



NZAuASB Board Meeting Agenda

Wednesday, 7 August 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
B: PUBLIC SESSION						
10am	2	<u>Board Management</u>				
	2.1	Action list	Approve	Paper		
	2.2	Chair's report	Note	Verbal		
	2.3	AUASB Update	Note	Verbal		
	2.4	Update from CE	Note	Verbal		
10:15am	3	<u>NZAuASB workplan</u>				
	3.1	2024/25 Prioritisation schedule	Consider	Paper	3	
	3.2	IAASB meeting report	Note	Paper		3
	3.3	IESBA update	Note	Paper		10
	3.4	XRB environmental scan	Note	Paper		13
	3.5	Assurance scan	Note	Paper		22
10.45am	<i>Morning tea</i>					
11:15am	4	<u>ISA for Less Complex Entities</u>				
	4.1	Summary paper	Note	Paper	7	
	4.2	Issues paper	Discuss	Paper	11	
	4.3	Draft Exposure draft	Consider	Paper	14	
	4.4	Draft Consultation Document	Consider	Paper	199	
	4.5	Mapping: Requirements Part 11 to NZAS 1R	Note	Paper		24
12:15pm	5	<u>Review Standard on Service Performance Information</u>				
	5.1	Summary paper	Note	Paper	217	
	5.2	Key themes	Consider	Paper	219	
	5.3	Submissions	Note	Paper		75
	5.4	Focus Group Feedback	Note	Paper		90
12:45pm	<i>Lunch</i>					
1:30pm	6	<u>Update on ISO Sustainability Assurance by Graeme Drake</u>				
	6.1	Summary Paper – ISO Sustainability Assurance	Note	Paper	222	
2:15pm	7	<u>Sustainability Competence</u>				
	7.1	Summary Paper	Discuss	Paper	223	
	7.2	Analysis – Professional Accountants	Note	Paper		94

Est.Time	Item	Topic	Objective		Page	Supplementary
	7.3	Analysis – Non-Accountants	Note	Paper		105
3pm	8	<u>Supporting GHG emissions assurance</u>			KT	
	8.1	Summary Paper	Note	Paper	230	
3:15pm	<i>Afternoon Tea</i>					
3:30pm	9	<u>Public Interest Entity Amendments Consultation</u>			SW	
	9.1	Summary Paper		Paper	232	
	9.2	Issues		Paper	235	
	9.3	Submissions and other feedback		Paper		111
5pm	<u>Closing</u>					

Next Meeting:
17 October in Auckland



DATE: 28 June 2024

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Greg Schollum, IAASB member
Misha Pieters, Technical Advisor to Greg and Director Assurance

SUBJECT: June 2024 IAASB meeting

Action: To **NOTE** the update from the IAASB March meeting and **CONSIDER** the areas of high strategic importance arising.

Areas of high strategic importance to the XRB

- Key areas of strategic importance arising are summarised below. The full meeting report is in the appendix.

Project	Timing	Strategic Priority for XRB
Sustainability assurance	The IAASB is on track to approve the standard in September 2024.	High. The XRB will need to determine whether to adopt ISSA 5000 in New Zealand for mandatory assurance and if the XRB is able to adopt it for voluntary assurance.
Going Concern	The IAASB is on track to approve the standard in December 2024.	Medium. The IAASB agreed to retain the timeline of at least 12 months from approval of the financial statements and inclusion of the explicit statements in the auditor's report. However, there were mixed views on whether to move away from key audit matters for close call situations.
Public Interest Entity (PIE)	The IAASB may approve the final standard in December 2024.	High. Alignment between the IAASB and the IESBA was queried in submissions following recent guidance issued by IESBA about the definition of PIE. The IAASB will discuss the feedback and next steps in September. The XRB has heard concerns about expanding certain audit requirements to all NZ PIEs.

Appendix: Full report from the IAASB June 2024 meeting in Madrid

Sustainability assurance

2. The IAASB undertook a first read of the draft final standard. Co-ordination with the IESBA remains a key consideration. Due to timing differences, a range of issues will need to be resolved over July and August, as the IESBA needs time to first reflect on feedback received on consultation. Matters for further co-ordination between the 2 boards include definitions, requirements for value chain, reliance on another practitioner, communication between the financial statement auditor and sustainability practitioner and dealing with non-compliance with laws and regulations.
3. The IAASB is planning to develop and issue first time implementation guidance together with the standard, following PIOB certification in December 2024/January 2025.
4. The agenda papers also covered all key matters not yet discussed in response to feedback received on exposure including: preconditions for the engagement, estimates and forward looking information, fraud, communication with management and those charged with governance and assurance reporting.

Preconditions for an assurance engagement

5. In relation to the preconditions, respondents asked for clarification of the nature and extent of work needed to obtain a preliminary knowledge to establish whether the preconditions are present, and to clearly differentiate the work effort at the acceptance stage from the work expected during the engagement.
6. The IAASB agreed that while the standard should not impose unnecessary work effort at the acceptance stage, based on a preliminary knowledge, the requirement to evaluate the suitability of the applicable criteria can be satisfied in a straightforward way. The IAASB agreed that a new paragraph be added that, in the absence of indications to the contrary, framework criteria set by law or regulation or issued by an authorised or recognized organisation that follow a transparent due process may be presumed to be suitable. The standard still acknowledges circumstances when it may be necessary to supplement the framework criteria with entity developed criteria. Greg highlighted the need to make an explicit reference to entity developed criteria that might supplement the framework criteria and to clarify the relationship between the framework criteria, the entity criteria and the entity's reporting policies. Currently it isn't clear whether the entity's reporting policies are part of the applicable criteria. However, it appears that the XRB's climate standards would not be considered suitable criteria on their own as they do not include any measurement criteria.

Estimates and Forward-looking information

7. Overall, the feedback was supportive of the approach and requirements related to estimates and forward-looking information, with some requests for additional

guidance and examples and some calls to separate the requirements between estimates and forward-looking information for greater clarity.

8. On balance the IAASB members agreed to keep the requirements for estimates and forward-looking information together to avoid repetition and unnecessary length of the standard.
9. We were pleased to see the addition of application material that clarified that when the applicable criteria require the disclosure of forward-looking information, such as the entity's intended future strategy, targets, or other intentions, the practitioner is not likely to be able to obtain evidence about whether the strategy, target or intention will be achieved, or to come to a conclusion to that effect.

Fraud

10. Respondents were broadly supportive of how the proposals addressed fraud.
11. The IAASB agreed to add a requirement to communicate with relevant authorities regarding fraud or non-compliance with laws and regulations, based on the fraud exposure draft.

Communication

12. The feedback received encouraged the IAASB to add an explicit requirement for the practitioner to communicate with management and those charged with governance, as well as expressing support for requiring the practitioner to communicate with the auditor of the financial statements, unless prohibited by law or regulation. Some suggested a separate requirement for the practitioner to communicate with regulatory bodies.
13. The PIOB observer encouraged more two-way communication between the auditor and the assurance practitioner. The IAASB agreed to encourage early communication between the 2 parties in ISSA 5000.
14. It was noted that communication is important for the financial statement auditor to meet their objectives, considering connectivity between sustainability information and the financial implications, but it is not always apparent how such communication may help the assurance practitioner meet their objectives. It was noted that amending the auditing standards for communication requirements would not be a conforming amendment, rather a separate project. This will be considered by the planning committee to determine the priority of adding communication requirements for the auditor of the financial statements to communicate with the assurance practitioner.

Assurance reporting

15. Respondents expressed broad support for the form and content of the assurance report and the illustrative reports, with suggestions for clarity or additional information, including a need to clearly identify the sustainability information within the scope of the assurance engagement. Most respondents agreed with the approach in ED-5000 of not requiring communication of Key Sustainability Assurance Matters (KSAM) and for addressing KSAM in the future after completion of a post-implementation review. It was noted that more could be included in the assurance report voluntarily. Respondents sought clarity about the meaning of a "substantially" lower level of assurance for a limited assurance engagement compared with a reasonable assurance engagement.

16. The IAASB discussed that “substantially lower” to describe limited assurance is appropriate because the assurance practitioner is starting with a different objective. The task force will explore language to signal it is “usually” substantively lower.
17. The task force was encouraged to consider ways to highlight that the assurance practitioner is not concluding that the intentions and targets expressed in the forward-looking information will be achieved.
18. The IAASB agreed to add application material to address opining on multiple frameworks (e.g., CSRD and ISSB, given interoperability focus).

Other matters

19. The IAASB undertook a first read of the final draft standard and:
 - Agreed to define “sustainability information” and “sustainability matters” at a higher level, as a pragmatic way to reach alignment with the IESBA’s definitions. More explanation may be included in the application material.
 - Agreed not to permit the firm to make the assessment of “at least as demanding” as the IESBA’s Code of Ethics and the IAASB’s quality management standards. The final standard will enable an appropriate authority to make this determination. A designated accreditation organisation may also make this determination.
 - Discussed the inherent limitations, especially relating to the value chain. There were various perspectives on whether information will fairly reflect the situation where limitations are appropriately disclosed and there is information in the assurance report. Some raised concerns that this might undermine the assurance provided. There was strong agreement that the assurance practitioner must get sufficient, appropriate evidence and if the evidence is not available the practitioner should modify the assurance opinion/conclusion. Not to do so would not be doing the job to uphold trust and confidence in the sustainability information being reported. This is likely to lead to a number of modifications in the first few years.
 - With respect to reliance on another practitioner, the need to co-ordinate with the IESBA was stressed. While it was discussed that the assurance practitioner may be able to be sufficiently and appropriately involved with the work of another practitioner in the value chain, this involvement becomes less likely the further into the value chain you go. A balance is needed. The PIOB member encouraged more prescription to avoid the opportunity for regulatory arbitrage. Some IAASB members stressed the increasing need to rely on another practitioner, even within the group, given the nature of the information is different from financial statements, and given the strong likelihood that other practitioners would have performed work that might be relied on by the assurance practitioner.
 - Clarify the “deep dive” requirements for limited assurance.
 - In relation to what constitutes reasonable assurance Greg raised the requirement in para 127 to “consider the need to” design and perform substantive procedures for disclosures that are important to the information needs of intended users, irrespective of the assessed risk of material misstatement. As currently drafted what work is required for reasonable assurance in para 127 is not aligned with what work is required for reasonable assurance in para 18, ISA 330. The task force will further consider this matter.

Implications for the XRB:

Several of the XRB's key concerns with the exposure draft have been addressed, including:

- Progress work with the International Accreditation Forum to ensure the "at least as demanding" approach to ethics will not in effect exclude non-accountant practitioners.
- Separation of the entity's process to identify sustainability information to be reported and the assurance practitioner's materiality considerations.
- Clarification of disclosures and that the entity's considerations are the starting point for the assurance practitioner's materiality considerations.
- Commitment to aligning and co-ordinating with the IESBA.

The XRB will need to determine whether to adopt ISSA 5000 for mandatory adoption in New Zealand or whether they are able to issue for voluntary use. The XRB will need to determine whether to adopt Part 5 of the Code of Ethics and/or make a determination of what else might be "at least as demanding" if ISSA 5000 is adopted.

Going Concern

20. The IAASB discussed feedback on some of the questions from the exposure draft to revise ISA 570, *Going Concern*. Greg is on the Going Concern Task Force. Overall, there was support that the proposals are responsive to the public interest. However, respondents urged that broader considerations are critical to support the public interest, including:
 - Co-ordinated actions from all stakeholders in the financial reporting ecosystem to establish trust and narrow the audit expectation gap.
 - Improvements to the financial reporting framework for going concern, including enhancements to the requirements for management's assessment and related disclosures.
 - Respondents urged continued engagement and liaison with the IASB to promote enhancements to the requirements in IAS 1 related to going concern.
21. There were some concerns that the proposals in ED-570:
 - Create a perception that the auditor has a greater responsibility than management for assessing and safeguarding the entity's ability to continue as a going concern.
 - Are outside of the standard setting remit of the IAASB as they aim to rectify perceived deficiencies in the financial reporting framework or are in effect imposing financial reporting requirements on management.
22. The task force has further engaged with investors or users of financial statements to supplement the written responses received. The IAASB discussed whether enough feedback was received from users and preparers, however on balance the Board considered that responses from users had been sufficient.
23. With respect to the definition of "material uncertainty", in response to feedback received, the IAASB was mostly supportive of the amended definition:

"An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue

as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management's plans for future actions mitigate their effects, the entity may be unable to meet its obligations and continue its operations for the foreseeable future."

