public money will be spent. It is difficult for the public to use this information to understand what their taxes are being spent on. This needs to change.

27. Based on OAG's observations, changes to Standing Orders for the 2023-26 Parliamentary term will facilitate more and deeper scrutiny of public organisations. The quality of their performance measures and reporting will need to greatly improve to give Parliament the information it needs to hold them to account.

[Do your measures measure up? — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](https://www.oag.parliament.nz/do-your-measures-measure-up)

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NZ Herald article on TNFD by Alec Tang, KPMG partner – Sustainable Value

28. This article focuses on the recent announcement of the final recommendations by the TCFD and covers:
- (a) the relationship between nature and climate;
 - (b) Opportunities with nature;
 - (c) The NZ response to Nature, and how it should be based in a te ao Māori world view.

[Sustainable Business and Finance: Our climate and nature response - the imperative and opportunity - NZ Herald](#)

2023 Sustainability Reports

Fonterra: Sustainability reports 2023

29. This is Fonterra's first set of voluntary climate-related disclosures in preparation for mandatory climate reporting in 2024, they note that "...some of the NZ CS 1 reporting criteria are not yet met."(page 2)
30. The Fonterra response on current impacts of climate-related risks and opportunities was as follows (page 15):

While the effects of climate change are expected to intensify over the coming decades, a number of impacts are already being observed.

On-farm, supply chain and manufacturing disruption

Cyclone Gabrielle was a severe tropical cyclone that affected New Zealand's North Island in February 2023 and is a recent example of an acute weather event causing disruption to our supply chain and on-farm operations. Over 600 Fonterra farms were disrupted due to slips or flooding and other on-farm impacts, resulting in the disposal of 4.6 million litres of milk with a direct cost to Fonterra. Affected farmers received payment for milk that the Co-op was unable to collect due to the climate event under the terms and conditions on which they supply milk to the Co-op.

In addition, more than 100 farms had their operations significantly disrupted by factors like ongoing power cuts and a small number had to dry off early. The net impact was 1.5 million kilograms of milk solids (kgMS) lost, (0.1 per cent of total collections for the 2022-2023 season). There was no significant downtime observed at any of our manufacturing sites. Although there were disruptions to consumer and foodservice product deliveries, the financial impact was managed and business as usual operations resumed after three days. Other disruptions were relatively minor, such as approximately 2,475 Fonterra employees being advised to work from home, in line with guidance from local authorities including Auckland Transport.

The 2022/23 season also presented drought conditions in Southland and Otago for the third year in a row. The impact to the Co-op in terms of milk supply was not significant. However, farmers operating under drought conditions were exposed to additional cost for supplementary feed options to maintain production.

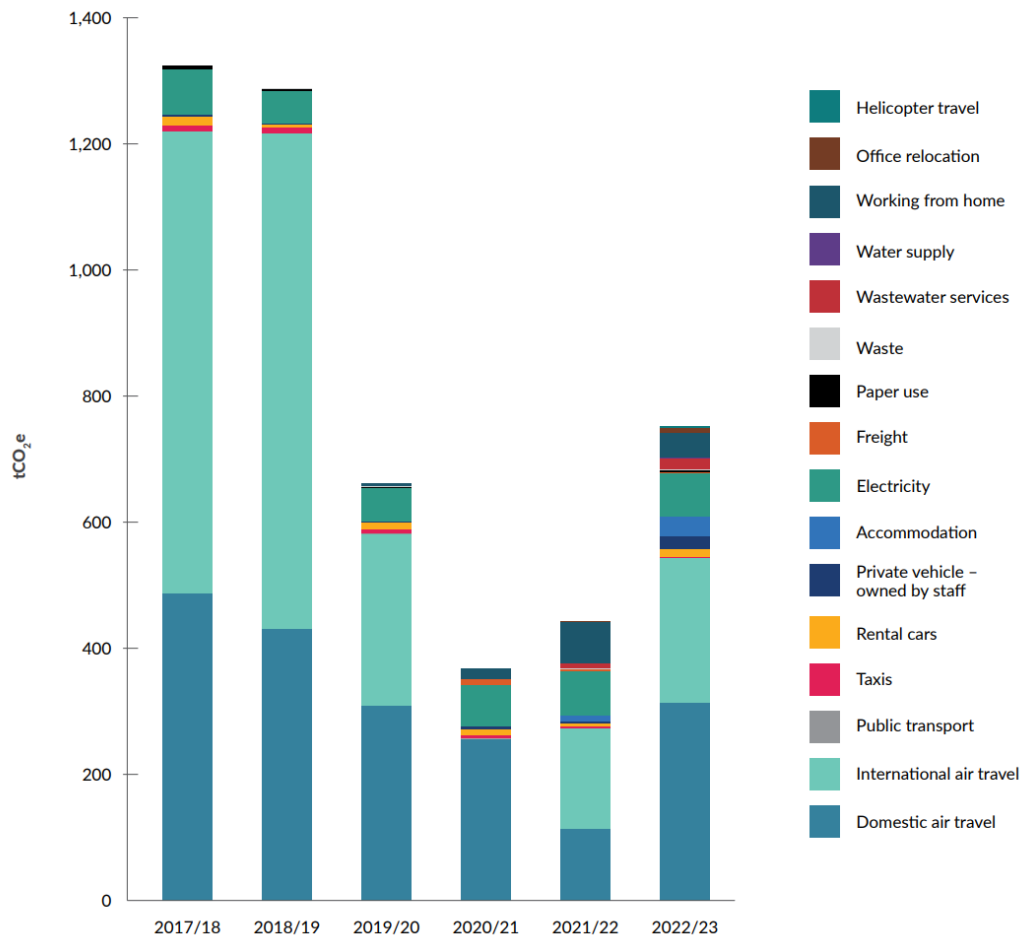
[Fonterra - Climate-related Disclosure 2023 - Page 1 \(publitas.com\)](#)

31. Fonterra was required to comply with the Australian Modern Slavery Act 2018 regulatory requirements and produced this report: [Fonterra - Modern Slavery Statement 2023 - Page 1 \(publitas.com\)](#)

Ministry for the Environment (MfE): Climate change disclosure report.

32. MfE has produced a 30 page Climate-related disclosure report in which it aligns with TCFD in a public sector context (page 5). It is interesting to the XRB Board because of the similarities with our public sector context.
33. MfE's main emissions are domestic and international travel, with an office relocation contributing in the 2022/23 year, see table below (page 27).

FIGURE 5: TOTAL EMISSIONS (tCO₂e) BY ACTIVITY, 2017/18 - 2022/23



[Ministry for the Environment’s climate-related disclosure 2022-23](#)

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	14 February 2024
Subject:	Review of Service Performance Information
Date:	24 January 2024
Prepared By:	Lisa Thomas and Bruce Mcniven

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to provide FEEDBACK on the first draft of the review standard for service performance information.

Background

2. In June 2023, the NZAuASB reconfirmed the priority of the project to develop a review standard on service performance information within the 2023/2024 period. Since then, the NZAuASB has agreed the following key aspects for the development of the standard:
 - a. Application in conjunction with the review standard for historical financial information by an assurance practitioner who is not the auditor of the entity.
 - b. Alignment with the review standard of historical information in areas such as risk assessment and understanding of internal controls.
 - c. Areas of similarity between a review and an audit engagement of service performance information, for example, assessment of whether the information is appropriate and meaningful and materiality.
 - d. Alignment with the auditing standard for service performance information in areas such as a “two step approach” i.e. firstly assessment of appropriate and meaningful and then whether the reported service performance fairly reflects the actual service performance”, use of the term appropriate and meaningful, and describing the 3 layers of service performance information.
 - e. What the work effort would look like at each stage of a review engagement of service performance information.
3. Feedback from these discussions has been incorporated into the draft exposure draft.
4. A sub-committee consisting of Mark Maloney and Wendy Venter has provided guidance to staff as required.

Matters to Consider

5. We are specifically seeking input on two matters:
 - a. **Whether the draft reflects appropriate requirements for a review engagement in both the assessment of appropriate and meaningful, and the actual service performance.**

We seek views as to whether there is a risk we have implied more than limited assurance by aligning some of the requirements with the auditing standard.

We note that the conclusion is expressed in the negative i.e. nothing has come to our attention (paragraph 41-48). Is it inconsistent for the standard's objective, the requirements and/or application material to suggest that the assurance practitioner shall understand, or gather evidence that the service performance information is appropriate and meaningful and is fairly stated?

We have explored various ways to phrase the objective of the standard (paragraph 6-7) and the requirements to understand (paragraph 16-19), plan (paragraph 20-23) and perform (paragraph 24-34) to support a limited assurance conclusion, noting that negative language may make it harder to clearly communicate what the assurance practitioner is required to do.

Three drafting approaches we have considered include:

1. Using negative language in requirements to emphasise that the onus is limited to what has come to the attention, for example, "*is not appropriate and meaningful*" rather than "*is appropriate and meaningful*".
2. Drafting the requirements at a higher level so that neither positive nor negative language is required.
3. Leave in similar language to the auditing standard (i.e. use of "*is appropriate and meaningful*" with a focus on the choice of verbs to make the distinction, for example, using "consider" in the review standard rather than "evaluate" for the audit standard on whether the service performance information *is* appropriate and meaningful.

Areas we found particularly challenging are the assessment of appropriate and meaningful (paragraph 24) and materiality (paragraph 25-29).

We are seeking your views on:

- Whether you think the current draft reads like a reasonable assurance engagement or whether the balance is right between aligning with the auditing standard for service performance information and the work effort for a limited assurance engagement.
- What approach will promote consistency in understanding and practice.

b. Whether you agree with providing additional guidance for using the work of other practitioners and experts.

ISRE (NZ) 2400 requires the assurance practitioner to be satisfied that the work performed by others is adequate and requires the engagement team to collectively have appropriate competence and capability.

We propose adding application material at paragraph A56, which is not in ISRE (NZ) 2400, that the assurance practitioner may determine such things the nature, timing and scope of work, as competence, capability, objectivity of the expert, and the risk of material misstatement when determining if the work performed by others is adequate. We felt this was important due to the breadth of subject matter that may be included in SPI reporting.

This additional application material was not required in the auditing standard for service performance information, as the auditing standard is applied in conjunction with the full ISAs which includes requirements for experts.

6. In addition, we welcome feedback on all aspects of the exposure draft, including:
 - a. Whether the exposure draft is appropriately scoped for the target audience of practitioners of tier 3 charities.
 - b. General flow of the exposure draft i.e. does the order of the requirements align to the flow of the steps you would expect for a review.
 - c. Any areas that are unclear.
 - d. Any areas that you consider onerous/not appropriate for a review engagement.
7. Any editorial comments are welcome offline.

Next steps

8. Next steps for the project are:
 - a. Refine the exposure draft for Board feedback.
 - b. Informal discussions with practitioners currently performing reviews of service performance information.
 - c. Discuss any significant issues from discussions with practitioners with sub-committee
 - d. Develop the consultation document.
 - e. Approve exposure draft and consultation document at the April meeting for issue.

Material Presented

Agenda item 3.1

Board Meeting Summary Paper

Agenda item 3.2

Draft exposure draft *Review of Service Performance Information*

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1
Meeting date: 14 February 2023
Subject: Summer intern research on service performance information
Date: 31 January 2024
Prepared By: Bruce Mcniven

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to NOTE the research findings.

Background

2. Over summer, the XRB funded two research positions for summer scholarship students, in conjunction with the Victoria University of Wellington.
3. The objectives of each project are as follows:
Research Project 1: Service performance reporting in the public and not for profit sectors
4. This project will help the XRB understand how public benefit entities are applying a new standard which requires an entity to present information on why it exists, what it intends to achieve, and how it delivers on its strategic aims.
5. This research will provide evidence of the impact of the standard and recently issued guidance and will assist future decisions about reporting and assurance requirements.
Research Project 2: Assurance of service performance reporting in smaller charitable entities
6. This project will help the XRB understand the type of assurance smaller charities obtain on their annual finance reports (as filed with the regulator). It will also provide information on the characteristics of the assurance providers, their opinions on these reports - particularly the requirement for an entity to present information on why it exists, what it intends to achieve, and how it delivers on its strategic aims.
7. This research will provide evidence of the variety of assurance smaller charities obtain and will assist future decisions about audit and other assurance requirements.
8. The student undertaking Research Project 2 worked alongside the assurance standards team. At the Board meeting, the Board will receive a recorded introduction to the findings from the researcher Danika Evans-Viskovic.
9. The Research report 2 will be available as a late paper for discussion. Research Project 1 is still in progress.