24. The IAASB provided suggestions to reorder the definition and to discuss this definition with IASB.
25. Globally the IAASB received divergent views relating to the timeline over which the going concern assessment is made by management, with some respondents concerned that the IAASB is stepping outside of its remit by, in effect, imposing financial reporting requirements on the entity.
26. On balance, the IAASB agreed that the requirement to request management to extend the date of the assessment is appropriate, and that the standard builds in flexibility, with the expectation that the auditor first discuss with management and those charged with governance (TCWG) and then consider the implications for the audit if the auditor is unable to obtain sufficient appropriate evidence. Some IAASB members remain concerned this will cause issues in practice. The PIOB member encouraged the IAASB to continue to work with the IASB and suggested that the IAASB continue to explore language that aligns with the wording of the financial reporting standards.
27. The majority of stakeholders supported the direction of the proposal to enhance communication with TCWG but many offered suggestions for improvement. The IAASB requested the task force to look at if, and how this interacts with the IESBA's requirements on non-compliance with laws and regulations (NOCLAR), querying whether a going concern matter really relates to NOCLAR.
28. Respondents had mixed views on the proposed explicit statements about going concern in the auditor's report for all reports. The IAASB agreed to retain the requirement for the explicit statements on going concern and agreed with the task force recommendation to clarify that the explicit statements not imply a guarantee about the future viability of the entity. The task force was asked to relook at the language, to reconsider use of "guarantee" and align with words in the auditor's responsibilities section of the report.
29. With respect to enhanced communication in the auditor's report for listed entities, there was broad support to provide a description of how the auditor evaluated management's assessment of going concern when a material uncertainty exists. However, for close call situations there were mixed views as to whether the Key Audit Matter (KAM) mechanism is the appropriate approach. Each IAASB member provided views on whether the KAM or the Going concern section was preferred, with a narrow majority including Greg favouring the going concern section. The task force will look to bring a recommendation to the September meeting.
30. Some IAASB members wanted to see how all the parts of the auditor's report will come together (i.e., fraud, going concern and the PIE amendments).
31. The PIOB member encouraged the IAASB to reach a compromise and suggested that a cross-referencing approach between the KAM and going concern sections might work.

Implications for the XRB:

There may be an opportunity for the XRB to explore further ways to align the reporting requirements with the revised audit requirements in NZ.

Technology

32. The IAASB discussed a draft technology position statement and requested that the statement should be clearer about the objective of enhancing quality and be more active in its language.
33. The IAASB stressed the view that the ISAs are not broken, and that perhaps there is more of a need for educative material to enable use of technology. However, this does not preclude including conditional requirements related to technology within the standards. There is a balance needed between education and something that is more authoritative. There is a need for an open mind to explore real or perceived barriers created by the standards.
34. In terms of operationalising the position statement and developing a roadmap, the key priority discussed by the IAASB is to perform a gap analysis for audit evidence and risk response. The Board also discussed that the use of technology is primarily related to quality management, and that one possible approach may be to consider the need for an ISQM 3 related to the use of technology and possibly consider ISA 200 and ISA 220, then continue to do a detailed gap analysis of the remaining standards.
35. The position statement is expected to be approved at the September 2024 meeting and a project plan on Risk response at the December 2024 meeting. These two projects are part of an "integrated approach" to Audit evidence and Risk response.

Public Interest Entity Track 2

36. The IAASB noted that the consultation on the PIE track 2 project had closed. Some submissions have highlighted potential alignment issues between the IAASB and the relevant ethical standards. The IAASB will discuss the feedback at its September meeting.

Implications for the XRB

The XRB's PIE definition covers Public Benefit Entities. The extent to which the global intent is to align the concepts across relevant ethical requirements and the applicable assurance standards may be relevant in terms of the domestic consultation on this topic.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.3
Date of Meeting	7 August 2024
Date prepared:	25 July 2024
Prepared by:	Lisa Thomas, Nimash Bhikha, Karen Tipper

Action Required

For Information Purposes Only

Agenda Item Objective

1. This objective of this agenda item is for the Board to **NOTE** the update from staff review of the IESBA June 2024 papers and IESBA meeting.

Firm and Culture and Governance Project

2. As communicated in the NZAuASB April meeting by Channa Wijesinghe, the IESBA Taskforce Chair for this project, the IESBA has commenced a project on firm culture and governance. The project is in the information gathering stage with outreach activities being carried out across various regions. Preliminary observations from this outreach include:
 - The role of the accountancy profession to act in the public interest
 - The role of leadership and governance
 - Accountability of leadership
 - Rewards and recognition
 - Transparency
 - Education
 - Speak up culture
 - The Ecosystem.
3. A literature review on organisational culture was considered, as well as presentations by Mark Babbington on the UK FRC's Audit Firm Governance Code and Julie Corden on aspects of ISQM1 (PES 3 in NZ) that relate to governance and leadership, and firm culture.
4. The IESBA will consider preliminary findings and recommendations from the Working Group at its September 2024 meeting.

Implications for the XRB:

As New Zealand has adopted the IESBA Code of Ethics, any changes to the Code resulting from this project will need to be considered for adoption in New Zealand. The working group is still at the information gathering stage and no such changes have been recommended.

Collective Investment Vehicle (CIV) Project

5. Due to the increasing regulatory interest arising from the substantial amounts invested in Collective investment vehicles (CIVs) and pension funds, the IESBA is conducting a review of the independence implications in audits of CIVs, pension funds, and investment company complexes. The review aims to understand the nature and structure of these schemes and their relationships with various parties, and to ensure that the Code adequately addresses the application of the related entity concept to these types of audit clients when evaluating independence threats.
6. The IESBA Project Team is gathering information at this stage and reviewing jurisdictional common characteristics. This review has highlighted common characteristics and differences among CIVs in Australia, South Africa and the United States and potential gaps in the Code's independence provisions that warrant further examination.

Implications for the XRB:

In New Zealand, all Tier 1 reporting entities including FMC reporting entities that are considered to have a higher level of public accountability (FMCHLPA) are included in the definition of public interest entity (PIE) and have to follow the PIE requirements within the IESBA code meaning that they are subject to the independence considerations for PIEs. These include managed investment schemes and the managers of those schemes.

We will continue to monitor this project as this develops to determine whether there are any CIVs or investment schemes structures in New Zealand that are not captured as PIEs and therefore whether there will be any impacts of this project for the XRB.

Code of Ethics for Sustainability Reporting and Assurance

7. During the IESBA June 2024 meeting, the IESBA reviewed the high-level overview of submissions on the IESBA's Sustainability ED in relation to matters of coordination between the IESBA's and the International Auditing and Assurance Standards Board's (IAASB) respective Sustainability projects.
8. The IESBA's consideration was informed by the Task Force's preliminary views on those matters as well as the IAASB's related proposals. Further joint considerations between IESBA and IAASB occurred around the definition of sustainability information, group engagements, the determination of components, and the approach to the concept of "at least as demanding" as the IESBA Code in relation to relevant ethical requirements in the proposed International Standard on Sustainability Assurance (ISSA) 5000.
9. The IESBA was also briefed on the IAASB Task Force's most recent proposals relating to the definition of "another practitioner" and using the term "work" instead of "assurance work" in relation to using the work performed by another practitioner.

10. The IESBA considered a high-level overview of the respondents' comments on several other matters relating to the proposed IESSA, including the scope of the standards, non-assurance services and responding to non-compliance with laws and regulations.
11. The IESBA will receive a full analysis of the respondents' comments on the ED and the Task Force's proposed revisions to the ED at its September 2024 meeting.

Implications for the XRB:

Several of the XRB's key concerns with the exposure draft will be considered by the Task Force. These include ensuring coordination and alignment with the IAASB's around definitions and scope, and ensuring the IESSA proposals remain profession agnostic and well understood by practitioners across a number of professions.

Other concerns raised have not been addressed – including the complexity of the proposals and the importance of competence.

The XRB will need to determine whether to adopt the IESSA, once this is finalised by the IESBA and whether this would be appropriate for sustainability assurance in New Zealand, given the current voluntary and unregulated environment.

Using the Work of an External Expert

12. During the IESBA June 2024 meeting, the IESBA considered an overview of the Task Force's outreach activities since the release of the ED and discussed the preliminary key themes raised by respondents in their comment letters and by stakeholders during outreach.
13. The IESBA also considered the preliminary key themes from the comment letters, including the consistency of relevant definitions between the ED and the IAASB's standards, the approach to evaluating competence, capabilities and objectivity for the external expert, and additional objectivity requirements when using the work of an external expert in an audit or other assurance (including sustainability assurance) engagement.
14. The IESBA will receive a full analysis with proposed revisions to the ED at its September 2024 meeting.

Implications for the XRB:

Several of the XRB's key concerns with the exposure draft have been acknowledged by the task force for further consideration, including the interoperability and consistency of the Code revisions with IAASB performance standards; the approach to assessing competence, capabilities and objectivity of external experts; the need for specific examples and considerations related to the unique threats which could impact external experts involved in sustainability assurance engagements.

The XRB will need to determine whether to adopt these proposed revisions to the Code of Ethics, once these are finalised by the IESBA. Due to the XRB's legal mandate to set the Code of Ethics for auditors in New Zealand, separate considerations will need to be made around the suitability of these new requirements for financial auditors and sustainability assurance practitioners.

Recommendations

15. We recommend the Board **NOTE** this update.

Note: this environmental scan was prepared for the XRB/NZASB and is shared with NZAuASB for information purposes.

Memorandum

Date: 16 July 2024

To: Members of the NZ Accounting Standards Board

From: Judith Pinny

Subject: Environmental Update

Recommendation¹

1. We recommend that the Board NOTES the International and Domestic update for the period 23 May 2024 to 16 July 2024.

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 External Reporting Board:

International

- (a) Andreas Barckow's speech on [complexity](#) in financial reporting.
- (b) [Emerging Economies Group](#) discussed forthcoming illustrative examples on climate, power purchase agreements, legal vs. constructive obligations and a forthcoming Mexican Going Concern standard.
- (c) EFRAG's report on [Connectivity](#).

Domestic

- (d) FMA and XRB issue [joint guidance](#) for users of climate statements.
- (e) NBR article on [Audit firm rotation](#) in NZ.
- (f) PwC's review of first [mandatory climate risk 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 May 2024 Global Regulatory Report: [IFAC Global Regulatory Report May 2024](#)

IASB: Chair’s keynote address at IFRS Foundation Conference

5. Andreas Barckow delivered this address, focussing on complexity in financial reporting, highlighting 6 steps to manage complexity.

[IFRS - Complexity in focus—keynote address by the IASB Chair](#)

[IFRS - IFRS Foundation Conference 2024—Key highlights](#)

[Back to International](#)

Joint IASB and FASB meeting

6. This meeting was held in June to discuss post-implementation reviews of the Boards’ respective revenue and leases standards.

[IFRS - IASB and joint IASB–FASB Update June 2024](#)

IASB: Emerging Economies Group (EEG)

7. The following topics were discussed at the recent EEG meeting:
 - (a) The forthcoming examples to report the effects of climate-related and other uncertainties in the financial statements including whether they should be illustrative examples as educational materials are easier to update. Also suggested was that the examples should demonstrate the connectivity between IFRS accounting and sustainability standards.
 - (b) There were mixed views on the exposure draft on Power Purchase Agreements².
 - (c) Proposed targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Concerns expressed included whether the proposed amendments on guidance to the meaning of legal obligation would muddle the concepts of legal and constructive obligations. Members also discussed new terminology such as “no practical ability to avoid” and “significantly”

² ED *Contracts for Renewable Electricity* Proposed amendments to IFRS 9 and IFRS 7.

8. The Mexican delegation presented on their forthcoming Going concern standard that includes guidance on disclosures when going concern first become an issue, and the basis of accounting to use when the entity is no longer a going concern.