Material Presented

Agenda item 4.1 Board Meeting Summary Paper
Agenda item 4.2 Research report (late paper)

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	14 February 2024
Subject:	Authority of ISA for Less Complex Entities (LCE)
Date:	31 January 2024
Prepared By:	Bruce Mcniven

Action Required

For Information Purposes Only

Agenda Item Objective

1. The objective of this agenda item is to AGREE the proposed authority section of ISA (NZ) for LCE.

Background

The ISA for LCE issued by IAASB

2. In December 2023, the IAASB issued the ISA for LCE standard on their [website](#), together with guidance and an introductory video. Additional guidance material is expected in 2024. The standard is effective for audits of financial statements for periods beginning on or after December 15, 2025.

Authority of ISA for LCE in New Zealand

3. In October 2023, the NZAuASB agreed to recommend that the XRB adopt ISA for LCE in New Zealand. In discussion with the XRB Board, three key areas emerged:
 - (a) The need for a communication strategy to address the risk of a perception of a two Tier audit structure. Information is needed as to why the ISA for LCE is needed, what problem it will solve and how it results in the same level of assurance while being scaled for a less complex entity;
 - (b) **The scope of the standard needs to be appropriately restricted in the New Zealand context;** and
 - (c) A chapter on Service performance information will need to be drafted and exposed.
4. To continue on our journey in preparing an exposure draft of ISA (NZ) for LCE, we now consider who the standard will apply to in Aotearoa New Zealand, i.e. the Authority of ISA (NZ) for LCE.
5. There are three sections of the ISA for LCE Authority (summarised in supplementary agenda item 5.3):
 - (a) Specific Prohibitions
 - (b) Qualitative Characteristics
 - (c) Quantitative Thresholds

6. In determining the appropriate use of the ISA (NZ) for LCE, all three categories are to be considered by the auditor. As the IAASB says on their [website](#) “It is the *nature* of the business that determines if this standard can be used. Are the business activities, organizational and ownership structures, finance function, technology, accounting & reporting less complex?... It also cannot be used by entities that are listed or have public interest characteristics.”
7. If there is uncertainty about whether an audit meets the criteria as set out in the Authority, the use of the ISA (NZ) for LCE is not appropriate, and the auditor would need to use the ISAs (NZ) to undertake their audit.
8. The XRB now needs to determine whether to add specific prohibitions or quantitative thresholds in the New Zealand context. Note that national standard setters cannot edit the Qualitative Characteristics section, as this is set by the IAASB. *Audit and Reporting requirements in New Zealand*
9. Supplementary agenda item 5.4 provides a summary of the reporting and audit requirements of most entities in New Zealand and a snapshot of the number of entities in each Tier. This helps us understand what types of entities might be impacted by the authority of the ISA (NZ) for LCE.

Matters to Consider

10. The issues paper at agenda item 5.2 includes two areas to consider:
 - (a) Specific prohibitions – we recommend that the XRB prohibits Tier 1 entities from being eligible to be audited under the ISA for LCE, and
 - (b) Quantitative thresholds – we considered alternative thresholds, but recommend that there are no additional quantitative thresholds.

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues paper
Supplementary Agenda Item 5.3	Summary of the authority of ISA for LCE
Supplementary Agenda Item 5.4	Summary of audit and reporting requirements in New Zealand

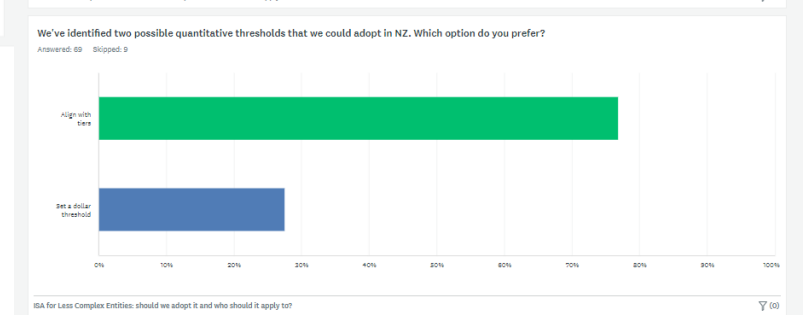
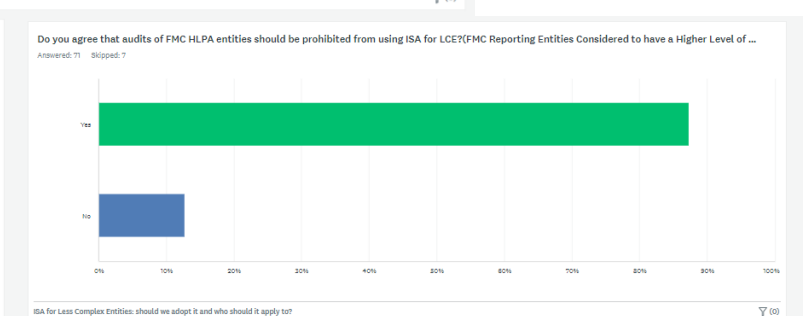
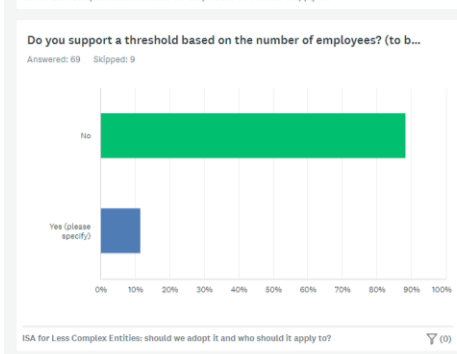
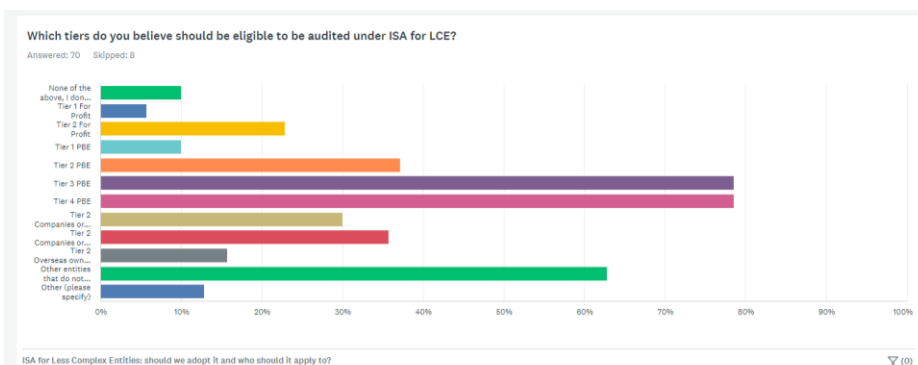
Appendix 1

Summary of feedback

In the supplementary agenda paper of the October 2023 NZAuASB meeting, we provided preliminary recommendations with the aim of discussing this further at a future meeting. These recommendations are based on the feedback received from our survey, previous consultations and discussions with auditors. The OAG has expressed support for utilising this in the public sector, e.g., school audits. As a reminder, here is a summary of relevant feedback received from our survey:

- Majority support (76.81% of 78 participants) for the ISA (NZ) for LCE to be aligned with the Tiers, so that the ISA (NZ) for LCE could apply to entities reporting under Tier 2 and below (including special purpose financial statements).
- Very few (7) participants supported Tier 1 PBE, and only 4 participants supported Tier 1 For profit being eligible to be audited under ISA (NZ) for LCE.
- The majority of stakeholders strongly supported prohibiting audits of FMC HPLA entities from being eligible to be conducted under the ISA for LCE.

Snapshot of responses to our survey:



Authority of ISA for LCE: Issues Paper

Introduction

1. This issues paper details two areas for the board to consider in relation to the authority of ISA (NZ) for LCE:
 - (a) Specific prohibitions – we recommend that the XRB prohibits Tier 1 entities from being eligible to be audited under the ISA (NZ) for LCE, and
 - (b) Quantitative thresholds – we considered alternative thresholds, but recommend that there are no additional quantitative thresholds.

A. Specific Prohibitions: Tier 1 entities

2. We recommend prohibiting the use of ISA (NZ) for LCE in the audits of Tier 1 reporting entities (covering all sectors: public sector, not-for-profit, and for-profit), for the following reasons:
 - The ISA for LCE is not designed for entities that have public interest characteristics. The definition of Public Interest Entity (PIE)¹ in New Zealand includes Tier 1 entities, because Tier 1 entities by their nature have public interest characteristics. For-profit entities in Tier 1 include those entities that have “public accountability” (as defined in XRB A1). This includes FMC reporting entities that have “higher level public accountability” in accordance with the Financial Markets Conduct Act 2013, such as certain entities that issue shares, bonds or units in a scheme to the public, registered banks and licensed insurers. For-profit public sector entities that have over \$30 million expenses are also in Tier 1.
 - The ISA for LCE might not be adaptable to address the complexities specific to the audit of a Tier 1 entity. The ISA for LCE omits requirements which would be common for Tier 1 entities such as reporting on segment information, reporting on key audit matters, or using the work of internal auditors.
 - This proposal is in line with the survey feedback received², which showed very little support the use of ISA for LCE in audits of Tier 1 entities.
3. According to data obtained by staff (supplementary agenda item 5.4), there is approx. 210 public sector PBEs and 126 registered charities in the Tier 1 space. For-profit data is not readily available.

4. **We seek the Board’s views on prohibiting Tier 1 reporting entities from being audited under the ISA (NZ) for LCE?**

B. Quantitative thresholds

5. As noted in agenda item 5.1, the XRB Board has indicated that the scope of the standard needs to be appropriately restricted in the New Zealand context.
6. The use of the ISA for LCE will be completely optional in New Zealand. Through discussions with auditors, we are aware of firms that will not adopt it, and some that may just adopt it for their audits of small/micro entities. The OAG has expressed support for adoption of this standard, noting that this

¹ Refer to [Amendments to Professional and Ethical Standard 1 \(PES 1\) Revisions to the definition of public interest entity](#), page 10. Effective from periods beginning on or after 15 December 2024.

² Appendix 1 of agenda item 5.1 summarises the survey feedback received.

standard could apply, amongst other entities, to school audits. As noted in the data in supplementary agenda item 5.4, there are a significant number of schools reporting under Tier 2.

7. We asked ourselves, if we just scoped out Tier 1 entities, could there be Tier 2 entities that might be too complex for this standard?
 - To consider the answer to this, we reviewed a sample of 24 larger Tier 2 public sector and charitable organisations, selected from the list produced for the XRB's current research project, and analysed them against the qualitative characteristics provided by the IAASB.
 - Although there are some qualitative characteristics that will require an understanding of the entity (such as the accounting software used, or the number of employees involved in financial reporting roles), other qualitative characteristics are more straight forward and answers to whether an entity has these characteristics can be found in the entity's financial statements (such as the key management personnel note, or the accounting estimates policy) and website.
 - We concluded that many of the larger, more complex, entities could be scoped out of the ISA for LCE due to a combination of the IAASB's qualitative characteristics: such as their key management team being more than 5 individuals, the number of revenue streams, the number of accounting estimates or having more than a few accounts using significant management judgement.
 - So to answer the question, it is possible that there could be Tier 2 entities that might be too complex for this standard but unlikely. Ultimately it would be up to the auditor's professional judgement to decide if the entity meets the qualitative characteristics of an LCE, and if there is uncertainty about whether an audit meets the criteria, the use of the ISA for LCE is not appropriate.
8. We do have the option of adding quantitative thresholds, should the board wish to further restrict the use of the ISA for LCE in New Zealand. We have come up with two possible options.
9. The risk with this however is if we do scope out too many entities, this standard may not have enough uptake by auditors to make this process of issuing the standard worthwhile.
10. Perhaps empowering auditors to judge whether the ISA(NZ) for LCE is suitable to use for their client, and the XRB supporting them with appropriate guidance (and a good comms plan), may be the way forward.
11. The following are three options for the quantitative thresholds section that we have identified:

Option 1: Scope out those entities with more than 5 individuals in the Key Management Team

One potential quantitative threshold is key management team (KMT) size of five individuals. While KMT size already appears in the qualitative characteristics, pulling it out as a standalone threshold reinforces the link between organizational structure and complexity. This threshold suggests entities with more than five individuals in the KMT would not be eligible to be audited under the ISA (NZ) for LCE.

Benefits	Risks
<p>Reinforces complexity characteristic: Linking organisational structure to complexity is logical, and a small KMT can suggest it is a less complex entity.</p> <p>Ease of use and application: KMT information is readily available and less prone to manipulation compared to other quantitative factors (like level of expenses).</p> <p>Potential stability: KMT size may be less susceptible to fluctuation than other possible thresholds.</p>	<p>May have unintended consequences: This may scope out Tier 3 entities that are management heavy, but otherwise have characteristics of a less complex entity. The author reviewed 35 financial statements of Tier 3 not-for-profit entities. Five of those entities had more than 5 individuals in their key management team, but they may otherwise be eligible to be audited under the ISA for LCE. Across the 35 not-for-profit Tier 3 entities, the average number of key management team individuals was 3.</p> <p>Arbitrary threshold: The 5-individual limit needs justification and further research to confirm its validity for the New Zealand context, across sectors and entity types.</p> <p>School audit challenges: This may unnecessarily exclude some school audits, as heads of departments are often seen as key management team members alongside the principal and deputy principal – leading to more than 5 in the KMT.</p> <p>Lack of KMT definition: The IAASB has not formally defined key management team, so it could be open to interpretation or require the XRB to provide a definition.</p> <p>Loss of auditor flexibility: Some may argue that a rigid threshold hinders auditors' professional judgment in choosing the appropriate standard.</p>
<p>Conclusion: Most likely not suitable because it could possibly scope out too many entities, particularly small entities with many key managers, and many schools.</p>	

12. We also considered the number of employees as a threshold. However more employees may not indicate complexity, perhaps just inefficiency or labour intensive operations. Many not-for-profit organisations heavily depend on volunteers, not employees, so a threshold based on the number of employees would not make sense for charities. Ultimately, we concluded that exploring this threshold in more detail was not deemed worthwhile.

Option 2: Scope out entities with total expenditure over \$5million

Another option considered is to scope out entities with total expenditure over \$5million (ie the proposed PBE upper threshold for Tier 3).

A dollar threshold is more appropriate than just scoping out all Tier 2 entities. As one auditor we spoke to pointed out, Tier 3 entities could voluntarily adopt (or be mandatorily required to adopt) the Tier 2 financial reporting framework. It would not make sense to prohibit an entity from being audited under the ISA (NZ) for

LCE, just because it has voluntarily decided to opt-up to the Tier 2 framework, especially if they otherwise meet the characteristics of an LCE.	
Benefits	Risks
<p>Focus on Tier 3 and 4 entities, (and small special purpose financial statements): Simplifies the scope of ISA for LCE to just Tier 3 and 4 entities (and perhaps some voluntary adopters of Tier 2) and an unknown amount of special purpose financial statements who are audited. Essentially, this approach excludes the majority of Tier 2 entities. Tier 2 entities may be seen by some as more complex due to their more complex disclosure and accounting treatments.</p> <p>Consistency: Setting a clear quantitative threshold can promote consistent application of the LCE standard across different auditors and entities</p> <p>Majority of registered charities captured: Based on the data of registered charities, noted in supplementary agenda item 5.4, most not-for-profits could still fall under the LCE scope.</p>	<p>Limited for-profit data: Lack of data on for-profit entities makes it difficult to assess if \$5 million accurately reflects complexity in that sector.</p> <p>School audit challenge: Excluding larger schools due to exceeding the threshold might be inconsistent with OAG expectation to utilise this standard on school audits.</p> <p>Inflation and NZASB adjustments: Regular reviews and potential adjustments for inflation and NZASB changes are crucial to maintain the threshold's relevance.</p> <p>Loss of auditor flexibility: Some may argue that a rigid threshold hinders auditors' professional judgment in choosing the appropriate standard.</p> <p>Potential for unintended consequences from having such thresholds. For example, auditors needing to transition to ISA (NZ) mid-audit, if adjustments are made to the expenditure figures which result in an entity exceeding \$5million or even entities structuring themselves just below the threshold to qualify for ISA for LCE.</p>
Conclusion: May lead to too many public sector audits being scoped out, particularly if the OAG wishes to use ISA (NZ) for LCE in the Tier 2 (school audit) space.	

Option 3: No further quantitative thresholds	
<p>Another option considered is not having a standalone quantitative threshold:</p> <ul style="list-style-type: none"> • Lack of strong suggestions or support for other thresholds apart from the Tier threshold, in survey or in our other consultations. • Our survey findings indicated preference for only excluding Tier 1 and FMC HLPAs (i.e. use ISA (NZ) for LCE in eligible audits of Tier 2 and below, including special purpose). • Potential for adding unnecessary complexity with adding more thresholds to the marketplace. One survey respondent summarised it "I think having another threshold for audit is likely to cause further confusion for auditors." • The mix of qualitative characteristics and specific prohibitions may be sufficient to scope-out complex entities and thus sufficiently restrict the use of the standard. 	
Benefits	Risks
<p>Wider scope: Eliminating quantitative thresholds avoids potentially excluding entities based solely on arbitrary metrics like KMT size or expenditure. This could ensure the ISA for LCE standard's applicability to a broader range of entities potentially needing its simplified approach.</p> <p>Reduced maintenance: Without quantitative thresholds, adjustments for inflation or economic</p>	<p>Lack of clarity: The absence of quantitative thresholds might be seen as insufficiently restrictive by some stakeholders.</p> <p>Inconsistent application: Increased reliance on qualitative characteristics for scoping could lead to inconsistent application across different auditors and entities, potentially undermining the standard's overall consistency and comparability. To mitigate the</p>

<p>changes wouldn't be necessary, simplifying future maintenance of the standard's authority.</p> <p>School audit alignment: This aligns with the OAG's support for using the ISA for LCE standard for school audits, as schools wouldn't be automatically excluded by exceeding a quantitative threshold.</p>	<p>risk of inconsistent application, clear and detailed guidance on interpreting and applying the qualitative characteristics for scoping purposes may be needed. We understand guidance is being developed by the IAASB currently.</p>
<p>Conclusion: Our recommended option.</p>	

13. We seek the Board's views on the potential options for the quantitative thresholds? Our recommended option is option 3, but which option do you prefer, or do you have any other suggestions?

DATE: 18 December 2023
TO: Members of the External Reporting Board
FROM: Greg Schollum, IAASB member
Misha Pieters, Technical Advisor to Greg and Director Assurance
SUBJECT: December 2023 IAASB meeting

Action: To **NOTE** the update from the IAASB December meeting.

IAASB activities of high strategic importance to the XRB

1. Tom Seidenstein, IAASB Chair will visit New Zealand and Australia in February 2024. Tom will be in Auckland on February 26th and 27th prior to going to Australia. Outreach events will be planned with the XRB, NZAuASB and others.
2. Key areas of strategic importance arising from the December meeting are summarised below. The full meeting report is in the appendix.
3. The XRB adopts the IAASB’s standards and amends these only if there is a compelling reason to do so. Key projects of focus include:

Project	Timing	Impact/urgency
The IAASB’s Strategy and Work Plan (SWP)	SWP 2024-2027 approved unanimously.	Medium. Work plan of the IAASB directly impacts XRB’s standards. Revision of the standard for interim reviews is included in the workplan and has been earmarked for NSS assistance. The XRB have requested inclusion of this project for some time. There may be an opportunity to assist the IAASB in this project.
Fraud	Exposure Draft approved with one dissenting vote. To be issued early February 2024 with a 120-day comment period.	Medium. The revisions require a fraud lens focus to enhance auditor performance and a transparency mechanism in the auditor’s report via the KAM mechanism. There are mixed views for using the KAM mechanism for reporting fraud related matters in the auditor’s report. Greg will join the Fraud Task Force in 2024.
Public interest entity changes to auditing standards	Narrow scope exposure draft approved unanimously with a 90-day comment period.	High. The intent of the proposals is to align the scope of the differential requirements in the ISAs with the scope of the differential independence requirements in the IESBA Code that apply to public interest entities. In New Zealand, the XRB has not aligned the scope historically, but has been broader than the international position. Adopting the XRB’s PIE definition in the ISAs (NZ) will expand the requirements for engagement quality reviews and reporting of Key Audit Matters.

Appendix: Full report from the IAASB December 2023 meeting

1. Key topics on the December agenda included:

- Approval of an exposure draft (ED) to revise ISA 240, *Fraud*.
- Approval of an ED of narrow scope amendments, as a result of revisions by IESBA to the definitions of listed entity and public interest entity.
- Approval of the IAASB's Strategy and Work Plan (SWP) for 2024-2027.
- Further discussion of responses to ED ISA 500 (Revised), *Audit Evidence*.
- Themes emerging at outreach events on ED ISSA 5000¹.
- Updates from the IASB, ISSB and GRI.

The full December 2023 meeting papers can be accessed [here](#).

Fraud

2. The IAASB approved an ED proposing to revise ISA 240² on Fraud, with one dissenting vote. The key matters discussed in finalising the ED included:

- The key attribute of authenticity of documents and records. In September, the IAASB explored a conforming amendment to ISA 200³ to remove application material that states, "the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary." In co-ordination with the audit evidence task force, it was agreed that removing this sentence was a step too far and the Board agreed to retain the extant wording in ISA 200.
- Greg highlighted that in most instances, fraud is identified by management and/or the client's internal control systems, rather than as a result of the auditor performing audit procedures and requested that this emphasis be recognised. Application material that reflects this balance was noted.
- Clarification of the connection between fraud risk factors, the risk assessment required by ISA 315 (Revised)⁴, and the consideration of controls.
- Greg raised a concern at the draft requirements when an auditor identifies fraud or suspected fraud, noting it is impractical for the engagement partner to discuss every fraud (with no materiality filter) with both management and those charged with governance. Other board members agreed. The ED was adjusted to clarify that it is the auditor (not always the engagement partner) that shall make further enquiries. Further adjustments clarified that enquiries with those charged with governance are only required when appropriate.
- Co-ordination of the impact of three projects (going concern, fraud and PIE) affecting the auditor's report, noting proposals to expand requirements applicable to listed entities, to PIEs. Various views currently exist among board members as to whether to permit early adoption or ensure that all proposed changes to the auditor's report are adopted at the same time.

The dissenting view was that the ED did not go far enough without a "stand back" requirement, as introduced in other recent ISA revisions. Fraud is concealed by the perpetrator, so the dissenting view was that a stand back requirement would reinforce the need for the engagement partner to exercise professional judgement using a fraud lens. The counter argument was a "stand back" is already in other ISAs. Recently the IAASB has been criticised for sprinkling stand back requirements throughout the ISAs.

¹ ED ISSA 5000, General Requirements for Sustainability Assurance Engagements

² ISA 240, The Auditor's Responsibilities Relating to fraud in an Audit of Financial Statements

³ ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit

⁴ ISA 315 (Revised 2019), Identifying and Assessing the Risks of material Misstatement

Impact on the XRB: The ED is expected to be issued in early February 2024. Plans are underway to engage widely to gather a range of views, given the fraud requires a whole of ecosystem response, noting that the XRB assurance team will be consulting on 3 other EDs in a similar time period. A key proposal is the use of the KAM mechanism to require the reporting of fraud-related KAMs in the auditor's report.

Narrow scope amendments as a result of the public interest entity definition

3. The IAASB unanimously approved an ED proposing narrow scope amendments as a result of the revisions to the definitions of listed entity and public interest entity (PIE) in the IESBA Code. The objective is to expand the differential requirements in the ISAs and ISQMs that apply to "listed entities" to apply to PIEs. (e.g., key audit matters, engagement quality review). This is to align the approach to, and definition of, a PIE with the revised PIE definition in the IESBA Code.
4. The ED is expected to be issued in January 2024 with a 90-day comment period.

Impact on the XRB: In November, the NZAuASB agreed to prepare a New Zealand consultation document, to explore the PIE definition as defined by the XRB in the Code of Ethics for Assurance Practitioners (i.e., aligning with the definition of a tier 1 reporting entity, which includes large public sector entities and large public benefit entities) in the context of the ISAs (NZ). With the IAASB proposals to align with the IESBA, it is necessary to explore whether the NZ PIE definition remains fit for purpose, in the context of both the ISAs (NZ) and the independence requirements that apply in New Zealand.