[EEG meeting report May 2024](#)

[Back to International](#)

ISSB: Feedback Statement on Agenda priorities

9. Consistent with stakeholder feedback, the ISSB decided:
 - (a) to place a high level of focus on supporting the implementation of IFRS S1 and IFRS S2; and
 - (b) to place a slightly lower level of focus on enhancing the SASB Standards and beginning new research projects and to give these activities equal attention. The ISSB decided against specifying how much focus it would place on the core activities of connectivity with the IASB, interoperability with other sustainability-related standards and frameworks, and stakeholder engagement, acknowledging that these activities are integral to all the ISSB's work.
 - (c) The ISSB also decided to reserve some capacity to accommodate any emerging issues.

[IFRS - ISSB delivers further harmonisation of the sustainability disclosure landscape as it embarks on new work plan](#)

[agenda-consultation-feedback-statement-june-2024.pdf \(ifrs.org\)](#)

EFRAG: Connectivity report

10. EFRAG has published a report entitled "Connectivity considerations and boundaries of different annual report sections".
11. Key messages are:
 - (a) Connectivity has a pivotal role in ensuring the coherence and complementarity of Annual report sections. Connectivity helps to identify and lessen potential information gaps and overlaps of information across the Annual report sections.
 - (b) Connectivity enhances the Annual report package's communication of the reporting effects of management's strategic choices (i.e. it is a part of strategic-oriented communication).

- (c) The intertemporal dimension of connectivity (i.e. connectivity of information across different reporting periods) enhances the predictive value and complementarity of Annual report information.
- (d) On reporting boundaries, even with the distinct objectives and audiences of different Annual report sections, there are grey areas where duplicated information exists or where there are diverse views among stakeholders on suitable location of information).

[EFRAG Short report - 14pp version](#)

[EFRAG Full report - 82pp version](#)

[Back to International](#)

IFAC: Sustainability assurance

- 12. A summary graphic for sustainability assurance explaining levels of assurance and types of modified opinions issued for assurance.

[IFAC-Sustainability-Assurance-What-to-Expect](#)

AFR³: Australian Treasury review into governance of Big 4 accounting firms

- 13. The Treasury review into the Big 4 in Australia has raised significant issues including:
 - (a) Reducing the current accounting partnership limit of 1,000 (law firms are limited to 400);
 - (b) Audit partners and non-audit partners sharing profit pools, incentivising auditors to prioritise client satisfaction over audit quality;
 - (c) Gain and loss of clients shared across the firm incentivising auditors to avoid contentious issues with clients;
 - (d) Potential mismatch between firm incentives and the objectives of audit regulation;
 - (e) Oversight by ASIC⁴ which was limited by resourcing constraints.
- 14. A separate Treasury review proposed that the Australian Tax Office may be granted powers to access mobile phone and stored communication data.

³ Australian Financial Review.

⁴ Australian Securities and Investments Commission.

Domestic

FMA: Auditor Regulation and Oversight Plan 2024-2027 (Plan)

15. The Plan is similar to last years with annual monitoring of audit firms rather than periodic reviews.
16. Focus areas are:
 - (a) Improve audit quality by performing audit quality reviews;
 - (b) Ensure auditing and accounting standards are being upheld;
 - (c) Supplementary thematic reviews;
 - (d) Monitor regulatory bodies to assess their regulatory performance; and
 - (e) Engage with stakeholder and overseas regulators to improve audit oversight regime.

[FMA publishes Auditor Regulation and Oversight Plan](#)

FMA & XRB: Guidance for users of climate statements

17. Two guides have been co-written and issued on:
 - (a) Overview of the CRD regime for primary users and journalists; and
 - (b) Navigating Climate Statements – more detailed, covering uncertainty, comparability and context when evaluating climate statements.

[FMA and XRB issue user guides to help users of climate statements](#)

[Back to Domestic](#)

CA ANZ: NZ Reporting Essentials

The annual publications from CA ANZ available at the links below:

[NZ reporting essentials for June 2024 | CA ANZ](#)

[NZ assurance essentials for June 2024 | CA ANZ](#)

A list of illustrative annual reports available, including the XRB's PBE examples for Tier 3 and Tier 4:

[Illustrative financial reports for June 2024 | CA ANZ](#)

NZ Herald article by Graham Skellern – Global forces impacting investment decisions

18. The five global forces are:
- (a) Digital disruption and Artificial intelligence;
 - (b) Transition to low carbon economy (massive reallocation of capital);
 - (c) Geopolitical fragmentation;
 - (d) Demographic divergence (massive reallocation of capital); and
 - (e) Future of finance.

[Capital Markets Report: Five global forces impacting investment decisions - NZ Herald](#)

NBR opinion article by Zoie Regan: Auditor firm rotation

19. Research has shown that 30 NZX50 companies have had the same audit firm for the past 10 years which is not global best practice. NZX listing rules require rotation of key audit partners every 5 years, but there is no requirement to rotate audit firms.
20. An example is Ryman Healthcare which has taken aggressive accounting treatments in 2022 switching away from independent valuation to director valuation, which assumed that 30% Deferred management fees instead of the current 20% charged back to residents. Returning to independent valuations in 2023 led to a \$398m impairment charge. The new Ryman Board now requires a new external auditor every 10 years and recommends the appointment of a new auditor. The previous auditor has undertaken the audit since 1999.

[Back to Domestic](#)

CA ANZ & Governance Institute of Australia: FAQ on Nature-related Financial Disclosures

21. Designed as a starting point for preparers, this FAQ doesn't seem to have any new material. It mentions the Chapman Tripp opinion on director obligations to nature.

<https://www.charteredaccountantsanz.com/news-and-analysis/insights/research-and-insights/frequently-asked-questions-on-nature?cid=O~E~>

CA ANZ: Acuity article on Climate reporting

22. Article by Simon Grant and Peter Vial which encourages the XRB and AASB to work together on a sustainability assurance framework going forward.
23. For full article: [Working apart, in tandem and together | Acuity \(acuitymag.com\)](#)

PwC: Climate risk reporting

24. Karen Shires, PwC has again reviewed the 6 climate reports of NZX issuers, this cohort is the 31 December reporters, the first to report under the mandatory XRB climate standards.
25. Of the six, three discussed the impact of climate-related risks in their financial statements, and four discussed the 2023 extreme weather events.
26. Three of the six December 2023 reporters did not publish their CRD at the same time as their annual reports. Instead, they released a separate statement almost four months after their reporting date.
27. Karen Shires said the fact most of the companies opted to report after they had released their annual reports - which they were entitled to do - showed they were struggling with the new climate reporting standards.

[Climate change impact and the NZX50 \(pwc.co.nz\)](https://www.pwc.co.nz)

[Back to Domestic](#)

Simpson Grierson: Global trends in climate litigation

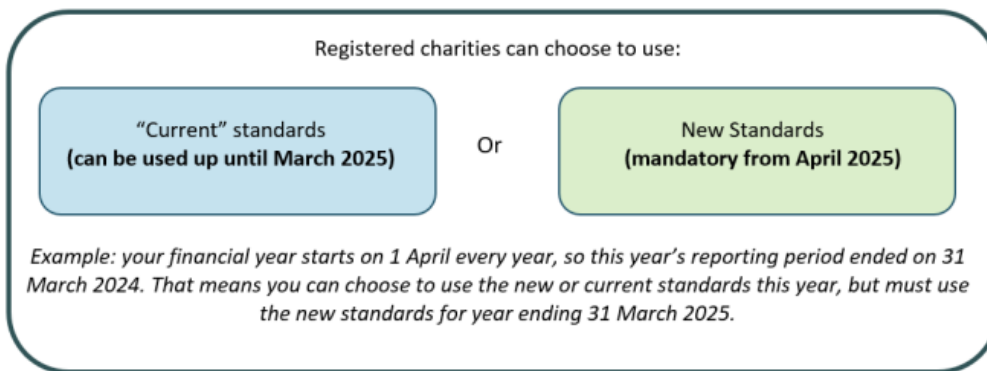
28. Climate litigation continues to present a major risk to corporates.
 - (a) Litigation expanding beyond fossil fuel companies to airlines, financial services and others;
 - (b) The number of “strategic” climate litigation cases, aimed at influencing corporate governance and decision-making or policy outcomes, continues to rise.
 - (i) Alleging that companies have failed to adapt to a low-carbon economy.
 - (ii) Requiring companies to change their general corporate strategies to take environmental considerations into account, e.g. current case of *Smith v Fonterra*.
 - (c) The Report concludes that the “phenomenon” of climate litigation “continues to drive shifts in thinking and behaviour among many stakeholder groups, ranging from the courts and the legal profession to legislators and regulators, financiers and insurers”.

[Simpson Grierson - Global trends in climate litigation](#)

Charities Services: Early adoption guidance issued for Tier 3 and 4 charities

29. Excerpt from the introduction:

In May 2023, the XRB published new reporting standards for registered charities reporting at Tier 3 and Tier 4. These new standards will become mandatory from next year (2025), but charities can choose to start using them now for any reporting periods that end after 15 June 2023. See diagram below:



[Charities Services | Early Adoption Guidance](#)

Privacy Commissioner: Privacy concerns for Māori

- 30. Results from the biennial Privacy survey of 1200 New Zealanders, including 320 Māori, have recent been released.
- 31. Privacy concerns drive behaviour. A standout example among Māori is that one in three (33%) stated that in the past 12 months they’ve avoided contacting a government department due to privacy concerns. For non-Māori that figure is one in seven (14%)."

[Māori are more concerned about privacy in every way](#)

Business Desk: Review of Directors’ duties and liabilities

- 32. The Law Commission will undertake a review of Directors’ duties and liabilities in 2025 at the request of Justice Minister Paul Goldsmith. This is motivated in part by the Mainzeal case in 2023 where the directors were prosecuted for letting the construction firm continue trading while insolvent.

33. According to the Law Commission, duties in the act relating to reckless trading and incurring obligations are particularly unclear and difficult to apply as they are currently framed and may discourage directors from taking legitimate business risks.

[Directors' duties and liabilities are up for review | BusinessDesk](#)

Business Desk: Kirk Hope is moving to the Financial Services Council

34. Kirk Hope has resigned as Chief Executive of Business NZ and will take up his new role as Chief Executive of the Financial Services Council in September 2024. He was previously Chief Executive of the NZ Bankers' Association.

NZ Herald: Treasury Secretary not renewing her term

35. Dr Caralee McLiesh will not seek to renew her 5-year contract as CE and Secretary to the Treasury in September 2024 and will return to Australia. Struan Little, currently Deputy Secretary, will be Acting Secretary until a permanent appointment is made.

[Treasury boss Caralee McLiesh won't seek reappointment - NZ Herald](#)

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.5
Meeting date: 7 August 2024
Subject: Environmental scan – assurance
Date: 22 July 2024
Prepared By: Anna Herlender

Action Required **For Information Purposes Only**

Agenda Item Objectives

1. This update identifies developments relevant to auditing and assurance published by international and domestic organisations since 27 May 2024.

Background

2. Agenda Item 3.4 includes the wider environmental scan that was prepared for the latest XRB and NZASB meetings. It provides an update on developments in the financial and climate reporting landscape of strategic interest to the XRB. It is provided to NZAuASB for information purposes (after removing articles with restricted access/copyrights).
3. This assurance environmental scan includes articles related to the NZAuASB work plan and other articles of interests. If an article, that is assurance related, has been included in the XRB/NZASB environmental scan (agenda item 2.4) it is not duplicated in this paper.

Audit of less complex entities

How The New Audit Standard for Less Complex Entities Benefits Auditors and the Entities They Serve, IFAC, 10 July 2024, [Read here](#).

New ISA for LCE Guidance on Auditor Reporting, IFAC, 11 July 2024, [Read here](#).

Canada's Decision to Not Adopt the International Standard for Audits of Less Complex Entities, 27 May 2024, [Read here](#).

Audit oversight

Spotlight: 2023 Conversations with Audit Committee Chairs, PCAOB, June 2024, [Read here](#).

Audit reporting

Why Critical Audit Matters Are So Critical, PCAOB, 6 June 2024, [Read here](#)

Competence

Climate risk disclosures and auditor expertise, The British Accounting Review, 27 June 2024, [Read here](#). This paper has been considered by the staff for the purposes of competency analysis paper (agenda item 7.2).

Ethics

Navigating Ethical Systems, IFAC, 11 July 2024, [Read here](#).