Strategy and Work Plan 2024-2027

5. The IAASB unanimously approved its Strategy and Work Plan 2024-2027.
6. The IAASB intends to focus its resources and effort over the next 4 years by reference to a 70/30 split, 70% to audit and review projects and 30% to sustainability and other assurance projects.
7. A key update to the SWP is the need to increase the focus on the implications of technology, in response to feedback received. The updated work plan includes an integrated project dealing with audit evidence and risk response, including the use of technology and internal control:
 - a. Develop a position which sets out a vision and roadmap as to how to deal with technology throughout the standards and in non-authoritative guidance,
 - b. This position on technology along with the scoping of the review of ISA 330/ISA 520 will inform the finalisation of the framework standard ISA 500 on audit evidence, for which revisions have already been exposed; This may mean a delay in finalising ISA 500 (Revised),
 - c. Inform the development of revisions to performance standards, ISA 330⁵ and ISA 520⁶, and
 - d. Revisions to other standards, ISA 501⁷, ISA 505⁸ would be developed later.

The integrated project will be the first "staff led" project as the IAASB works to operationalise the monitoring group reforms that are yet to be implemented.

The PIOB has stressed the importance of the IAASB reconsidering the auditor's work on internal control and has expressed support for the integrated project.

⁵ ISA 330, The Auditor's Responses to Assessed Risks

⁶ ISA 520, Analytical Procedures

⁷ ISA 501, Audit Evidence – Specific Considerations for Selected Items

⁸ ISA 505, External Confirmations

Impact on the XRB: The work plan of the IAASB directly impacts the standards of the XRB. The approved SWP has been built into the NZAuASB's prioritisation schedule for 2024/25. There may be an opportunity for the XRB to assist in the project on interim review engagements. It will be important to closely monitor developments on internal controls.

Audit Evidence

8. The IAASB continued its discussions on submissions received in response to the ED proposing to revise the audit evidence standard. In light of the discussions on the SWP 2024-2027, the audit evidence project will only progress so far, and then will pause until the IAASB has determined a position on the vision and roadmap for how to deal with technology pervasively. This position is expected to be developed by September 2024. Greg is on the audit evidence task force.
9. The IAASB discussions focused on:
 - Possible ways to include more guidance on automated tools and techniques (ATT) to address calls for further guidance. However, no decisions will be made until the IAASB's vision and roadmap for technology is determined.
 - Mixed views on a conditional requirement to address when the auditor uses automated tools and techniques, with suitable application material.
 - Mixed views of using "significant" as the threshold for the auditor's consideration of the attributes of relevance and reliability, while ensuring the response is proportionate to the circumstances. The auditor needs to consider where the information is coming from and the attributes of relevance and reliability. Based on the circumstances, sometimes these attributes will not be called into question, so the wording needs to reflect the prompt to consider the circumstances, and to do more where there may be threats to the reliability of the information. The auditor needs to get sufficient support for these attributes. This is going to be a key point for ongoing discussions with regulators.
 - General support for the approach to the conditional requirement for the attributes of accuracy and completeness ie to ordinarily be considered for internal sources of information.
 - Support for the approach to emphasize the application of professional scepticism.

Impact on the XRB: Greg is on the audit evidence Task Force. While work is expected to continue in Q1 2024 the timing of this project may be delayed depending on the position on the use of technology and the scoping of the project to revise ISA 330/ISA 520.

Key themes emerging from sustainability outreach

10. The IAASB staff are yet to analyse the submissions received in response to ED ISSA 5000. At the meeting, staff presented a summary of key themes that emerged through roundtable discussions, and other outreach activities:
 - Agreement on the importance of ethics and quality management, while recognising questions persist as to what does "at least as demanding" mean.
 - Materiality from the entity's perspective, with the idea of introducing a conditional requirement to evaluate the entity's materiality process, depending on the reporting framework's requirements.
 - Materiality from the practitioner's perspective.
 - Group engagements and the need for timely and ongoing communication between the Group engagement leader and component auditors and other practitioners.

- The need to address requirements for communication between the financial statement auditor and the sustainability assurance practitioner.
 - Questions as to what will happen to ISAE 3410⁹ and how will ISAE 3410 interact with ISSA 5000.
 - A preference to split the work effort on estimates and forecast information.
 - More clarity about the differences between limited assurance engagements and reasonable assurance engagements.
 - Other matters including the focus on fraud, use of experts and whether to require the use of KAMs.
 - Requests for additional guidance in the application for ISSA 5000, including a “get started” guide.
11. The IAASB also received an update on the IESBA’s EDs on the use of experts and the sustainability ethics and independence requirements. The IESBA approved these two EDs at its December meeting, and we expect them to be issued at the end of January 2024.

Impact on the XRB: It will be important to continue to monitor developments of the IAASB’s and the IESBA’s work on sustainability to determine if and how to adopt these standards in New Zealand.

Updates from the IASB, ISSB and GRI

12. The IAASB received an update from the IASB on its work plan and key developments. The topic of going concern was discussed with both the IAASB and the IASB recognising the importance of continuing to co-ordinate. That said, there does not appear to be a strong appetite by the IASB to update IAS 1 in respect of going concern.
13. Sue Lloyd provided an update on the ISSB’s work, which is focused on supporting the adoption and implementation of IFRS S1 and IFRS S2. The need to support entities through this significant period of change was highlighted, i.e., “good not perfect”, with an expectation of improvement over time.
14. The IOSCO endorsement of the ISSB standards and the support expressed for the IAASB’s ED 5000 was highlighted, given the important role of assurance to enhance confidence in the reporting, together with the importance of ongoing co-ordination between the IAASB and ISSB.
15. Sue Lloyd reiterated the importance of adoption of both S1 and S2 which are intended to work as a package, given S1 includes the definition of materiality.
16. Carol Adams provided an update on the GRI’s work plan and key projects, highlighting the ED which is currently open for consultation on climate change. Carol also provided an overview of the key themes submitted by GRI in response to the IAASB’s proposed ED 5000 on sustainability assurance. She highlighted the importance of the entity’s materiality process, which is a key requirement of the GRI reporting framework, together with a focus on the impacts that the entity has on relevant aspects of sustainable development.

⁹ ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1
Meeting date: 14 February 2024
Subject: Narrow Scope Amendments: Public Interest Entity
Date: 31 January 2024
Prepared By: Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to approve:
 - the New Zealand consultation paper on the proposed narrow scope amendments to auditing and professional and ethical standards as a result of revisions to the definitions of listed entity and public interest entity in the international code of ethics.

Background

2. At its December meeting, the International Auditing and Assurance Standards Board (IAASB) approved an exposure draft of proposed narrow scope amendments to its standards in response to recent revisions to the International Code of Ethics¹. The exposure draft was issued in January 2024 for a 90 day consultation with submissions due 8 April 2024.
3. The NZAuASB discussed a draft of the proposals and considered issues related to the proposals at its November meeting, agreeing:
 - That the differential requirements in the relevant ISAs (NZ) and Professional and Ethical Standards should, consistent with the international proposals, be expanded to apply to public interest entities; and
 - That the exposure draft should be accompanied by a New Zealand wraparound explaining the proposed change for New Zealand and seeking views on the proposed New Zealand approach.
4. The draft New Zealand consultation paper is presented in agenda item 8.2.

Action requested

5. We ask the Board to approve the New Zealand consultation on the proposed Narrow Scope Amendments.

¹ International Ethics Standards Board for Accountants (IESBA), *International Code of Ethics for Professional Accountants (including International Independence Standards)*

Next steps

6. We intend to prepare a submission to the IAASB and will seek approval at the April meeting. The New Zealand consultation period is planned to close after the IAASB's 90 day consultation period.

Material Presented

Agenda item 8.1 Board Meeting Summary Paper

Agenda item 8.2 Draft New Zealand Consultation document

Supplementary paper

Agenda item 8.3 IAASB Explanatory Memorandum and Exposure Draft

Narrow Scope Amendments to ISAs (NZ)

PART ONE:

Introduction

What is this consultation document about?

The External Reporting Board has issued this consultation document to seek feedback on its proposal to expand the application of the differential requirements in the International Standards on Auditing (New Zealand) and Professional and Ethical Standards to Public Interest Entities.

The International Auditing and Assurance Standards Board (IAASB) is proposing to adopt the definition of public interest entity used in the International Code of Ethics, and to expand the application of certain extant differential requirements in the auditing and assurance standards from listed entities to Public Interest Entities. The differential requirements are necessary to address the significant public interest in the financial condition of certain entities due to the potential impact of their financial well-being on stakeholders.

In line with the XRB's policy and principles of convergence to international standards, the XRB is seeking your views on the applicability of these differential requirements to public interest entities in the New Zealand auditing and assurance standards.

The XRB's definition of a public interest entity includes

- Entities that have public accountability; and
- Entities that are large.

FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs) are deemed to have public accountability. Large public sector and not-for-profit entities are also captured as public interest entities under the New Zealand approach.

The proposal to expand the application of the differential requirements to public interest entities will impact audit engagements of large public sector and not-for-profit entities. The key impact is that reporting of key audit matters and mandatory engagement quality review will be required for these engagements. Additionally, there are specific matters that are required to be communicated with those charged with governance or in the auditor's report.

We are seeking your views on the proposed expanded applicability in the New Zealand market.

This consultation document should be read in conjunction with the IAASB [Explanatory Memorandum and Exposure Draft](#).

2. How to provide feedback?

Responding to consultation questions

We are seeking comments on the questions below. We will consider all comments received before finalising the narrow scope amendments in New Zealand.

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

1. Do you agree that the definition of public interest entity should be consistent between the auditing and assurance standards and the professional and ethical standards? If not, please explain why not.

2. For each of the differential requirements, do you agree with the proposal to extend the application to public interest entities? If not, please explain why not and why in your view it is not in the public interest to do so.
 - a) Mandatory engagement quality review. (PES 3 para NZ34(f))
 - b) Required communications with those charged with governance about the firm's system of quality management. (PES 3 para NZ 34(e))
 - c) Communications about auditor independence (ISA (NZ) 260 (Revised) and ISA (NZ) 700 (Revised)).
 - d) Communicating key audit matters in the auditor's report (ISA (NZ) 700 (Revised) and ISA (NZ) 701)).
 - e) Name of the engagement partner (ISA (NZ) 700 (Revised))
3. What, if any, are the significant extra costs arising from compliance with the proposals? If significant extra costs are expected, we would like to understand:
 - a) Where those costs are likely to occur;
 - b) The estimated extent of costs, in percentage terms relative to the audit fee; and
 - c) Whether expected costs outweigh the benefits to users of the audit?
4. Are there any other significant public interest matters that you wish to raise?

Making a submission

You can provide feedback to us via:

- The consultation page on our website (where you can upload a PDF or complete an online form);
- Emailing your formal or informal comments to assurance@xrb.govt.nz; or
- Attending our virtual feedback forum.

This consultation closes on **15 May 2024**. However, early submission of your responses to inform our submission to the IAASB would be appreciated.

PART TWO:

Proposed Amendments

3.

Expanding the application of the differential requirements to public interest entities

Background

The International Auditing and Assurance Standards Board (IAASB) proposes to expand the application of differential requirements applicable to listed entities in its standards to public interest entities.

In adopting the IAASB's standards, the XRB has historically expanded the application of these requirements to apply to FMC reporting entities considered to have a higher level of public accountability. Examples of such entities include, issuers of equity securities or debt securities under a regulated offer, listed issuers, registered banks, licensed insurers, credit unions, building societies.¹

Given that the IAASB is looking to expand the applicability of certain requirements, to align with the definition of a public interest entity, the XRB is proposing to expand its differential requirements to public interest entities as defined in Professional and Ethical Standard 1² (the Code of Ethics).

These differential requirements are necessary to address the significant public interest in the financial condition of certain entities due to the potential impact of their financial well-being on stakeholders. The purpose of the differential requirements is to meet the heightened expectations of stakeholders regarding the audit engagement, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

The differential requirements do not change the work effort required for an auditor to conclude whether the financial statements are fairly presented. Rather, they impact:

- Reporting of key audit matters;
- Communicating with those charged with governance about the system of quality management and independence; and
- Mandatory engagement quality review.

Under the proposals, in addition to FMC reporting entities considered to have a higher level of public accountability, the differential requirements would apply also to audits of large public sector and not for profit entities. That means, reporting of key audit matters and mandatory engagement quality review will be required for audit engagements of large public sector and not-for-profit entities, as well as communication of other specific matters.

How will the proposed changes apply in NZ

The definition of public interest entity adopted in New Zealand, as defined in Code of Ethics includes any entity that meets the Tier 1 criteria in accordance with XRB A1³ and is not eligible to report in accordance with the accounting requirements of another tier.

Accordingly, the New Zealand PIE definition captures:

- Entities that have public accountability; and
- Entities that are large, as defined by XRB A2⁴

FMC reporting entities considered to have a higher level of public accountability are deemed to have public accountability. Large public sector and not-for-profit entities⁵ are also captured under the New Zealand approach.

The XRB's objective of linking the public interest entity definition to the tier 1 criteria in XRB A1 was for understandability and simplicity (i.e., not introducing unnecessary complexity to the multi-sector, multi-tier approach). It is also considered appropriate that audits or reviews of entities that can only report using tier 1 financial reporting requirements should be subject to the most rigorous and stringent independence rules.

The Code of Ethics includes more stringent independence requirements applicable for auditors and reviewers of public interest entities. For example, the key audit partner is required to rotate more

¹ Section 461K of the Financial Markets Conduct Act 2013 prescribes the FMC reporting entities considered to have a higher level of public accountability.

² Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

³ External Reporting Board Standard (XRB) A1, *Application of the Accounting Standards Framework*

⁴ External Reporting Board Standard (XRB) A2, *Meaning of Specified Statutory Size Thresholds*

⁵ The New Zealand Accounting Standards Board has a current project to consider [amendments to increase the Public Benefit Entity tier size thresholds](#).

frequently on a public interest entity engagement. In addition, auditors of public interest entities are prohibited from performing certain non-assurance services for public interest entities, whereas on non-public interest entity engagements the auditor can apply a threats and safeguards approach which may enable them to perform some non-assurance services that would be otherwise prohibited. The public interest entity definition was developed for purposes of the Code of Ethics and has not previously been applied in the context of the auditing requirements.

The XRB is now considering expanding the application of the differential requirements in its auditing and professional and ethical standards to apply to all public interest entities. Applying the differential requirements to all entities determined to have public accountability would enhance audit quality. The more stringent requirements in the Code of Ethics apply to audit and review engagements of entities using the tier 1 accounting requirements, whereas the stricter auditing requirements apply only to a subset of those entities. This has created layers in the standards with only FMC reporting entities with higher public accountability explicitly subject to the more rigorous ethical and auditing requirements. Using the most onerous audit and independence requirements is in the public interest for all entities that have public accountability.

What are the differential requirements?

Reporting of key audit matters and other specified matters in the auditor's report

Key audit matters are those matters that, in the auditor's professional judgement were of most significance in the audit of the financial statements. Key audit matters are selected from matters communicated with those charged with governance.

Key audit matters:

- Enhance the communicative value of the audit report by offering better transparency about the audit.
- Provide additional information to users to understand the professional judgement of the auditors.
- Help in understanding the areas of crucial management judgement in audited financial statements.
- May encourage users to further engage with the those charged with governance and managing by using the information in the key audit matter.

Our recent Trust and Confidence research report, [Views from Audit Committee Chairs](#) highlights the value of key audit matters.

When introducing the requirements for key audit matters in New Zealand, the XRB signaled its intent to explore expanding key audit matters to all public interest entities at a later date. Key audit matters are voluntarily included in auditors' reports for some public sector entities. For example, the auditors' reports for the Financial Statements of the Government of New Zealand, Auckland Council and Te Whatu Ora include key audit matters.

Other matters required to be reported in the auditor's report under the differential requirements include naming of the audit partner and communicating about auditor independence/

Mandatory engagement quality review

Mandatory engagement quality reviews are already required broadly in New Zealand.

Professional and Ethical Standard 3 requires an engagement quality review for audits of FMC reporting entities considered to have a higher level of public accountability, and for all engagements where an engagement quality review is required by law or regulation. Additionally, firms are required to establish policies and procedures that address engagement quality reviews as an appropriate response to address quality risks.

Whether a tier 1 reporting entity audit engagement in the public sector and not-for-profit sector is subject to an engagement quality review depends on the assessed risk under the extant differential

provisions. Under the proposal, public sector and not-for-profit tier 1 reporting entity engagements that are not assessed as high risk would be subject to mandatory engagement quality review.

Communications with those charged with governance

The auditing standards require communications with those charged with governance about the following matters:

- compliance with relevant ethical standards, including
 - all relationships and other matters that in the auditor's professional judgement may reasonably be thought to bear on independence
 - In respect of threats to independence that are not at an acceptable level, actions taken to address or eliminate those threats.
- About how the system of quality management supports the consistent performance of quality audit engagements

Cost vs benefit

The benefit of creating a consistent level of financial reporting, requiring the application of the highest financial reporting requirements, and then having those audited using the most robust auditing and independence requirements comes with increased costs in terms of the compliance burden. Under the accounting standards framework multi-tier structure, an entity that has public accountability or is large (total expenses greater than \$30million) reports in accordance with the tier 1 accounting requirements.

Tier 1 PBE reporting entities	#
Public sector PBE ⁶	222
Not for profit PBE ⁷	126
Tier 1 Public sector for profit entities ⁸	116

In the public sector, the Auditor-General voluntarily reports key audit matters for some audit engagements and applies a risk-based lens to determine engagements subject to engagement quality review.

The New Zealand Accounting Standards Board has a current project to review the public benefit entity tier sizes and has proposed increases to the thresholds. We would therefore expect to see a decrease in the number of entities meeting the criteria to report in accordance with the tier 1 reporting requirements.

The benefit of extending the requirements to all public interest entities, is that it maintains a consistent level of audit requirements and avoids creating sub-levels of assurance requirements. However, under a risk-based audit approach it is not clear that expanding the differential requirements to all public interest entities is needed, nor whether this would have a positive impact on audit quality that would exceed the cost of requiring it.

We want to hear your views

⁶ Public sector information supplied by OAG staff

⁷ Not for profit information obtained from NZASB PBE Tier consultation

⁸ Public sector information supplied by OAG staff

1. Do you agree that the definition of public interest entity should be consistent between the auditing and assurance standards and the professional and ethical standards? If not, please explain why not.
 2. For each of the differential requirements, do you agree with the proposal to extend the application to public interest entities? If not, please explain why not and why in your view it is not in the public interest to do so.
 - a) Mandatory engagement quality review. (PES 3 para NZ34(f))
 - b) Required communications with those charged with governance about the firm's system of quality management. (PES 3 para NZ 34(e))
 - c) Communications about auditor independence (ISA (NZ) 260 (Revised) and ISA (NZ) 700 (Revised)).
 - d) Communicating key audit matters in the auditor's report (ISA (NZ) 700 (Revised) and ISA (NZ) 701)).
 - e) Name of the engagement partner (ISA (NZ) 700 (Revised))
 3. What, if any, are the significant extra costs arising from compliance with the proposals? If significant extra costs are expected, we would like to understand:
 - d) Where those costs are likely to occur;
 - e) The estimated extent of costs, in percentage terms relative to the audit fee; and
 - f) Whether expected costs outweigh the benefits to users of the audit?
4. Are there any other significant public interest matters that you wish to raise?

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 15 February 2023

Subject: Responsible Investor Association of Australasia (RIAA)

Date: 1 February 2024

Prepared By: Misha Pieters

 Action Required **For Information Purposes Only**

Agenda Item Objectives

1. For the Board to meet with representatives from the Responsible Investor Association of Australasia (RIAA).

Background

2. Representatives from the RIAA will be visiting the XRB on the day of the NZAuASB meeting, including:
 - a. Dean Hegarty, Co-CEO/Executive Director
 - b. Estelle Parker, Co-CEO and
 - c. Nayanisha Samarakoon, Head of Policy.
3. Understanding the views of investor groups and their information needs is critical to the work of the XRB.
4. RIAA representatives will meet separately with the XRB CEO, and have discussions with the climate and accounting teams during the course of the afternoon.
5. We have invited the RIAA representatives to join the board meeting for them to learn more about how the XRB operates and to explore perspectives and ways to engage with users.
6. Time may be limited but possible topics to explore may include:
 - a. Ways to engage users in assurance standards
 - b. The value of the assurance product to users
 - c. Reasonable and limited assurance
 - d. Exploring ways to enhance audit/assurance reports

Material Presented

Agenda item 9.1

Board Meeting Summary Paper

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	10.1
Meeting date:	14 February 2024
Subject:	IESBA Ethics and Independence Standards for Sustainability Reporting
Date:	30 January 2024
Prepared By:	Karen Tipper

 Action Required **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is for the Board's to **DISCUSS** and **AGREE**:
 - a. the key issues to include in the NZAuASB's submission to the IESBA on the proposed Ethical and Independence Code for Sustainability Assurance Practitioners.
 - b. the tone of the proposed submission.

Background

2. The IESBA released their Exposure Draft for Ethics and Independence Standards for Sustainability Reporting on 29 January 2024. The IESBA's consultation period finishes on 10 May and the approval of the final standard is expected in December 2024.
3. We have released the IESBA's Exposure Draft for consultation in New Zealand. Our consultation period finishes on 15 April 2024 to allow us to prepare the submission to the IESBA.
4. The IESBA is consulting on:
 - Revisions to the existing parts of the Code of Ethics for sustainability. These revisions will be relevant to professional accountants when they provide sustainability related services, including sustainability reporting.
 - New Part to the Code of Ethics – Part 5. This part includes ethics and independence standards for all sustainability assurance practitioners (professional accountants and other professionals performing sustainability assurance engagements).
5. Our mandate is limited to preparing and issuing the professional and ethical standards that will govern the professional conduct of assurance practitioners. We do not intend to address the changes relevant to all professional accountants in our outreach and submission.
6. We intend to focus on the updates in the new part 5 of the Code in our outreach.
7. Part 5 has been drafted based on the independence and ethical requirements in the extant section of the code for the Independence of Audit and Review Engagements (Part 4a) to set a similarly high bar for ethics and independence requirements for sustainability assurance practitioners.

Matters for Consideration

8. The issues paper highlights the significant matters identified in our analysis and the areas that staff recommend be addressed in the NZAuASB's submission to the IESBA.
9. Following on from the NZAuASB November board meeting, staff are planning a focussed approach to outreach. Targeted focus groups events of between 10-15 people will be scheduled in March. Our focus groups will be targeted at practitioners. The aim of these will be to gather feedback if the IESBA's proposal is fit for purpose in New Zealand context. The feedback will help us shape our submission. A five-to-ten-page summary of requirements will be prepared prior to these events to guide and focus discussion.
10. We intend to conduct some one-one interviews with other significant stakeholders, including with investors and the academic community.
11. We understand that the IESBA is planning an outreach event in Sydney in late March, early April which the Chair and staff plan to attend.

Recommendations

12. We recommend the Board **CONSIDER** the IESBA Code of Ethics and independence for sustainability assurance practitioners proposals and **PROVIDE FEEDBACK** on significant comments which should be included in the Board's submission.
13. We intend to run the board discussion as a whiteboard session. The intent of this will be to **IDENTIFY** and **AGREE** significant issues that the Board wants to include in our submission to the IESBA. We will ask the Board to **CONSIDER** the overall tone to inform the developing submission and their views about what this should be.

Material Presented

- Agenda Item 10.2 – IESBA Ethics and Independence Standards for Sustainability Reporting – Issues Paper
- Agenda Item 10.3 – IESBA's Exposure Draft on Ethics and Independence Standards for Sustainability Reporting
- Agenda Item 10.4 – IESBA's Ethics and Independence Standards for Sustainability Reporting Explanatory Memorandum

NZAuASB Board Meeting Issues Paper – Ethics and Independence for Sustainability

AGENDA ITEM NO. 10.2

1. This paper summarises the significant issues identified by staff from our preliminary analysis of the IESBA's proposals in their Exposure Draft (ED) that we recommend be the focus for the NZAuASB response to the IESBA.
2. We ask the Board to **ADVISE** whether they agree that these are the issues of most significance and to **IDENTIFY** any other issues that they want to address in our feedback to the IESBA.
3. We ask the Board to **CONSIDER** the overall tone of the submission and their views about what this should be.