GHG

Carbon targets and ambiguity: The scrutiny to expect from an auditor, OAG, 18 June 2024, [Read here](#).

Understanding Voluntary Carbon Markets. Key considerations for professional accountants and purchasers on the carbon credit life cycle, IFAC, 12 June 2024, [Read here](#).

On the Importance of Assurance in Carbon Accounting, Massachusetts Institute of Technology, 25 March 2024, SSRN, [Read here](#).

Sustainability

Climate Standards-compliant disclosures, KPMG New Zealand, 20 June 2024, [Read here](#).

Practical roadmap to prepare for climate-related disclosures, CA ANZ, 18 July 2024, [Read here](#).

Sustainability reporting: SME guide, ACCA, May 2024, [Read here](#).

How investors in Asia Pacific can manage nature-related risks, PwC, 28 May 2024, [Read here](#).

APAC Climate Action Progress Report, MSCI, 28 May 2024, [Read here](#).

ESRS Perspectives: [materiality assessment](#) and [value chain](#), Accountancy Europe, 6 June 2024.

Technology

The Age of Generative AI: How the Profession Can Respond, CAQ, 14 June 2024, [Read here](#).

Other

Integrated Mindset in Practice: Professional Accountants in Business and Anti-Corruption Compliance. A joint report from IFAC, ICAEW and the Basel Institute on Governance, 3 July 2024, [Read here](#).

For information purposes only: Comparison between NZ AS 1 (Revised) to Part 11 of proposed ISA (NZ) for LCE

This “mapping” document further illustrates how the requirements from NZ AS 1 (Revised) *The Audit of Service Performance Information* have, or have not, been incorporated as in Part 11 of the proposed ISA (NZ) for LCE.

This is a two-way reconciliation:

Firstly (from page 2) comparing NZAS1 (Revised) to Part 11 of the ISA for LCE – this demonstrates any paragraphs that have not been added to Part 11 from NZ AS 1 (Revised), or have been edited.

Secondly (page 28) comparing Part 11 of the ISA for LCE to NZ AS 1 (Revised) – this demonstrates any paragraphs that have been added to Part 11 that do not appear in NZ AS 1 (Revised)

Where requirements have been simplified this is to achieve the aim of the ISA for LCE to be:

- Clear - meaning drafted in an easy to understand and unambiguous way.
- Understandable - avoiding unnecessary words and elements and by using plain language.
- Concise - avoiding unnecessary repetition.

Prepared by XRB staff, this document is not an authoritative pronouncement of the XRB. It was created to facilitate the review of the proposed Part 11 of ISA (NZ) for LCE and does not form part of the materials on which we are seeking views.

In comparing the paragraphs, we have colour coded our conclusion to denote whether the NZAS1R requirement is the same as Part 11, not included in Part 11, or has been edited significantly.

Colour of Conclusion	What does this mean
	The requirement is already in the ISA (NZ) for LCE , and is not repeated in Part 11. This is acceptable because the Scope of Part 11 states “All parts of the ISA (NZ) for LCE apply when auditing an LCE that reports service performance information.”
	The requirement is not in Part 11 of the ISA (NZ) for LCE, and not found elsewhere in the ISA (NZ) for LE – this is usually because it is only applicable in the context of an audit of a more complex entity using the ISAs (NZ).
	The requirement has been significantly edited in Part 11 using the alignment principles and the drafting principles of the ISA for LCE. BUT the end result is the same and does not impose any further requirement on the auditor or add any further complexity to the audit.
	Requirement is the same or slightly edited between Part 11 of the ISA (NZ) for LCE and NZ AS 1 (Revised). I have annotated “(edited)” when requirements have been edited in a minor way e.g. – adding “In applying Part 9.7...” at the start of the sentence, to refer auditors to the corresponding requirement in the standard. However overall, the requirement is the same.

Section	Text	Conclusion	Comment	
Objective ISA for LCE: Objectives	<p>NZ AS 1 (Revised)</p> <p>6. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information presents fairly, in all material respects the service performance in accordance with the applicable financial reporting framework.</p> <p>7. The auditor may achieve the objective of this NZ AS by considering the following two steps:</p> <p>(a) Assess whether each of the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework:</p> <ul style="list-style-type: none"> • The elements/aspects of service performance that the entity has selected to report on. • The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period. • The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. <p>(b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.</p>	<p>ISA for LCE</p> <p>11.1.1. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information presents fairly, in all material respects the service performance in accordance with the applicable financial reporting framework.</p> <p><i>The auditor may achieve the objectives of this Part by considering the following two steps:</i></p> <p><i>(a) Assess whether the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework:</i></p> <ul style="list-style-type: none"> • <i>The elements/aspects of service performance that the entity has selected to report on.</i> • <i>The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.</i> • <i>The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.</i> <p><i>(b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.</i></p>	<p>Same</p>	
Definitions	<p>8. For the purposes of this NZ AS, the following terms have the meanings attributed below:</p>	<p>Definitions go in Glossary, Appendix 1, of ISA (NZ) for LCE</p>	<p>Same</p>	<p>Definitions are found in the Glossary, Appendix 1.</p>

	<p>(a) Misstatement – Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud when:</p> <ul style="list-style-type: none"> (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or (ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or (iii) Incorrectly measuring or evaluating the entity’s service performance. <p>(b) Risk of Material Misstatement – The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:</p> <ul style="list-style-type: none"> (i) Inherent risk – The susceptibility of an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. (ii) Control risk – The risk that a misstatement that could occur in an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s system of internal controls. 	<p>[NZ] Misstatement (in the context of Part 11)—Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud when:</p> <ul style="list-style-type: none"> (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or (ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or (iii) Incorrectly measuring or evaluating the entity’s service performance. <p>[NZ] Risk of material misstatement (in the context of Part 11)—The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:</p> <ul style="list-style-type: none"> (i) Inherent risk – The susceptibility of an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. (ii) Control risk – The risk that a misstatement that could occur in an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or 		
--	--	---	--	--

		detected and corrected, on a timely basis by the entity's system of internal controls.		
General Requirements	Conduct Engagement in Accordance with the ISAs (NZ) 9. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information. 10. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ) in relation to the audit of service performance information.	Not required	Not required in Part 11 (only applicable in context of full ISAs)	This paragraph is specific to ISA (NZ), not applicable to ISA for LCE.
General Requirements: Professional Judgement and Professional Scepticism	11. The auditor shall plan and perform the audit of service performance information by exercising professional judgement and with an attitude of professional scepticism.	<i>Not required</i>	Requirement already in ISA (NZ) for LCE at para. 1.4.4.	Professional scepticism is already required in para. 1.4.4-1.4.5. This is fundamental to the audit as a whole, not just service performance information. It is not considered necessary to repeat in Part 11.
Documentation ISA for LCE: Specific Documentation Requirements	12. The auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS.	<i>Not required</i>	Requirement already in ISA (NZ) for LCE at para. 2.4.1.(a)	Para. 12 of NZAS1R is already a general documentation requirement (para. 2.4.1.(a)) – which applies to all Parts. This is emphasised in the EEM at 11.21.
	13. The audit documentation shall include: (a) Significant professional judgements made in audit procedures performed, the audit evidence obtained, and conclusions reached.	<i>Not required</i>	Requirement already in ISA (NZ) for LCE at para. 2.4.1.(c)	Para. 13 (a) is already a general documentation requirement (para. 2.4.1.(c)). Reference to Part 2.4 is in the EEM above para. 11.21.1
	(b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.	11.21.1. The auditor shall include the following in the audit documentation: (j) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.	Same	

<p>Agreement on Audit Engagement Teams</p> <p>ISA for LCE: Terms of the Audit Engagement</p>	<p>14. The terms of the engagement shall include :</p> <p>(a) The objective and scope of the audit.</p> <p>(b) The responsibilities of the auditor with respect to the service performance information:</p> <p>(i) To obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.</p> <p>(ii) To evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.</p> <p>(iii) To evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(iv) To evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework.</p> <p>(c) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:</p>	<p>11.2.1. In applying Part 4, the auditor shall agree the terms of the audit engagement with those charged with governance.</p> <p><i>Appendix 2A sets out an illustrative engagement letter including service performance information.</i></p> <p>...</p> <p>11.21. Specific Documentation Requirements</p> <p>11.21.1. The auditor shall include the following in the audit documentation:</p> <p>(a) The audit engagement letter or other suitable form of written agreement shall include the requirements of paragraph NZ4.7.4, as well as the following with respect to service performance information:</p> <p>(i) The objective and scope of the audit, and</p> <p>(ii) The respective responsibilities of the auditor and those charged with governance,</p> <p>(iii) Identification of the applicable financial reporting framework,</p> <p>(iv) Reference to the expected form and content of any reports to be issued by the auditor;</p>	<p>Rewritten to be internally align</p>	<p>Para. 11.2.1. aligns with para. NZ 4.4.1. of ISA for LCE.</p> <p>As the engagement letter is a documentation requirement, reference to the letter is included in the <i>specific documentation requirements</i> section at para. 11.21.1. (a) of the ISA (NZ) for LCE.</p> <p>Consistent with para. NZ4.7.4, we do not need to go into detail on what <i>responsibilities</i> are needed to be documented in the engagement letter, as this is set out in detail at Appendix 2A.</p>
--	---	---	--	---

	<p>(i) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.</p> <p>(ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.</p> <p>(iv) Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.</p> <p>(d) Reference to the expected form and content of the auditor's report.</p>			
<p>Obtaining an Understanding: <i>Understanding the Entity</i></p> <p>ISA for LCE: Understanding Relevant Aspects of the Entity and the Service Performance Information:</p>	<p>15. The auditor shall obtain an understanding of:</p> <p>(a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.</p> <p>(b) What activities or services the entity performs.</p> <p>(c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.</p> <p>(d) What is considered important to those stakeholders and users and what they may use the service performance information for.</p>	<p>11.4.1. The auditor shall obtain an understanding of:</p> <p>(a) Why the entity exists and what it intends to achieve i.e., its purpose or objective;</p> <p>(b) What activities or services the entity performs;</p> <p>(c) The entity's primary stakeholders and users of the service performance information; and</p> <p>(d) What is considered important to those stakeholders and users identified in (c), and what they may use the service performance information for.</p>	<p>Same (edited)</p>	<p>Para. 15(a) and (b) same as NZAS1R (and correspond with PBE standards).</p> <p>Edited Para. 15(c) as 11.4.1.(c) – “who the entity aims to serve” is not in the PBE standards, so shorten this to the second half of the sentence from NZAS1 R., i.e. <i>The entity's primary stakeholders and users of the SPI.</i></p> <p>Edited (d) – so the auditor is focused on the users they identify in bullet point (c).</p>

<p><i>Understanding the Entity</i></p>				<p>Also changed the formatting of the list to have ; instead of . after each bullet point to indicate the auditor needs to understand all aspects together. [Per CUSP drafting principles “ In a bulleted list ‘and’ means all items need to be taken into account”]</p>
<p>Understanding Laws and Regulations ISA for LCE: Understanding Laws and Regulations</p>	<p>16. The auditor shall obtain an understanding of: (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and laws and regulations that specify the form, content, preparation, publication, and audit of service performance information; and</p>	<p>11.4.2. The auditor shall obtain an understanding of the legal and regulatory framework that specify the form, content, preparation, publication, and audit of service performance information; ...</p>	<p>Requirements are simplified in line with the drafting principles. Achieves same outcome</p>	<p>Have combined the 2 bullet points as it is all about one idea. Note that the auditor is already required to understand The legal and regulatory framework applicable to the entity, and how the entity is complying with that framework at para. 6.3.4 of ISA for LCE. Therefore, this requirement at 11.4.2. is specific to those laws and regulations around SPI.</p>
	<p>(b) How the entity is complying with that framework.</p>	<p>11.4.2 ... and how the entity is complying with that framework.</p>	<p>Same</p>	
<p>Understanding the Service Performance Information Reported ISA for LCE: Understanding the Service Performance Information Reported</p>	<p>17. The auditor shall obtain an understanding of: (a) The applicable financial reporting framework relevant to the service performance information. (b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report. (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.</p>	<p>11.4.3. The auditor shall obtain an understanding of: (a) The applicable financial reporting framework relevant to the service performance information. (b) The process, including the rationale and logic, to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report. (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.</p>	<p>Same</p>	