Matters to Consider

Overall Impressions

4. Overall, we recommend that our submission be supportive of the approach that the IESBA has taken in developing this ED. We agree that sustainability assurance should be subject to high ethical and independence requirements. Assurance is being increasingly requested globally to provide trust and confidence over this expanding area of sustainability reporting and we consider it is important that this assurance is subject to high independence and ethical standards.
5. From previous consultations, we have heard a desire for harmonisation and convergence of thinking and standards. The IESBA intends this ED to be suitable for use by all sustainability assurance practitioners and they engaged in global outreach, before drafting, to hear from current practitioners.
6. The announcement by the IAF that it is collaborating with the IESBA in the area of corporate sustainability disclosures and that it intends that the IESBA's proposed ED be used when accrediting and authorizing conformity assessment bodies to carry out assurance work on corporate sustainability disclosures supports this profession agnostic approach. This collaboration may lead to convergence and could be relevant to the New Zealand market, if it were to be adopted and implemented by the local accreditation body that currently provides greenhouse gas assurance.
7. The starting point for these revisions was the extant Code and many requirements mirror the requirements from the extant Code for the audit and review of financial statements (Part 4A). While being overall supportive of the revisions, we acknowledge that the extant Code is a long and complex document that has been built up and added to overtime as situations have arisen and it may be considered to be complex to follow for professional accountants. This ED is 250 pages long and is intended to be applied by sustainability assurance practitioners from all backgrounds, who will not be

familiar with the extant Code. We recommend that we ask the IESBA to prepare a get started guide to assist these practitioners to support consistent application of the revisions.

8. Following our analysis of the ED, we have identified the following issues that we believe should be addressed in our submission. They have been included in order of relative significance and importance.

Groups (Section R504)

9. The IESBA has included the independence considerations of group engagements within the sustainability assurance proposals. Group engagement considerations were not explicitly addressed within the IAASB's ED for sustainability assurance, ISSA 5000.
10. The terminology used within this section refers to components and component auditors. This is defined and it is a term used by professional accountants, but it may not be a term that is familiar to non-professional accountants. This may benefit from additional guidance being provided in this area.
11. The extant Code refers through to the considerations included in the standard for the audits of group financial statements (ISA 600). Given the professional agnostic and stand-alone nature of the sustainability assurance revisions to the Code, the IESBA has sought to include some of these considerations within the ED including the requirements for communication between the group sustainability assurance firm and the component firm.
12. The extant Code references through to ISA 600 for additional information. As the ED is intended to be stand-alone and therefore not linked to the ISAs, the context, form, and timeliness of this communication included within ISA 600 is missing. Without this context, this may result in inconsistent levels of communication between auditors and potential misunderstandings of what is required. It is anticipated that the overarching principles included in ISSA 5000 could be followed but these are at a higher level than the specific requirements of ISA 600. It may be useful for the IESBA to add more specific guidance about the application of these revisions in the absence of this specific context for these revisions to stand-alone.

Value Chain (Section 5700)

13. Inclusion of value chain considerations within a reporting framework and the corresponding independence for value chain assurance practitioners have not been previously considered by the IESBA. The new Exposure Draft proposes that ethical and independence considerations for the value chain should not be the same as the requirements for group engagements as value chain entities are external to the group's organisational boundary. The assurance client would usually have a business relationship with them and no legal control over them.
14. The IESBA has proposed the following definition for the value chain:
 - a. *"The value chain is a reporting concept that is defined in the applicable sustainability reporting framework.*

The value chain might include, for example, a sustainability assurance client's customers and suppliers that are material for sustainability reporting purposes.

The value chain does not include components."

15. Sustainability assurance practitioners would be required to identify threats that might be created by interests and circumstances they hold in entities within the value chain. Firms and organisations would not be required to monitor the interests held in value chain entities. The sustainability assurance practitioner would need to apply a "knows, or has reason to believe" test on value chain entities, and if threats are identified they would need to apply safeguards.
16. The application of the "knows or has reason to believe" test is one that is used in the extant Code and is applied by professional accountants and financial audit practitioners. It only requires assessing the threat and identifying a safeguard if the sustainability assurance practitioner knows or has reason to believe that a threat exists. The IESBA considers this test to be appropriate for value chain entities due to the lower significance of the threats that might be created by a value chain entity.
17. Applying a different and less restrictive independence test for entities that are in the broader value chain reporting scope seems logical. Sustainability assurance practitioners may have limited access to detailed information about these entities and no contractual arrangement with them. It therefore makes sense that the independence requirements are not the same for value chain entities as group entities.
18. We are not aware that the knows, or has reason to believe is a concept that is widely used outside the Code and as such could be very unfamiliar to sustainability assurance practitioners who are not familiar with the extant Code. The test is not detailed extensively in the ED and there are no practical examples of how this test could work. We would recommend that examples be included or a "how-to" guide to assist those who are unfamiliar with the extant provisions to ensure consistent application of these principles.
19. Additionally, sustainability practitioners that are not financial accountants may be unfamiliar with the materiality tests defined in the ED to assess whether their investment in a value chain entity is material to them as an individual. It is recommended that more guidance or an illustrative example be provided of what this means.

Non-Compliance with Laws and Regulations (NOCLAR) (R360)

20. The NOCLAR provisions included in the ED apply to NOCLAR committed by those charged with governance and management. The provisions do not apply to the value chain. When sustainability assurance practitioners become aware of a non-compliance (actual or suspected), the ED includes the following steps:
 1. obtain an understanding
 2. address the matter
 3. communicate
 4. determine further action
 5. determine whether to disclose to an appropriate authority

6. document

These steps are based on the approach in the extant Code.

21. Under the new proposals, a sustainability assurance practitioner would need to communicate an actual or suspected non-compliance with laws and regulations that they become aware of during an engagement with:
1. The appropriate level of management,
 2. Those charged with governance (where appropriate),
 3. Group engagement leader (if applicable), and
 4. Consider whether to communicate to the client's financial statements auditor.
22. The IESBA has included considerations of when a matter should be communicated. This intentionally does not include any assessment of the materiality of the matter, so it may result in insignificant matters being communicated. This approach is considered appropriate, but it is recommended that a practical example be included for those who are not familiar with financial statements to assist communication of relevant information.

Scope and objective of the ED

23. The provisions included in the ED are intended to be applied to "a *sustainability assurance engagement where the sustainability information on which the Sustainable Assurance Practitioner expresses an opinion:*
- a. *Is reported in accordance with a general-purpose framework; and*
 - i. *Is required to be provided in accordance with law or regulation; or*
 - ii. *Is publicly disclosed to support decision making by investors or other stakeholders" (5400.3a).*
24. Accordingly, the ED includes a high bar for independence and ethics that is consistent with the independence and ethical principles expected from an assurance practitioner who performs an audit that is required by legislation.
25. This scope clearly sets out that the ED is only intended to be used in certain circumstances. The IESBA does not intend that it to be used for voluntary engagements. It would not be expected to be used for certification engagements (special purpose engagements) or other voluntary sustainability assurance activities that are not mandated by legislation but are commonplace in New Zealand, e.g. product lifecycle assurance or ecolabelling unless it becomes a requirement from the IAF. If voluntary assurance engagements are performed under the assurance standard for non-financial information, this ED would not need to be applied, unless the purpose of that information is publicly disclosed to support decision-making by investors or other stakeholders. Voluntary assurance performed over the climate statements which are publicly disclosed to support decision-making could be an example of a voluntary assurance engagement over which the IESBA would intend these revisions to be applied.
26. Considering the intent of these proposals and applying this to the New Zealand context, the ED could be applied to the sustainability assurance engagements over the assurance of the greenhouse gas

disclosures included within the Climate Statements, as they would fall within the scope of these ethical and independence requirements.

27. The entities included in the Climate-Related Disclosures regime are public interest entities, and our standard for assurance over the greenhouse gas disclosures (NZ SAE 1) reflects some of the specific provisions required in the extant Code for assurance practitioners of PIE entities. This includes the self-review threat prohibition, so applying a high bar for independence would be consistent with our current thinking.
28. If mandatory assurance over the climate statements were to be required in the future, the IESBA's intention would be that this ED could be applied for such an engagement. The objective of the Climate Standards (CS 1) is to support the allocation of capital and to enable decision-making. This underlines the reliance that investors are expected to place on the reporting and the associated assurance. expectation in this context. We would recommend supporting the application of these revisions so that the assurance is subject to high ethical and independence considerations.

Period of Independence (Section R5400.30)

29. Sustainability information and disclosure is often future focused in nature. As such, the ED clarifies the period that the SAP should maintain independence as follows:

Independence shall be maintained during both:

- (a) The engagement period; and*
- (b) The reporting period selected by the sustainability assurance client in accordance with the applicable reporting framework. (R5400.3)*

30. Given the nature of sustainability disclosures, the independence period has been restricted and linked to the reporting period covered by the reporting framework, rather than the period covered by the resulting disclosures. Without this restriction, the independence period may need to be maintained for a determinable period into the future. This future period could be inconsistent between entities depending on the nature of the information reported and the timelines involved.
31. The proposed independence provisions are consistent with the independence period that we included in our domestic standard for Assurance Engagements over Greenhouse Gas Emissions Disclosures (NZ SAE 1). Our requirements reference the reporting period covered by the GHG disclosures. As GHG disclosures are historical in nature and based on a specific reporting period, this means that independence would be required for the same period if the IESBA's ED was applied instead of NZ SAE 1. As such, we recommend supporting the independence period proposals included in the ED.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 11.1

Meeting date: 14 February 2024

Subject: IESBA Use of Experts ED Summary Paper

Date prepared: 1 February 2024

Prepared by: Nimash Bhikha

<input checked="" type="checkbox"/>	Action Required	<input type="checkbox"/>	For Information Purposes Only
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Agenda Item Objective

1. This objective of this agenda item is for the Board to **DISCUSS** the International Ethics Standards Board for Accountants (IESBA) Code of Ethics proposals related to the Use of Experts project and **AGREE** significant issues to include in the Board’s submission.

Background

2. The IESBA has committed to developing revisions to the Code to address the specific ethics and independence issues that might arise when experts work alongside professional accountants in business and in public practice (including financial auditors), and sustainability assurance practitioners.
3. The objectives of the projects are to address:
 - (a) Ethics and independence considerations for the use of an external expert in audit and assurance engagements;
 - (b) Ethics considerations regarding the involvement of an internal or external expert in the preparation and presentation of financial and non-financial information, including sustainability information, and other activities; and
 - (c) Ethics considerations regarding the involvement of an internal or external expert in the provision of other services (such as tax planning and technology-related activities).
4. The XRB’s mandate is to set the professional and ethical standards for assurance practitioners within New Zealand (section 12(b) of the Financial Reporting Act 2023).
5. The IESBA ED has proposed amendments to Part 2 and Part 3 of the Code related to professional accountants in business (Section 290), and professional accountants in public practice (Section 390), respectively. The proposed revisions to Part 3, which relate to professional accountants in public practice, would impact on financial auditors.

6. The ED also proposed revisions and new sections made across the new Part 5 – *Independence for Sustainability Assurance Engagements* (Section 5390) of the Code. This will impact on sustainability assurance practitioners who are required to, or voluntarily adopt, the IESBA Code.
7. The proposed amendments to Part 2 and Part 3 follow a similar structure to the proposed amendments to Part 5, and as such, our detailed analysis has focused on the wording used within Part 5. However, separate considerations of the revisions need to be made to ensure the revisions are appropriate for financial auditors, and sustainability assurance practitioners.

IESBA Exposure Draft

8. The IESBA has released their Exposure Draft in relation to this project on Monday 29 January 2024, with submissions due on Tuesday 30 April 2024.
9. We plan to discuss a draft submission at the Board meeting on Wednesday 3 April 2024, which will be subject to change depending upon further feedback obtained through our outreach after that date.

Summary of the NZAuASB Outreach Plan

10. The XRB released the IESBA's Exposure Draft for the consultation in New Zealand on our [website](#) on 30 January 2024. We have asked our stakeholders to provide comments on the IESBA's approach and any specific questions asked by the IESBA that might be relevant for New Zealand. Our consultation period finishes on Monday 15 April 2024, to allow us to prepare the submission to the IESBA.
11. Focused group meetings will take place in March 2024 which will cover both IESBA's sustainability ethics/independence and use of expert's changes. The aim of these will be to gather feedback if the proposals are fit for purpose within the New Zealand context. The feedback will help us shape our submission. A summary of requirements will be prepared prior to these events to guide and focus discussion.
12. We understand that the IESBA is planning a roundtable event in Australia in late March/April. This will likely follow our outreach, and the Board's 3 April 2024 meeting. Our intention is to attend this event to provide direct feedback to the IESBA in advance of our submission.