	<p>(d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.</p> <p>(e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.</p> <p>(f) Where the entity intends to report its service performance information.</p>	<p>(d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.</p> <p>(e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.</p> <p>(f) Where the entity intends to report its service performance information.</p>		
<p>Understanding the Components of the Entity's System of Internal Control</p> <p>ISA for LCE: Understanding the Entity's System of Internal Control</p>	<p>Understanding the Components of the Entity's System of Internal Control 18. In accordance with ISA (NZ) 315 (Revised 2019), the auditor shall obtain an understanding of the entity's system of internal control over the preparation of the service performance information.</p>	<p>11.4.4. The auditor shall obtain an understanding of the entity's system of internal control over the preparation of the service performance information.</p>	<p>Same</p>	
	<p>19. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.</p>	<p>EEM under 11.4.4.</p> <p><i>The auditor applies paragraph 6.3.14 to determine whether deficiencies have been identified in the entity's system of internal control.</i></p>	<p>Requirement already in ISA (NZ) for LCE at para. 6.3.14</p>	<p>Instead, we have added EEM to refer the auditor to the requirement at 6.3.14.</p>
<p>Planning ISA for LCE: Planning Activities</p>	<p>20. The auditor shall develop an audit plan with a single audit approach to concurrently cover the service performance information and the financial statements.</p>	<p>11.3.1. In applying Part 5, the auditor shall set the scope, timing and direction of the audit to concurrently cover the service performance information and the financial statements.</p>	<p>Same (edited for internal consistency)</p>	<p>Added "In applying Part 5", to refer the auditor back to Part 5.</p>

	<p>21. In establishing the overall audit strategy, the auditor shall:</p> <p>(a) Consider the factors that, in the auditor’s professional judgement, are significant in directing the engagement team’s efforts in respect of the audit of service performance information.</p> <p>(b) Determine the timing of when to evaluate whether the entity’s service performance information is appropriate and meaningful.</p>	<p>...In doing so, the auditor shall:</p> <p>(a) Consider the factors that, in the auditor’s professional judgement, are significant in directing the engagement team’s efforts in respect of the audit of service performance information.; and</p> <p>(b) Determine the timing of when to evaluate whether the entity’s service performance information is appropriate and meaningful.</p> <p>...</p>	<p>Same</p>	
	<p>22. The auditor shall discuss with those charged with governance:</p> <p>(a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information;</p> <p>(b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance; and</p> <p>23. Any concerns identified shall then be communicated to those charged with governance as soon as practicable.</p>	<p>11.3.2. The auditor shall discuss with those charged with governance:</p> <p>(a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information;</p> <p>(b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance; and</p> <p>11.3.3. Any concerns identified arising from the discussions in 11.3.2. shall then be communicated to those charged with governance as soon as practicable.</p>	<p>Same (edited for internal consistency)</p>	<p>Para. 11.3.3 refers back to the discussions in 11.3.2., to demonstrate that the two paragraphs are linked together.</p>
<p>Compliance With the Applicable Financial Reporting Framework</p> <p>ISA for LCE: Applicable Financial Reporting Framework</p>	<p>24. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework.</p>	<p>11.5.1. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework.</p>	<p>Same</p>	

<p>Appropriate and Meaningful</p> <p>ISA for LCE: Appropriate and Meaningful</p>	<p>25. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether:</p> <p>(a) It fairly reflects the auditor’s understanding of the entity’s performance from all other audit work performed on the audit.</p> <p>(b) It is likely to meet the needs of the intended user to enable an informed assessment of the entity’s service performance.</p> <p>(c) It relates to an element/aspect of service performance that significantly contributes to the entity’s core purpose, functions or objectives.</p> <p>(d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.</p> <p>(e) It is capable of measurement or evaluation in a consistent manner from period to period.</p> <p>(f) It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity’s service performance in that year.</p>	<p>11.5.2. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether:</p> <p>(a) It fairly reflects the auditor’s understanding of the entity’s performance from all other audit work performed on the audit.</p> <p>(b) It is likely to meet the needs of the intended users to enable an informed assessment of the entity’s service performance.</p> <p>(c) It relates to an element/aspect of service performance that significantly contributes to the entity’s core purpose, functions or objectives.</p> <p>(d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.</p> <p>(e) It is capable of measurement or evaluation in a consistent manner from period to period.</p> <p>(f) It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity’s service performance in that year.</p>	<p>Same</p>	
<p>Compliance With Laws and Regulations</p> <p>ISA for LCE: Laws and Regulations</p>	<p>26. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct material effect on the reporting of service performance information.</p>	<p>11.5.3. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct material effect on the reporting of service performance information.</p>	<p>Same</p>	
<p>Materiality</p> <p>ISA for LCE: Materiality</p>	<p>27. The auditor shall use the understanding gained in paragraphs 15-19 to determine the significant elements/aspects of service performance.</p>	<p>11.6.1. The auditor shall :</p> <p>(a) Consider materiality for qualitative service performance information; and/or</p>	<p>Requirements are simplified in line with the drafting principles.</p>	<p>Refined materiality requirements and EEM to make them more understandable, and expectations more clear.</p>

	<p>28. The auditor shall determine and document materiality considerations and/or materiality for service performance information to determine the:</p> <p>(a) Nature, timing and extent of further audit procedures; and</p> <p>(b) The auditor’s tolerance for misstatement in relation to material service performance measures and/or descriptions.</p>	<p>(b) Determine materiality for quantitative service performance information.</p> <p>(c) For quantitative service performance information, determine performance materiality as applicable in the circumstances.</p> <p>[EEM:]</p> <p><i>In considering or determining the materiality for service performance information, the auditor may firstly determine which elements/aspects of service performance are significant or important to intended users, i.e. the significant elements/aspects of service performance. Having identified those, the auditor may then consider or determine what are the material performance measures and/or descriptions that measure performance in those significant elements/aspects of service performance.</i></p> <p>...</p> <p><i>The auditor’s professional judgement about misstatements that will be considered material provides a basis for :</i></p> <ul style="list-style-type: none"> • <i>Determining the nature, timing and extent of procedures to identify and assess risks of material misstatement;</i> • <i>Identifying and assessing the risks of material misstatement;</i> • <i>Determining the nature, timing and extent of further audit procedures.</i> <p><i>When determining materiality for quantitative service performance information,</i></p> <p>...</p>	<p>Achieves same outcome</p>	<p>Para. 27, of NZAS1R Determining significant elements/aspects is moved EEM, so these requirements focus more on setting materiality.</p> <p>Paragraph 28 of NZAS1R is rewritten as 11.6.1 (a) and (b) to provide more clarity over when the auditor considers materiality and when the auditor determines materiality.</p> <p>For clarity, added a requirement that performance materiality is only required for quantitative SPI as applicable in the circumstances. (this is based on ISSA 5000). Without adding (c), it is unclear as to what the requirements are for setting performance materiality in the audit of SPI.</p> <p>28(a) & 28(b) of NZAS1R is included in EEM, which follows how it is presented in EEM at para. 4.3.2.</p>
--	---	---	-------------------------------------	--

		<p>Specific Documentation Requirements 11.21.1. The auditor shall include the following in the audit documentation: ... (b) Materiality considerations and/or materiality for service performance information;...</p>		<p>The documentation requirement in para. 28 of NZAS1R is moved to 11.21.1(b) (the specific documentation requirements section).</p>
	<p>29. The auditor shall apply materiality to assess whether: (a) The significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and (b) The performance measures and/or descriptions, measurement bases or evaluation methods contain individual or collective misstatements, that based on the auditor’s judgement, are likely to influence the decisions of the intended users based on the information.</p>	<p>EEM at 11.6.1 The concept of materiality is applied by the auditor, in both planning and performing the audit, and to assess whether: (a) the significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and (b) in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements if any, on the service performance information and in forming an opinion in the auditor’s report.</p>	<p>Requirements moved to EEM, to be internally consistent with EEM in Part 5 of ISA for LCE</p>	<p>The application of materiality is described in EEM, not as a requirement, at para. 5.3.1. Therefore, we move the requirement from 11.6.2 into EEM.</p>
	<p>30. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor’s attention during the audit that would have caused the auditor to make a different materiality judgement.</p>	<p>11.6.2. If the auditor becomes aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially, the auditor shall revise materiality for the service performance information.</p>	<p>Same (edited for internal consistency)</p>	<p>Aligned wording with para. 5.3.4.</p>
<p>Materiality ISA for LCE: Evaluation of Misstatements Identified During the Audit of Service</p>	<p>31. The auditor shall consider individually or collectively, all misstatements identified, other than those that are clearly trivial, that are uncorrected by the entity, to conclude whether the service performance information is materially misstated.</p>	<p>11.10.1. In applying Part 8, the auditor shall consider individually or collectively, all misstatements identified, other than those that are clearly trivial, that are uncorrected by the entity, to evaluate whether the service performance information is free from material misstatement.</p>	<p>Same (edited for internal consistency)</p>	<p>Link back to part 8 (8.2: evaluation of misstatements identified during the audit) Change “conclude whether the service performance information is materially misstated” to “evaluate whether the service performance information is free from material misstatement.” to align with how the requirement is written at 8.2.</p>

Performance Information				The auditor has to evaluate misstatements first in part 8.2, before the conclusion happens at part 9.2 – the conclusion on whether it is free from material misstatement takes into account not just misstatements, but also whether sufficient audit evidence has been obtained. Therefore, the requirement at 11.10.1 is rewritten.
Identifying and Assessing Risks of Material Misstatement ISA for LCE: Identifying and Assessing the Risks of Material Misstatement	32. The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019) to obtain audit evidence that provides an appropriate basis for identification and assessment of risks of material misstatement, whether due to fraud or error: (a) At the service performance information level; and (b) At the assertion level for performance measures, descriptions or disclosures.	11.7.2. In applying part 6.4. and based on the understanding obtained in part 11.4., the auditor shall identify and assess the risks of material misstatement, whether due to fraud or error, of the service performance information: (a) At the service performance information level. In doing so, the auditor shall determine whether they affect risks at the assertion level and consider the nature and extent of the pervasive effect of identified risks on the service performance information; and (b) At the assertion level for performance measures, descriptions or disclosures. In doing so, the auditor shall: (i) Determine the relevant assertions and related significant performance measures, descriptions or disclosures; and (ii) Assess inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement.	Requirements are aligned with ISA for LCE rather than ISA (NZ) 315R. Achieves same outcome	Referred back to Part 6, rather than ISA (NZ) 315 (Revised 2019). Used wording based on para. 6.4.1 when writing para. 11.7.1., so it is internally consistent.
	33. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.	11.7.3. The auditor shall determine whether any of the assessed risks of material misstatement of the service performance information are, in the auditor’s professional judgement, a significant risk.	Same	

<p>The Auditor's Responses to Assessed Risks</p> <p>ISA for LCE: Audit Procedures Responsive to the Assessed Risks of Material Misstatement</p>	<p>34. The auditor shall design and perform procedures whose nature, timing and extent:</p> <p>(a) Are responsive to assessed risks of material misstatement at the assertion level; and</p> <p>(b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.</p>	<p>11.8.4. In applying Part 7, the auditor shall design and perform procedures whose nature, timing and extent are based on, and responsive to, assessed risks, whether due to fraud or error, at the assertion level.</p>	<p>Requirements are aligned with ISA for LCE. Achieves same outcome</p>	<p>Para. 34 (a) is rewritten as 11.8.4, and aligns with the para. 7.3.1. of the ISA for LCE.</p> <p>The requirement to obtain sufficient appropriate audit evidence is set out in Part 2.2 of the ISA for LCE (and 11.9). Furthermore, the specific documentation requirements at 11.21.1 require the auditor to document responses to risks, and document misstatements. Therefore, we do not consider para. 34.(b) is required in Part 11.</p>
	<p>35. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of controls over the service performance information when:</p> <p>(a) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively; or</p> <p>(b) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence.</p>	<p>11.8.5. In designing the further audit procedures, the auditor shall:</p> <p>(a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant performance measure, description or disclosure, including:</p> <p>(i) The likelihood and magnitude of misstatement due to the characteristics of the significant performance measure, description or disclosure (that is, the inherent risk); and</p> <p>(ii) Whether the risk assessment takes account of controls that address the risk of material misstatements (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (where the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures);</p> <p>(b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk;</p>	<p>Requirements are aligned with ISA for LCE. Achieves same outcome</p>	<p>Remembering that NZAS1R has been written to be used in conjunction with ISAs, in this case ISA (NZ) 330 <i>The Auditor's Responses to Assessed Risks</i> to respond to those risks identified and assessed. We then look to the requirements in the ISA for LCE for how the requirements over the risks at the assertion level are written and use those as the base, therefore para. 11.8.5 is based on para. 7.3.2.</p> <p>We have also checked that this aligns with current ISA requirements:</p> <p>Para. 11.8.5.(a) aligns with para. 7(a) of ISA (NZ) 330.</p> <p>Para. 11.8.5.(b) aligns with para. 7(b) of ISA (NZ) 330.</p> <p>Para. 11.8.5.(c) aligns with para. 9 of ISA (NZ) 330.</p> <p>Para. 11.8.5.(d) aligns with para. 8 of ISA (NZ) 330.</p>

		<p>(c) In designing and performing tests of controls, obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of controls; and</p> <p>(d) If the auditor intends to test the operating effectiveness of controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, design and perform tests of controls, to obtain sufficient appropriate audit evidence as to the operating effectiveness of such controls</p>		Therefore we are not introducing any new requirements or concepts to Part 11.
	36. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.	11.8.6. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.	Same	
Audit evidence ISA for LCE: Sufficient Appropriate Audit Evidence	37. The auditor shall obtain sufficient appropriate audit evidence that the: (a) Elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and (b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluations methods; and (c) Performance measures and/or descriptions are not materially misstated.	11.9.1. The auditor shall obtain sufficient appropriate audit evidence that the: (a) Significant elements/aspects of service performance, and related material performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and (b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluations methods; and (c) Performance measures and/or descriptions are not materially misstated.	Same	
	38. Where possible the auditor shall draw on relationships that exist between the service performance information and the financial statements.	11.9.2. The auditor shall, where possible, draw on the relationships that exist between the service performance information and the financial statements.	Same (minor edits)	Reworded slightly – to put the subject (auditor) first and to maintain consistency with other paragraphs which put the auditor first. Achieves same outcome.
	39. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management's expert.	11.3.4. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management's expert.	Same	

	40. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.	11.9.3. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.	Same	
Communicating with Those Charged with Governance ISA for LCE: Specific Communications Requirement s	41. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance: (a) Any significant risks identified with the service performance information. (b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement. (c) Significant difficulties, if any, encountered during the audit. (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management. (e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations. (f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention. (g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.	11.20.1. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance: (a) Any significant risks identified with the service performance information. (b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement. (c) Significant difficulties, if any, encountered during the audit of service performance information. (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management. (e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations. (f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention. (g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.	Same	

	(h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.	(h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.		
Special Considerations: An Entity Using a Service Organisation, Groups and Using the Work of Another Practitioner ISA for LCE: Specific Focus Areas	42. When planning the audit of service performance information, the auditor shall: (a) Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit of service performance information sufficient to identify and assess the risks of material misstatement and design, and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.	<i>Using the Services of a Service Organisation</i> 11.19.1. In applying part 7.4, if the entity is using the services of a service organisation in the context of service performance information, the auditor shall: (a) Determine whether sufficient appropriate audit evidence concerning the relevant service performance information assertions is available at the entity; and, if not, (b) Perform further audit procedures to obtain sufficient appropriate audit evidence.	Requirements are simplified in line with the drafting principles. Achieves same outcome	Use of service organisation may still be applicable in audits of service performance information of LCEs. Have based requirements on para. 7.4.28. to be internally aligned within ISA for LCE.
	(b) Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.	<i>Audit of Group Service Performance Information</i> 11.19.2. If applying Part 10, the auditor shall obtain sufficient appropriate audit evidence regarding: (a) the service performance information of the components; and (b) the aggregation or consolidation process as it relates to the service performance information.	Requirements are simplified in line with the drafting principles. Achieves same outcome	Made the requirement more simple and concise. (don't need to include "in order to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework" as this is already the objective of Part 11). Also add a cross-reference to Part 10, as that applies when an auditor is auditing a group.
	(c) Where the service performance information includes information upon which another practitioner has expressed an opinion, communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner about the scope and timing of	<i>Not required</i>	Not included	42(c) – Unlikely to be applicable for an LCE audit, have confirmed this with the committee and at the June 2024 board meeting. Therefore, will not include in Part 11.

	the work and findings of the other practitioner, and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information.			
Using the Work of an Auditor's Expert ISA for LCE: Determining Whether to Use the Work of an Auditor's Expert	43. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.	11.3.5. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence regarding the service performance information, the auditor shall determine whether to use the work of an auditor's expert.	Same (edited for internal consistency)	Slightly rewritten, based on para. 5.2.10 – achieves same outcome.
Written Representations ISA for LCE: Written Representations	44. The auditor shall request written representations from those charged with governance that they have fulfilled their responsibility for: (a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework. (b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework. (c) The overall presentation, structure and content of the service performance	11.11.1. In applying Part 8, the auditor shall obtain written representations regarding service performance information from those charged with governance, who have appropriate knowledge of the matters concerned and responsibility for the service performance information, that they have fulfilled their responsibility for: (a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework. (b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.	Same (edited for internal consistency)	Edited to refer back to the requirements of Part 8 which is about written representations – the auditor needs to refer to both para. NZ 8.6.1. and 11.11.1. when preparing their written representations. Elements are the same in para. 11.11.1 as in NZAS1R.

	information in accordance with the applicable financial reporting framework.	(c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.		
	(d) Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.		Not included	Consistent with the illustrative letter of representation in the ISA for LCE – para. 44(d) is not included. This is not a specific representation required under the ISA for LCE. The responsibility is already documented in the Audit Engagement Letter – Appendix 2 of the ISA for LCE.
Forming an Opinion ISA for LCE: Forming an Opinion on the Service Performance Information	45. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.	11.12.1. In applying Part 9, the auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.	Same (edited)	Edited the start of the sentence to refer the auditor to part 9, (which covers comparative information.)
	46. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to fraud or error. That conclusion shall take into account: (a) Whether sufficient, appropriate audit evidence has been obtained; (b) Whether uncorrected misstatements are material, individually or collectively; and ...	11.12.2. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to fraud or error. That conclusion shall take into account: (a) Whether sufficient appropriate audit evidence has been obtained as required by paragraph 11.9.1; (b) Whether uncorrected misstatements are material, individually or in aggregate; and ...	Same	
	46. ... (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the entity's	11.12.3. The auditor shall evaluate whether the service performance information is prepared, in all material respects, in accordance with the entity's	Edited – same requirement, but added as a new	Split out para. 46(c) of NZAS1R into a new para. at 11.12.3., as it is a separate evaluation, and now flows better, in the context of the auditor forming an opinion.

	measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.	measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.	requirement, paragraph	
--	---	---	-------------------------------	--

	<p>47. The auditor shall conclude whether, in view of the applicable financial reporting framework:</p> <p>(a) The entity has presented service performance information that is appropriate and meaningful.</p> <p>(b) The measurement bases or evaluation methods are available to intended users.</p> <p>(c) When the information is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:</p> <p>(i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;</p> <p>(ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and</p> <p>(iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.</p>	<p>11.12.4. When the service performance information is prepared in accordance with a fair presentation framework, the auditor shall also evaluate whether the service performance information achieves fair presentation. This evaluation shall include consideration of whether:</p> <p>(a) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;</p> <p>(b) The entity has presented service performance information that is appropriate and meaningful;</p> <p>(c) The measurement bases or evaluation methods are available to intended users;</p> <p>(d) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and</p> <p>(e) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.</p> <p>...</p>	<p>Edited</p>	<p>In line with discussions in the drafting of NZSRE1, para. 47(a) and (b) of NZAS1R apply when there is a fair presentation framework. Therefore we have moved those requirements into a paragraph relating to achieving fair presentation.</p> <p>Changed “conclude whether” to “evaluate whether” Because the conclusion is undertaken at para. 11.12.2.(c).</p>
	<p>48. The auditor shall consider:</p> <p>(a) Any matters arising during the course of the audit of the financial statements that may affect the auditor’s evaluation of the service performance information.</p> <p>(b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor’s evaluation of the financial statements.</p>	<p>11.12.5. This auditor shall consider any matters arising during the audit of the financial statements that may affect the auditor’s evaluation of the service performance information.</p> <p>11.12.6. The auditor shall consider the impacts of any matters arising during the audit of the service performance information that may affect the auditor’s evaluation of the financial statements.</p>	<p>Same</p>	<p>Have split out para. 48 into separate requirements as they cover different topics</p> <p>48(a): at 11.12.5. 48(b): at 11.12.6.</p>

<p>Report Content</p> <p>ISA for LCE: Form of Opinion</p>	<p>49. The auditor's report on the financial statements and the service performance information shall be included in a single report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information.</p>	<p>11.13.1. The auditor's report on the financial statements and the service performance information shall be included in a single report.</p>	<p>Same (edited)</p>	<p>Just the first half of the sentence is included, as the specified format and content and elements of the auditor's report are shown at section 11.14.</p>
	<p>50. The opinion section of the auditor's report shall:</p> <p>(a) Identify the service performance information;</p> <p>(b) State that the service performance information has been audited;</p> <p>(c) Identify the applicable financial reporting framework; and</p> <p>(d) Refer to the measurement bases or evaluation methods</p>		<p>Not required in Part 11</p>	<p>Not included, as the specified format and content of the auditor's report is provided as a requirement in the ISA for LCE. Therefore, there is no need to spell out the required elements of an auditor's report separately.</p>
	<p>51. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:</p> <p>(a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard 1 (Revised);</p> <p>(b) Describe the responsibilities of those charged with governance for:</p> <p>(i) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.</p>		<p>Not required in Part 11</p>	<p>Not included, as the specified format and content of the auditor's report is provided in the ISA for LCE. Therefore, there is no need to spell out the required elements of an auditor's report separately.</p>

	<p>(ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods in accordance with the applicable financial reporting framework.</p> <p>(iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.</p> <p>(iv) Such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error.</p> <p>When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view" as appropriate in the circumstances.</p> <p>(c) In the "auditor's responsibilities" section describe the audit of the service performance information by stating that, in accordance with the ISAs (NZ) and this New Zealand Auditing Standard, the auditor's responsibilities are to:</p> <p>(i) Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.</p> <p>(ii) Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or</p>			
--	---	--	--	--

	<p>evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.</p> <p>(iii) Evaluate whether the selected service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(iv) Evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.</p>			
<p>Key Audit Matters</p>	<p>52. The auditor may be required or may voluntarily report key audit matters in the auditor's report in accordance with ISA (NZ) 701 . If reported, where, in the auditor's judgement matters related to service performance information were of most significance to the audit, key audit matters shall include matters related to service performance.</p>	<p>Not required</p>	<p>Not required in Part 11</p>	<p>key audit matters are not applicable in an ISA for LCE audit.</p>
<p>Modifications to the Opinion in the Independent Auditor's Report ISA for LCE: Modifications to the Opinion</p>	<p>53. The auditor shall modify the opinion, with respect to the service performance information when:</p> <p>(a) The auditor concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or</p>	<p>11.15.1. The auditor shall modify the opinion in the auditor's report, with respect to the service performance information when:</p> <p>(a) The auditor concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the</p>	<p>Same (edited for internal consistency)</p>	<p>Added "opinion in the auditor's report" for clarity. This phrase is found in para. 7.4.25.</p>

	<p>(b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or</p> <p>(c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information, as a whole, is free from material misstatement.</p>	<p>applicable financial reporting framework, or</p> <p>(b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or</p> <p>(c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information, as a whole, is free from material misstatement.</p>		
	<p>54. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements.</p>	<p>11.15.2. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements.</p>	<p>Same</p>	
	<p>55. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings “Qualified Opinion on the Service Performance Information”, “Adverse Opinion on the Service Performance Information” or “Disclaimer of Opinion on the Service Performance Information” as appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.</p>	<p>11.15.3. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings “Qualified Opinion on the Service Performance Information”, “Adverse Opinion on the Service Performance Information” or “Disclaimer of Opinion on the Service Performance Information” as appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.</p>	<p>Same</p>	
	<p>56. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.</p>	<p>11.15.4. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.</p>	<p>Same</p>	