Matters for Consideration

13. The overall approach and nature of the use of expert's revisions appear to be reasonable. However, the issues paper highlights the main matters emerging from XRB staff's analysis of the Exposure Draft, issues identified within specific sections of the proposed revisions, and key messages which could be included in the Board's submission to address them.

14. These have been grouped as follows:

- Significant matters relating to key concepts or changes which could cause issues in the way the Code is utilised within New Zealand; and
- Other less significant matters which are not considered significant but warrant further consideration by the Board.

15. We plan to hold a whiteboard session for the Board to discuss and agree key issues from both a financial auditor (Part 3), and sustainability assurance practitioner (Part 5) perspective, as well as the overall tone of the submission.

Recommendations

16. We recommend the Board **REVIEW** the IESBA Use of Experts Exposure Draft and **CONSIDER** significant issues and other areas which should be included in the Board's submission in the context of Part 3 for financial auditors, and Part 5 for sustainability assurance practitioners.

Material Presented

- Agenda Item 11.2 – IESBA Use of Experts Issues Paper
- Agenda Item 11.3 – IESBA Exposure Draft – Using the Work of an External Expert

Background and Structure of this Paper

1. The IESBA Use of Experts revisions seeks to amend the IESBA Code to address ethics and independence issues that might arise when experts work alongside professional accountants and assurance practitioners. The main changes proposed by the revisions are:
 - Revising the definition of “expertise” to focus explicitly on knowledge and skills (and not experience);
 - Revising the definition of “expert” and “external expert” to explicitly refer to who has engaged the expert and distinguish between external experts used for an audit engagement compared to an assurance engagement and
 - Establishing an ethical framework for assessing the competence, capability and objectivity of external experts, which involves requesting information from the expert around their competence, capability and objectivity and responding to identified threats.
2. This issues paper summarises the main matters identified from XRB staff’s initial analysis of the Exposure Draft around amendments to the International Ethics Standards Board for Accountants (IESBA) Code (the Code) in relation to Use of Experts changes, to inform the Board’s submission.
3. The proposed amendments to Part 2 and Part 3 follow a similar structure to the proposed amendments to Part 5, and as such, our detailed analysis within this has focused on the wording used within Part 5 (although these also apply to Part 3).
4. Our initial view is that the overall nature of the use of expert’s proposals are reasonable, and the approach used by the IESBA in developing these revisions are appropriate. We consider:
 - The revised definitions are reasonable, clarify terms, and are responsive to the public interest expectations around using experts in the provision of high-quality assurance services;
 - The ethical framework established around using experts is principles-based and follow established frameworks used in other areas of the IESBA Code; and
 - Many of the revisions are proportional and pragmatic and allows for the use of experts across multiple fields and types of assurance engagements, which is suitable for New Zealand, particularly as there is a current shortage of experts particularly in many sustainability fields.
5. However, we have identified certain issues within specific sections of the proposed revisions which may be included in the Board’s submission to IESBA to influence the Code to ensure they provide an appropriate ethical framework for the use of experts.

6. **We plan to hold a whiteboard session for the Board to discuss and agree key issues from both a financial auditor, and sustainability assurance practitioner perspective, as well as the overall tone of the submission.**

Significant Matters

Evaluating the External Expert's Competence, Capabilities, and Objectivity

7. *Section R5390.6 notes that the sustainability assurance practitioner shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose. Section R5390.8 notes that the sustainability assurance practitioner shall request the external expert to provide, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period, various information.*
8. It is unclear whether the proposed revisions allow the sustainability assurance practitioner to consider any safeguards or mitigations which the expert may have put in place around potential objectivity threats if they were required to under their own professional and ethical obligations within their field of expertise. No requirements are established for the sustainability assurance practitioner to request this information from the expert.
9. The sustainability assurance practitioner's considerations seem to be on their evaluation of their competence and capabilities, and the threats to objectivity only, without considerations of possible safeguards which may be used. Given the limited number of experts who would be available to perform these services, this may unintentionally limit the ability to use experts in sustainability assurance engagements.

XRB Staff Recommendation

- 10. The Board should recommend in their submission that the sustainability assurance practitioner should request further information from experts around any safeguards or mitigations which the expert may have put in place around potential objectivity threats if they were required to under their own professional and ethical obligations within their field, to inform their assessment of objectivity threats.**

Experts Performing Work not at the Sustainability Assurance Client (Value Chain Considerations)

11. *Section R5390.11 notes that where the sustainability assurance client is not the entity at which the external expert is performing the work, the sustainability assurance practitioner shall also request the external expert to disclose, in relation to the period covered by the assurance report and the engagement period, information about interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organization and the client.*
12. It is not clear whether this is intended to cover services provided by external experts to other entities within an assurance client's value chain nor which party engages the external expert. From the draft requirements, it is unclear whether this would include experts engaged by the sustainability assurance practitioner for services to their assurance client, by performed at another entity, or

whether it would include experts engaged by another entity for their own purposes but is subsequently being relied upon by a sustainability assurance practitioner.

13. Given the nature of some sustainability matters (such as scope 3 GHG emissions) where information sources from entities within the value chain may be needed to arrive at a reliable estimate, there is a potential risk for experts to have conflicts through services provided to an entity within the value chain, rather than the assurance client directly. The draft requirements should be clarified to better explain the scope of when these requests from external experts should be made.

XRB Staff Recommendation

- 14. The Board should recommend in their submission that requirements around external experts performing work at other entities is clarified to explain what requirements would be applicable when an external expert is engaged by a sustainability assurance practitioner for services to their assurance client, but the work is performed at another entity, compared to experts engaged by another entity for their own purposes, but is subsequently being relied upon by a sustainability assurance practitioner.**

Evaluating All Individuals within an Expert's Team

15. *Section R5390.9 notes that where the external expert uses a team to carry out the work, the sustainability assurance practitioner shall request the external expert to have all members of the external expert's team provide the information set out in paragraph R5390.8, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period.*
16. There may be several practical issues with these requirements, depending upon the type of external experts' teams which are used. This includes:
 - (a) Whether the reference to an expert team extends to quality reviewers or peer reviewers which may be used by an external expert, or consultations which are performed by the expert with other members within the expert's organisation;
 - (b) If team members within an expert's team change during the expert's engagement, it is not clear whether an assurance practitioner also needs to assess the objectivity of previous work performed by the individual who left the expert's organisation; and
 - (c) Whether the assurance practitioner would need to agree the expert's team members through the engagement letter, to ensure completeness of considerations around who has been involved in performing the expert's work.

XRB Staff Recommendation

- 17. The Board should recommend in their submission that the requirements around assessing all members within an expert's team is clarified to focus this on individuals who have responsibility and accountability within the expert's team for the provision of expert services, and the ability to significantly influence the expert's conclusions, rather than all individuals within the team.**

Inherent Limitations in Evaluating an External Expert's Competence, Capabilities or Objectivity

18. *Section 5390.19 A1 notes that paragraph R5113.3 sets out communication responsibilities for the sustainability assurance practitioner with respect to limitations inherent in the practitioner's professional services. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.*
19. The requirements may conflict and cause confusion with other requirements, such as R5390.12, which notes the sustainability assurance practitioner shall not use the work of the external expert if the practitioner is unable to obtain the information needed for the practitioner's evaluation of the external expert's competence, capabilities and objectivity.
20. It is also unclear why the communication of limitations around evaluating an external expert's competence, capabilities or objectivity would be a mitigating factor to a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

XRБ Staff Recommendation

21. **The Board should recommend in their submission that these requirements are clarified to explain that the communication of limitations inherent in the practitioner's professional services are important to allow for external experts and sustainability assurance practitioners to understand and confirm their respective responsibilities, however, this is not a substitute to engage an expert when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity.**

Other Less Significant Matters

22. Below we outline less significant matters which may be useful to include in the Board's submission to IESBA to influence the Code to ensure they provide an appropriate ethical framework for the use of experts.

General Requirements & Definitions

23. *Section 5390.6 A1 notes that a self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a sustainability assurance practitioner uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service.*
24. It is unclear how a sustainability assurance practitioner, who may utilise an expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service, could result in a self-review threat. Given engaging another party would inherently help

address potential self-review threats, it is unclear what possible self-review threats were envisioned to be considered by the sustainability assurance practitioner by using an inappropriate expert.

25. The lack of self-review threats is further supported by section 5390.14 A1 which does not note any examples around self-review threats when considering the use of experts, but only includes self-interest threats, advocacy threats, familiarity threats and intimidation threats.

XRB Staff Recommendation

- 26. The Board should recommend in their submission that the reference to self-review threats within 5390.6 A1 is removed to avoid confusion.**

Factors that are Relevant in Evaluating Threats

27. *Section 5390.15 A1 notes factors that are relevant in evaluating the level of such threats, which includes whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.*
28. It is not clear in the proposed requirements how a sustainability assurance practitioner would be able to consider whether the external expert's work if it were to be performed by two or more parties would not likely be materially different. In some situations, this would require the use of another external expert which may be difficult where expertise is limited. The requirements appear to allow for speculation by the sustainability assurance practitioner around the conclusions another external expert would arrive at, which seems contrary to using the work of an expert.

XRB Staff Recommendation

- 29. The Board should recommend in their submission that this reference to evaluating threats by considering whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different, is removed. This is to avoid speculation and by the sustainability assurance practitioner on matters which they may need an expert to perform.**

Using the Work of Multiple External Experts

30. *Section R5390.18 notes that when a sustainability assurance practitioner uses the work of more than one external expert in the performance of a professional service, the practitioner shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.*
31. The proposed requirements do not provide any examples of the additional threats, or an increased level of threats created through the combined effect of using the work of multiple experts, and this could cause confusion, given the inherent perspective of engaging multiple experts would be a safeguard to objectivity threats, like familiarity and self-review.

XRB Staff Recommendation

- 32. The Board should recommend in their submission that these requirements are clarified to include examples to demonstrate threats created through the combined effect of using the work of the external experts, such as multiple experts having existing relationships with each other.**

Documentation Requirements

33. *Section 5390.21 A1 notes that the sustainability assurance practitioner is encouraged to document varying aspects of their considerations around using experts, including the results of any discussions with the external experts, the steps taken by the practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions and any significant threats identified by the practitioner in using the external expert's work and the actions taken to address the threats.*
34. Given the importance of experts in the context of sustainability assurance engagements and the wide range of experts which may be utilised, and the diverse nature of considerations and judgements which will need to be made when valuating an expert's competence, capabilities and objectivity, it is not clear why documentation of these factors is only encouraged rather than required.
35. While the underlying assurance standards contain requirements around documentation and the use of experts, the lack of documentation requirements within the proposed revisions appears to imply that these considerations may not need to be documented in all instances, which may unintentionally impact on the level of evidence being documented around significant judgements in sustainability assurance engagements.

XRB Staff Recommendation

- 36. The Board should recommend in their submission that the documentation requirements around sustainability assurance practitioners using experts are required, rather than encouraged.**

Appendix 1

The IESBA's ED (pages 25-26) notes the following request for specific and general comments. XRB staff will still need to consider the best manner to incorporate the Board's feedback to the respective questions.

Request for Specific Comments

Glossary

1. Do respondents support the proposals set out in the glossary concerning the proposed new and revised definitions? See Section III.

Evaluation of CCO for all Professional Services and Activities

2. Do respondents support the approach regarding evaluating an external expert's competence, capabilities and objectivity? Are there other considerations that should be incorporated in the evaluation of CCO specific to PAIBs, PAPPs and SAPs? See Section V.

3. Do respondents agree that if an external expert is not competent, capable or objective, the Code should prohibit the PA or SAP from using their work? See paragraphs 67 to 74.

Evaluation of CCO for Audit or Other Assurance Engagements

4. In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help to address the heightened public interest expectations? See Section (V)(A).

Potential Threats Arising from Using the Work of an External Expert

5. Do respondents support the provisions that guide PAs or SAPs in applying the conceptual framework when using the work of an external expert? Are there other considerations that should be included? See Section (VI)(A).

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
 - *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
 - *Sustainability Assurance Practitioners Other than Professional Accountants* – The IESBA invites comments on the clarity, understandability and usability of the proposals from SAPs outside of the accountancy profession who perform sustainability assurance engagements addressed in the proposed Part 5 of the Code.
 - *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
 - *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.
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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	12.1
Meeting date:	15 February 2023
Subject:	NZAuASB work plan and performance expectations
Date:	1 February 2024
Prepared By:	Misha Pieters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the Board to:
 - NOTE the update on the NZAuASB 2023/24 prioritisation plan.
 - CONSIDER the 2024/2025 prioritisation plan to inform the XRB's statement of performance expectations.

Background

2. The XRB will finalise its statement of performance expectations for the 2024/25 period in March. The XRB's [statement of intent](#) (SOI) 2022-2027 included the following priority assurance related actions:
 - a. Assurance over non-financial disclosures including Greenhouse gas assurance engagements.
 - b. Audit of Service Performance Information.
 - c. Audit quality reforms in New Zealand.
3. The NZAuASB 2022-2027 action plan is included in the supplementary papers for context. There has been no update to the 2022-2027 plan.

Matters for consideration

2023/24 performance

4. The key achievements to date are reflected in the prioritisation schedule at agenda item 12.2 in green. The following key achievements are highlighted for the half year ended December 2023:

Issue domestic and international (IAASB and IESBA) Auditing and Assurance Standards:

- Audit of service performance information (July)
- Assurance engagements over greenhouse gas (GHG) emission disclosures (August)
- Narrow scope amendments to operationalise transparency requirements (Dec)

Issue domestic and international (IAASB and IESBA) consultation documents to support the development of auditing and assurance standards:

- IAASB's sustainability assurance ED: A consultation document was published in November along with focus group discussions to explore what assurance activities are best suited to sustainability information and gather feedback to respond to international proposals.
- Ethical and independence requirements for sustainability assurance and use of experts: Roundtable discussions and a webinar were held with a wide range of stakeholders in November while the IESBA sustainability independence task force chair was in New Zealand.

- Audits of less complex entities: A survey was conducted on whether New Zealand should adopt the new international standard, and whether the New Zealand standard should include a chapter on service performance information. The results of this survey will inform the development of an exposure draft.

Support adoption and implementation by publishing guidance to respond to emerging issues.

- Three Staff Guidance documents issued, one research report and two fact sheets published

Conduct external engagements in the form of webinars, events and forums to promote awareness and support adoption of standards (and address emerging issues arising).

- 12 engagements conducted in the 6 months via webinars, forums and in person events.

Liaise with and influence of international bodies

- IAASB membership maintained, Greg appointed to Audit Evidence, Going concern and Fraud task forces
- AUASB cross membership maintained, Marje continued to participate in the sustainability assurance reference group
- Submissions – Going concern, Assurance over sustainability assurance
- Participation at IAASB global roundtables on sustainability, and hosting IESBA task force chair
- NZAuASB Chair participates on the IAASB’s sustainability advisory panel of non-accountants.

5. The key areas of focus for the next quarter will be to finalise submissions on:

- a. Fraud (to the IAASB)
- b. Narrow scope amendments relating to PIE definition (to the IAASB)
- c. Sustainability ethics and independence (to the IESBA)
- d. Use of experts (to the IESBA)

6. The key actions for 2023/24 that have not yet progressed include:

Not progressed	Status
Monitor assurance over GHG	Will consider the first reports when they are issued in Q2 of 2024. This work will continue into the 2024/25 period. We may conduct workshops to explore progress and issues ahead of the mandatory assurance regime commencing from Dec 2024.
Climate summit	Given there is no mandatory assurance over the climate statement in New Zealand, we will not progress the idea of a climate assurance summit. Rather we have hosted Mark Babington and will soon host IAASB Chair, Tom Seidenstein to share our approach to GHG assurance.
Identified a further research topic	User needs has been identified as an area of interest. We continue to explore ways to progress research but may not commence this work in this period.
Māori engagement	In line with XRB’s Te Tiriti o Waitangi Commitment Statement and our due process requirements to consult with all parties impacted, engage more closely on appropriate topics to ensure Māori entities are consulted.

7. **Board members are asked to NOTE the 2023/24 update and prioritisation schedule.**

2024/25 performance

8. Planning for 2024/25 has commenced and a draft prioritisation schedule is at agenda item 12.3, which will be finalised in March. This has been informed by the IAASB’s and the IESBA’s 2024-2027 strategy and work plans.

9. The key strategic intentions and priority areas for assurance remain:

- a. Assurance over climate statements – we will continue to monitor developments in Australia, locally and internationally as the scope of assurance over climate statements develops and assurance over the GHG disclosures becomes mandatory in accordance with the XRB’s standards. We plan to enhance understanding of limited and reasonable assurance through various channels. We plan to issue ISSA (NZ) 5000 for voluntary use and monitor developments in ISO to determine if links to relevant ISO standards should be promoted via the XRB website for voluntary use. We also plan to monitor the IESBA’s developments related to ethics and independence for sustainability assurance and determine how to adjust PES 1. The ethical standards may not be finalised within the 12-month period, depending on IESBA’s timing and whether NZ changes are deemed necessary.
 - b. Service Performance Information – We plan to finalise the review standard on service performance information, monitor first time adoption of the revised auditing standard, and workshop ways to address ongoing challenges with preparers and auditors.
 - c. Value of Audit - We will monitor developments in Australia pending the second PJC review. With the finalisation of revisions to fraud and going concern, we plan to explore perceptions on the value of audit, and proposals to enhance the auditor’s report with users.
10. We remain aware of the impact that technology is having on audit and assurance. The IAASB is currently committed to working on a roadmap for enhancing the auditing standards for technology. If a specific need is identified, we have included a line item on technology in the work plan, contingent on a specific aspect being identified.
 11. We intend to seek ways to enhance engagement with users of assurance reports (while continuing to enhance engagement across all stakeholders), and ensure we are considering and seeking Māori views when appropriate.
 12. In addition to issuing auditing and assurance standards, our mandate requires us to liaise with international or national organisations that perform functions that correspond with those conferred to the XRB. Key matters to note include:
 - a. Continue to maintain a New Zealand member on the IAASB, with Greg Schollum appointed for three years. Greg remains on the Audit Evidence and Going Concern task forces, and has also been appointed onto the fraud task force. We have a [technical advisory group](#) that will provide input to Greg ahead of every IAASB meeting, with practitioner representatives from across the big four and mid-tier and public sector.
 - b. The IAASB’s 2024-2027 SWP includes a project to revise ISRE 2410 on interim audits. The XRB has repeatedly asked that IAASB to add this project to its work plan over several years. The IAASB may look to national standard setters (NSS) for support on this project so there may be staff opportunities to work more closely with the IAASB on this project.
 - c. We continue to plan to participate and lead a discussion at the national standard setters’ meetings, and/or regional roundtable discussions. The NSS meetings will resume in person in May 2024. We will work with other like minded NSS to seek ways to share ideas and enhance NSS influence of the IAASB.
 13. **Board members are asked to COMMENT on the Prioritisation plan for 2024/2025.**

Material Presented

Agenda item 12.1	Board Meeting Summary Paper
Agenda item 12.2	2023/24 prioritisation plan (for noting)
Agenda item 12.3	2024/25 prioritisation plan (to consider)
Agenda item 12.4	NZAuASB action plan 2022-2027 (supplementary papers)

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	13.1
Meeting date:	14 February 2024
Subject:	External Confirmations Summary Paper
Date prepared:	1 February 2024
Prepared by:	Nimash Bhikha

<input checked="" type="checkbox"/> Action Required	<input type="checkbox"/> For Information Purposes Only
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Agenda Item Objective

1. This objective of this agenda item is for the Board to **CONSIDER** what steps the NZAuASB should take in relation to ISA (NZ) 505: *External Confirmations*, given recent international developments.

Background

2. In its November 2023 meeting, the Board noted that updates had been made to the UK external confirmations auditing standard by the UK Financial Reporting Council (FRC). The Board requested further information about these changes, to decide whether the New Zealand external confirmations auditing standard should be updated.
3. After the November meeting, the IAASB has provided an update on their future work programme. This impacts on the use of technology within the audit, including external confirmations.

Matters for Consideration

IAASB Future Work Programme

4. The IAASB have included a project in their upcoming work plan for 2026, which focuses on the impact of technology on the audit. They note that this may result in updates to the international external confirmations auditing standard. The project likely will aim for a revised standard to be developed in 2028, with a planned effective date in 2029.
5. If the NZAuASB updates the New Zealand external confirmations auditing standard in advance of the IAASB's technology project, there is a risk that it may need to be subsequently revised again in 2028, once an assessment is made of the appropriateness of IAASB's proposed changes. This may result in disruption and confusion to New Zealand auditors.
6. We note that there have not been any significant audit quality issues in relation to external confirmations through the Financial Market Authority's recent audit quality inspection report. No stakeholders have raised significant concerns about New Zealand external confirmations auditing standard throughout any of our outreach activities.

7. As a result of the above factors, we do not consider it useful to make updates to New Zealand external confirmations auditing standard in advance of the IAASB's considerations. We recommend that if any new material prior to 2028 is needed, this should be issued as non-authoritative guidance. This would avoid the risk of multiple changes in a short period.

8. Does the Board agree that:

- a. No revisions to the New Zealand external confirmations auditing standard should be made at this time? and**
- b. If any material is needed to address the matters below, that should be issued as non-authoritative guidance?**

Overview of changes within the UK Auditing Standard

9. The FRC revised its external confirmations auditing standard to ensure that modern approaches to obtaining external confirmations were considered, primarily through additional application material. The FRC also added enhanced requirements around investigating exceptions and performing alternative procedures, and a prohibition on the use of negative confirmations.
10. The most significant changes made to the [UK standard](#) covers the following areas.
- (a) *Definition of external confirmation* – Updates to the definition of “External Confirmation” to clarify that electronic and other mediums includes when auditors directly access information held by third parties through web portals, software interfaces or other digital means (Paragraph 6(a));
 - (b) *Prohibition on negative confirmation* – Includes a prohibition of using negative confirmations when performing an audit in accordance with UK auditing standards (Paragraph 6(c));
 - (c) *Design of external confirmations* – Updates requirements to ensure auditors appropriately design confirmations to provide evidence relevant to the assertions identified in accordance with their audit plans (Paragraph 7(c));
 - (d) *Factors to consider when designing additional procedures* – Adds in requirements around matters to consider when determining the timing and extent of any additional audit procedures, as part of investigating exceptions identified from external confirmations (Paragraph 14-1);
 - (e) *Application guidance on relevant assertions* – Application guidance reminding auditors to ensure that evidence is obtained for all relevant assertions, as some means of obtaining confirmations may not provide evidence over all relevant assertions, for example, software interfaces may provide evidence over accuracy or valuation, but may not over completeness (Paragraph A6-1); and
 - (f) *Application guidance on alternative procedures* – Application guidance around examples of alternative procedures which can be performed when no responses are received for bank balances (Paragraph A18).

11. It is timely and appropriate to prepare guidance which addresses similar areas, to help support the application of the standard to modern processes, given external confirmations are used in many audits (particularly bank confirmations) and the evolving nature of digital confirmations.
12. Further considerations around the content of any guidance will need to be made as to whether all the changes reflected within the UK standard would be appropriate for New Zealand (for example: restricting the use of negative confirmations).

13. **Does the Board consider that non-authoritative guidance should be issued to provide guidance around the above areas, or other areas in relation to external confirmations, subject to further considerations for a New Zealand context?**

Other considerations – Use of “confirmation.com”

14. We are aware of more and more New Zealand banks and auditors using intermediary confirmation platforms, such as “confirmation.com” as part of the audit confirmation process.
15. There are currently no requirements within auditing standards around the use of these intermediary confirmation platforms. There is likely to be a variation in the nature of the procedures and documentation performed by auditors when using confirmation.com, compared to direct confirmation from a third party.
16. We consider there are benefits in exploring with audit practitioners what current audit procedures are being performed in this area (if any), to inform our considerations of what high-quality audit procedures could be performed when using intermediary confirmation platforms.

17. **Does the Board agree that:**
- a. **Intermediary confirmation platforms should also be included within the scope of any possible non-authoritative guidance? and**
 - b. **We should perform outreach with current stakeholders to understand current audit procedures before developing any guidance in this area?**

Recommendations

18. We recommend the Board:
 - **NOTE** the IAASB’s plans for the use of technology in 2026 and **AGREE** that no amendments to the NZ auditing standard should be made at this time;
 - **CONSIDER** the changes made to the UK standard and **AGREE** whether non-authoritative guidance on similar topics would be appropriate for New Zealand; and
 - **DISCUSS** whether any guidance should also include the auditor’s use of intermediary confirmation platforms, like confirmation.com.