<p>Emphasis of Matter Paragraphs and Other Matter Paragraphs ISA for LCE: Other Paragraphs in the Auditor's Report</p>	<p>57. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.</p>	<p>11.16.1.If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information that, in the auditor's professional judgement, is of such importance that it is fundamental to the users' understanding of the service performance information, and the auditor would not be required to modify the opinion as a result of that matter, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasised.</p>	<p>Same (edited for internal consistency)</p>	<p>Para. 57: Rewritten, based on para. 9.6.1 of ISA for LCE and the NZAS1R requirement. Overall requirement is the same.</p>
	<p>58. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor's judgement, is relevant to users' understanding of the audit of service performance information, the auditor shall include an Other Matter paragraph in the auditor's report.</p>	<p>11.16.2.If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information that, in the auditor's professional judgement, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.</p>	<p>Same (edited)</p>	<p>Para. 58: Rewritten, based on para. 9.6.2 and the nzas1r requirements. Overall requirement is the same.</p>
<p>Comparative Information ISA for LCE: Comparative Service Performance Information</p>	<p>59. The auditor shall determine whether: (a) Prior period comparative service performance information agrees with disclosures presented in the prior period or when appropriate, have been restated; and (b) The elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods is consistent</p>	<p>11.17.1. In applying part 9.7, the auditor shall determine whether: (a) Prior period comparative service performance information agrees with disclosures presented in the prior period or when appropriate, have been restated; and (b) The elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods is consistent</p>	<p>Same (edited)</p>	<p>Edited the start of the sentence to refer the auditor to part 9.7, (which covers comparative information.)</p>

	with the current period or, if there have been changes, whether those changes have been properly accounted for and adequately presented and disclosed.	with the current period or, if there have been changes, whether those changes have been properly accounted for and adequately presented and disclosed.		
Prospective Service Performance Information ISA for LCE: Prospective Service Performance Information	60. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall: (a) Assess whether the prospective service performance information agrees with the information presented in the published prospective service performance information: or (b) Assess that any changes have been clearly explained in the service performance information.	11.17.2 Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall: (a) Assess whether the prospective service performance information agrees with the information presented in the published prospective service performance information: or (b) Assess that any changes have been clearly explained in the service performance information.	Same	
Other Information ISA for LCE: Other Information	61. The auditor shall read the other information and consider whether there is a material inconsistency between: (a) The other information and the service performance information; and (b) The other information and the auditor's knowledge obtained in the audit.	11.18.1. In applying Part 9.8, the auditor shall read the other information, and: (a) Consider whether there is a material inconsistency between the other information and the service performance information; and (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.	Same (edited)	base this para. on 9.8.2 in ISA for LCE. It is the same requirement, but just reworded to align with ISA for LCE.

For information purposes only: Mapping document

The below is ordered by the paragraph numbering of Part 11. This mapping document shows what paragraphs have been added to Part 11 in addition to the requirements of NZ AS 1 (Revised), along with what paragraphs align with NZ AS 1 (Revised) or align internally with ISA for LCE.

Another mapping document is on page 1 that is ordered by the paragraph numbering of NZ AS 1 (Revised)

In comparing the paragraphs, we have added a colour to denote whether the Part 11 requirement is the same as NZAS1R, added to Part 11, or has been edited significantly. Comments for the additions only are added below.

Colour	What does this mean
	The requirement is already in the ISA (NZ) for LCE , and is not repeated in Part 11. This is acceptable because the Scope of Part 11 states “All parts of the ISA (NZ) for LCE apply when auditing an LCE that reports service performance information.”
	The requirement has been significantly edited in Part 11 using the alignment principles and the drafting principles of the ISA for LCE. BUT the end result is the same and does not impose any further requirement on the auditor or add any further complexity to the audit.
	The Requirement has been added to Part 11 and is not in NZ AS 1 (Revised) This is to enable internally consistency within the ISA for LCE (particularly around the determining resources in planning, designing procedures, responding to risks of material misstatement at the SPI level, auditors report requirements, and audit procedure documentation requirements). These do not add additional requirements to what the auditor should already be doing if using the NZAS1R and ISAs(NZ) concurrently.
	Requirement is the same or slightly edited between Part 11 of the ISA (NZ) for LCE and NZ AS 1 (Revised). I have annotated “(edited)” when requirements have been edited in a minor way e.g. – adding “In applying Part 9.7...” at the start of the sentence, to refer auditors to the corresponding requirement in the standard. The resulting edit results in the same requirement, just worded slightly differently.

Section	ISA for LCE	Text	Conclusion	Comment – for additions only (other comments appear in the first reconciliation)
		NZ AS 1 (Revised)		
Objective ISA for LCE: Objectives	11.1.1. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information presents fairly, in all material respects the service performance in accordance with the applicable financial reporting framework. <i>The auditor may achieve the objectives of this Part by considering the following two steps:</i> <i>(a) Assess whether each of the following aspects of the service performance information are</i>	6. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information presents fairly , in all material respects the service performance in accordance with the applicable financial reporting framework. 7. The auditor may achieve the objective of this NZ AS by considering the following two steps: (a) Assess whether each of the following aspects of the service performance information are appropriate	Same	

	<p><i>appropriate and meaningful in accordance with the applicable financial reporting framework:</i></p> <ul style="list-style-type: none"> • <i>The elements/aspects of service performance that the entity has selected to report on.</i> • <i>The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.</i> • <i>The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.</i> <p><i>(b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.</i></p>	<p>and meaningful in accordance with the applicable financial reporting framework:</p> <ul style="list-style-type: none"> • The elements/aspects of service performance that the entity has selected to report on. • The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period. • The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. <p>(b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.</p>		
<p>Agreement on Audit Engagement Teams</p> <p>ISA for LCE: Terms of the Audit Engagement</p> <p>...</p>	<p>11.2.1. In applying Part 4, the auditor shall agree the terms of the audit engagement with those charged with governance.</p> <p><i>Appendix 2A sets out an illustrative engagement letter including service performance information.</i></p> <p>11.21. Specific Documentation Requirements</p> <p>11.21.1. The auditor shall include the following in the audit documentation:</p>	<p>14. The terms of the engagement shall include :</p> <p>(a) The objective and scope of the audit.</p> <p>(b) The responsibilities of the auditor with respect to the service performance information:</p> <p>(i) To obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.</p> <p>(ii) To evaluate whether the selection of elements/aspects of service performance, performance measures</p>	<p>Rewritten and simplified.</p>	

	<p>(a) The audit engagement letter or other suitable form of written agreement shall include the requirements of paragraph NZ4.7.4, as well as the following with respect to service performance information:</p> <p>(i) The objective and scope of the audit, and</p> <p>(ii) The respective responsibilities of the auditor and those charged with governance,</p> <p>(iii) Identification of the applicable financial reporting framework,</p> <p>(iv) Reference to the expected form and content of any reports to be issued by the auditor;</p>	<p>and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.</p> <p>(iii) To evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(iv) To evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework.</p> <p>(c) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:</p> <p>(i) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.</p> <p>(ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.</p>		
--	--	--	--	--

		(iv) Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error. (d) Reference to the expected form and content of the auditor's report.		
Planning ISA for LCE: Planning Activities	11.3.1. In applying Part 5, the auditor shall set the scope, timing and direction of the audit to concurrently cover the service performance information and the financial statements.	20. The auditor shall develop an audit plan with a single audit approach to concurrently cover the service performance information and the financial statements.	Same (edited)	
	...In doing so, the auditor shall: (a) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.; and (b) Determine the timing of when to evaluate whether the entity's service performance information is appropriate and meaningful. ...	21. In establishing the overall audit strategy, the auditor shall: (a) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information. (b) Determine the timing of when to evaluate whether the entity's service performance information is appropriate and meaningful.	Same	
	(c) Determine the resources needed to perform the audit engagement in respect of the service performance information.		Added to ISA for LCE	Although not in NZ AS1 (Revised), the auditor would need to determine what resources are needed to audit spi. This wording is based on para. 10.2.1(b)
	11.3.2. The auditor shall discuss with those charged with governance: (a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information; (b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance; and	22. The auditor shall discuss with those charged with governance: (a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information; (b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance; and	Same (edited)	

	11.3.3. Any concerns identified arising from the discussions in 11.3.2. shall then be communicated to those charged with governance as soon as practicable.	23. Any concerns identified shall then be communicated to those charged with governance as soon as practicable.		
	11.3.4. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management's expert.	39. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management's expert.	Same	
Using the Work of an Auditor's Expert ISA for LCE: Determining Whether to Use the Work of an Auditor's Expert	11.3.5. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence regarding the service performance information, the auditor shall determine whether to use the work of an auditor's expert.	43. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.	Same (edited)	
Obtaining an Understanding: <i>Understanding the Entity</i> ISA for LCE: Understanding Relevant Aspects of the Entity and the Service Performance Information: <i>Understanding the Entity</i>	11.4.1. The auditor shall obtain an understanding of: (a) Why the entity exists and what it intends to achieve i.e., its purpose or objective; (b) What activities or services the entity performs; (c) The entity's primary stakeholders and users of the service performance information; and (d) What is considered important to those stakeholders and users identified in (c), and what they may use the service performance information for.	15. The auditor shall obtain an understanding of: (a) Why the entity exists and what it intends to achieve i.e., its purpose or objective. (b) What activities or services the entity performs. (c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report. (d) What is considered important to those stakeholders and users and what they may use the service performance information for.	Same (edited)	
Understanding Laws and Regulations	11.4.2. The auditor shall obtain an understanding of the legal and regulatory framework that specify the form, content, preparation,	16. The auditor shall obtain an understanding of: (a) The legal and regulatory framework applicable to the entity and the	Requirements are simplified in line with the drafting	

<p>ISA for LCE: Understanding Laws and Regulations</p>	<p>publication, and audit of service performance information; ...</p>	<p>industry or sector in which the entity operates, and laws and regulations that specify the form, content, preparation, publication, and audit of service performance information; and</p>	<p>principles. Achieves same outcome</p>	
	<p>11.4.2 ... and how the entity is complying with that framework.</p>	<p>(b) How the entity is complying with that framework.</p>	<p>Same</p>	
<p>Understanding the Service Performance Information Reported ISA for LCE: Understanding the Service Performance Information Reported</p>	<p>11.4.3. The auditor shall obtain an understanding of: (a) The applicable financial reporting framework relevant to the service performance information. (b) The process, including the rationale and logic, to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report. (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users. (d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users. (e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information. (f) Where the entity intends to report its service performance information.</p>	<p>17. The auditor shall obtain an understanding of: (a) The applicable financial reporting framework relevant to the service performance information. (b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report. (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users. (d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users. (e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information. (f) Where the entity intends to report its service performance information.</p>	<p>Same</p>	

<p>Understanding the Components of the Entity's System of Internal Control</p> <p>ISA for LCE: Understanding the Entity's System of Internal Control</p>	<p>11.4.4. The auditor shall obtain an understanding of the entity's system of internal control over the preparation of the service performance information.</p>	<p>Understanding the Components of the Entity's System of Internal Control</p> <p>18. In accordance with ISA (NZ) 315 (Revised 2019), the auditor shall obtain an understanding of the entity's system of internal control over the preparation of the service performance information.</p>	<p>Same</p>	
	<p>EEM under 11.4.4.</p> <p><i>The auditor applies paragraph 6.3.14 to determine whether deficiencies have been identified in the entity's system of internal control.</i></p>	<p>19. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.</p>	<p>Requirement already in ISA (NZ) for LCE at para. 6.3.14</p>	
<p>Compliance With the Applicable Financial Reporting Framework</p> <p>ISA for LCE: Applicable Financial Reporting Framework</p>	<p>11.5.1. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework.</p>	<p>24. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework.</p>	<p>Same</p>	
<p>Appropriate and Meaningful</p> <p>ISA for LCE: Appropriate and Meaningful</p>	<p>11.5.2. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether:</p> <p>(a) It fairly reflects the auditor's understanding of the entity's performance from all other</p>	<p>25. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether:</p> <p>(a) It fairly reflects the auditor's understanding of the entity's performance from all other audit work performed on the audit.</p>	<p>Same</p>	

	<p>audit work performed on the audit.</p> <p>(b) It is likely to meet the needs of the intended users to enable an informed assessment of the entity's service performance.</p> <p>(c) It relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives.</p> <p>(d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.</p> <p>(e) It is capable of measurement or evaluation in a consistent manner from period to period.</p> <p>(f) It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.</p>	<p>(b) It is likely to meet the needs of the intended user to enable an informed assessment of the entity's service performance.</p> <p>(c) It relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives.</p> <p>(d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.</p> <p>(e) It is capable of measurement or evaluation in a consistent manner from period to period.</p> <p>(f) It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.</p>		
<p>Compliance With Laws and Regulations</p> <p>ISA for LCE: Laws and Regulations</p>	<p>11.5.3. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct material effect on the reporting of service performance information.</p>	<p>26. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct material effect on the reporting of service performance information.</p>	<p>Same</p>	
<p>Materiality</p> <p>ISA for LCE: Materiality</p>	<p>11.6.1. The auditor shall :</p> <p>(a) Consider materiality for qualitative service performance information; and/or</p> <p>(b) Determine materiality for quantitative service performance information.</p>	<p>27. The auditor shall use the understanding gained in paragraphs 15-19 to determine the significant elements/aspects of service performance.</p> <p>28. The auditor shall determine and document materiality considerations</p>	<p>Requirements are simplified in line with the drafting principles.</p>	

	<p>(c) For quantitative service performance information, determine performance materiality as applicable in the circumstances.</p> <p>...</p> <p>Specific Documentation Requirements 11.21.1. The auditor shall include the following in the audit documentation:</p> <p>...</p> <p>(b) Materiality considerations and/or materiality for service performance information;...</p>	<p>and/or materiality for service performance information to determine the:</p> <p>(a) Nature, timing and extent of further audit procedures; and</p> <p>(b) The auditor’s tolerance for misstatement in relation to material service performance measures and/or descriptions.</p>	<p>Achieves same outcome</p>	
	<p>EEM at 11.6.1</p> <p>The concept of materiality is applied by the auditor, in both planning and performing the audit, and to assess whether:</p> <p>(a) the significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and</p> <p>(b) in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements if any, on the service performance information and in forming an opinion in the auditor’s report.</p>	<p>29. The auditor shall apply materiality to assess whether:</p> <p>(a) The significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and</p> <p>(b) The performance measures and/or descriptions, measurement bases or evaluation methods contain individual or collective misstatements, that based on the auditor’s judgement, are likely to influence the decisions of the intended users based on the information.</p>	<p>Requirements moved to EEM, to be internally consistent with EEM in Part 5 of ISA for LCE</p>	
	<p>11.6.2. If the auditor becomes aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially, the auditor shall revise materiality for the service performance information.</p>	<p>30. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor’s attention during the audit that would have caused the auditor to make a different materiality judgement.</p>	<p>Same (edited)</p>	

	<p>11.7.1. In applying Part 6.2, the auditor shall design and perform procedures to obtain audit evidence that provides an appropriate basis for:</p> <ul style="list-style-type: none"> (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at service performance information and assertion levels; and (b) The design of further audit procedures. 		<p>Added</p>	<p>Based on para. 6.2.1</p>
<p>Identifying and Assessing Risks of Material Misstatement</p> <p>ISA for LCE: Identifying and Assessing the Risks of Material Misstatement</p>	<p>11.7.2. In applying part 6.4. and based on the understanding obtained in part 11.4., the auditor shall identify and assess the risks of material misstatement, whether due to fraud or error, of the service performance information:</p> <ul style="list-style-type: none"> (a) At the service performance information level. In doing so, the auditor shall determine whether they affect risks at the assertion level and consider the nature and extent of the pervasive effect of identified risks on the service performance information; and (b) At the assertion level for performance measures, descriptions or disclosures. In doing so, the auditor shall: <ul style="list-style-type: none"> (i) Determine the relevant assertions and related significant performance measures, descriptions or disclosures; and 	<p>32. The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019) to obtain audit evidence that provides an appropriate basis for identification and assessment of risks of material misstatement, whether due to fraud or error:</p> <ul style="list-style-type: none"> (a) At the service performance information level; and (b) At the assertion level for performance measures, descriptions or disclosures. 	<p>Requirements are aligned with ISA for LCE rather than ISA (NZ) 315R. Achieves same outcome</p>	

	(ii) Assess inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement.			
	11.7.3. The auditor shall determine whether any of the assessed risks of material misstatement of the service performance information are, in the auditor's professional judgement, a significant risk.	33. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.	Same	
	<p>11.8.1. In applying Part 7, The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the service performance information level, whether due to fraud or error.</p> <p>11.8.2. In determining overall responses to address the assessed risks of material misstatement due to fraud at the service performance information level, the auditor shall:</p> <p>(a) Evaluate whether the selection of service performance information by the entity, particularly those related to subjective measurements, may be indicative of fraudulent reporting of service performance information resulting from management's effort to mislead in the reporting of service performance information; and</p> <p>(b) Incorporate an element of unpredictability in the selection of</p>		Added	<p>NZ AS1 (Revised) requires the auditor to identify and assess risk of material misstatement at the SPI level. Although there is no specific requirement in NZAS1R to respond to those risks at the SPI level, the auditor would use ISA (NZ) 330 <i>The Auditor's Responses to Assessed Risks</i> to respond to those risks identified and assessed.</p> <p>Due to the standalone nature of the ISA for LCE, in that they cannot use ISA (NZ) 330, we have added this section.</p> <p>Paragraph 11.8.1 = 7.2.1 = ISA(NZ) 330 para.5 and ISA (NZ) 240 para. 29.</p> <p>Paragraph 11.8.2 = 7.2.2 = ISA (NZ) 240 para. 30 (b) and (c)</p> <p>Paragraph 11.8.3 = 7.2.3 = ISA (NZ) 240 para. 30 (a)</p>

	<p>the nature, timing and extent of audit procedures.</p> <p><i>Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner</i></p> <p>11.8.3. In determining overall responses to address the assessed risks of material misstatement due to fraud at the service performance information level, the auditor shall assign and supervise personnel taking account of the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement over the audit of service performance information.</p>			
<p>The Auditor's Responses to Assessed Risks</p> <p>ISA for LCE: Audit Procedures Responsive to the Assessed Risks of Material Misstatement</p>	<p>11.8.4. In applying Part 7, the auditor shall design and perform procedures whose nature, timing and extent are based on, and responsive to, assessed risks, whether due to fraud or error, at the assertion level.</p>	<p>34. The auditor shall design and perform procedures whose nature, timing and extent:</p> <p>(a) Are responsive to assessed risks of material misstatement at the assertion level; and</p> <p>(b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.</p>	<p>Requirements are aligned with ISA for LCE. Achieves same outcome</p>	
	<p>11.8.5. In designing the further audit procedures, the auditor shall:</p> <p>(a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant performance measure, description or disclosure, including:</p>	<p>35. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of controls over the service performance information when:</p> <p>(a) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively; or</p>	<p>Requirements are aligned with ISA for LCE. Achieves same outcome</p>	

	<p>(i) The likelihood and magnitude of misstatement due to the characteristics of the significant performance measure, description or disclosure (that is, the inherent risk); and</p> <p>(ii) Whether the risk assessment takes account of controls that address the risk of material misstatements (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (where the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures);</p> <p>(b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk;</p> <p>(c) In designing and performing tests of controls, obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of controls; and</p> <p>(d) If the auditor intends to test the operating effectiveness of controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, design and perform tests of controls, to obtain sufficient appropriate audit evidence as to the operating effectiveness of such controls</p>	<p>(b) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence.</p>		
	<p>11.8.6. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.</p>	<p>36. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.</p>	<p>Same</p>	

<p>Audit evidence</p> <p>ISA for LCE: Sufficient Appropriate Audit Evidence</p>	<p>11.9.1. The auditor shall obtain sufficient appropriate audit evidence that the:</p> <p>(a) Significant elements/aspects of service performance, and related material performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and</p> <p>(b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluations methods; and</p> <p>(c) Performance measures and/or descriptions are not materially misstated.</p>	<p>37. The auditor shall obtain sufficient appropriate audit evidence that the:</p> <p>(a) Elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and</p> <p>(b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluations methods; and</p> <p>(c) Performance measures and/or descriptions are not materially misstated.</p>	<p>Same</p>	
	<p>11.9.2. The auditor shall, where possible, draw on the relationships that exist between the service performance information and the financial statements.</p>	<p>38. Where possible the auditor shall draw on relationships that exist between the service performance information and the financial statements.</p>	<p>Same (minor edits)</p>	
	<p>11.9.3. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.</p>	<p>40. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.</p>	<p>Same</p>	
<p>Materiality</p> <p>ISA for LCE: Evaluation of Misstatements Identified During the Audit of Service Performance Information</p>	<p>11.10.1. In applying Part 8, the auditor shall consider individually or collectively, all misstatements identified, other than those that are clearly trivial, that are uncorrected by the entity, to evaluate whether the service performance information is free from material misstatement.</p>	<p>31. The auditor shall consider individually or collectively, all misstatements identified, other than those that are clearly trivial, that are uncorrected by the entity, to conclude whether the service performance information is materially misstated.</p>	<p>Same (edited)</p>	
<p>Written Representations</p>	<p>11.11.1. In applying Part 8, the auditor shall obtain written representations regarding service performance information from those charged with governance, who</p>	<p>44. The auditor shall request written representations from those charged with governance that they have fulfilled their responsibility for:</p>	<p>Same (edited)</p>	

<p>ISA for LCE: Written Representati ons</p>	<p>have appropriate knowledge of the matters concerned and responsibility for the service performance information, that they have fulfilled their responsibility for:</p> <p>(a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.</p> <p>(b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.</p>	<p>(a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.</p> <p>(b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p> <p>(c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.</p>		
<p>Forming an Opinion</p> <p>ISA for LCE: Forming an Opinion on the Service Performance Information</p>	<p>11.12.1. In applying Part 9, the auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.</p>	<p>45. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.</p>	<p>Same (edited)</p>	
	<p>11.12.2. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement,</p>	<p>46. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to</p>	<p>Same</p>	

	<p>whether due to fraud or error. That conclusion shall take into account:</p> <p>(a) Whether sufficient appropriate audit evidence has been obtained as required by paragraph 11.9.1;</p> <p>(b) Whether uncorrected misstatements are material, individually or in aggregate; and ...</p>	<p>fraud or error. That conclusion shall take into account:</p> <p>(a) Whether sufficient, appropriate audit evidence has been obtained;</p> <p>(b) Whether uncorrected misstatements are material, individually or collectively; and ...</p>		
	<p>11.12.2. ... (c) The evaluations required by paragraphs 11.12.3. to 11.12.6.</p>		Added	<p>Added paragraph 11.12.2. (c) for the auditor to focus on all the evaluations required in this part – this aligns with para. 9.2.2.</p>
	<p>11.12.3. The auditor shall evaluate whether the service performance information is prepared, in all material respects, in accordance with the entity’s measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p>	<p>46. ... (c) The auditor’s evaluation of whether the service performance information is prepared, in all material respects, in accordance with the entity’s measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.</p>	Edited – same requirement, but added as a new requirement, paragraph	
	<p>11.12.4. When the service performance information is prepared in accordance with a fair presentation framework, the auditor shall also evaluate whether the service performance information achieves fair presentation. This evaluation shall include consideration of whether:</p> <p>(a) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;</p> <p>(b) The entity has presented service performance information that is appropriate and meaningful;</p>	<p>47. The auditor shall conclude whether, in view of the applicable financial reporting framework:</p> <p>(a) The entity has presented service performance information that is appropriate and meaningful.</p> <p>(b) The measurement bases or evaluation methods are available to intended users.</p> <p>(c) When the information is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:</p> <p>(i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;</p>	Edited to match drafting principles (clear, concise)	

	<p>(c) The measurement bases or evaluation methods are available to intended users;</p> <p>(d) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and</p> <p>(e) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.</p> <p>...</p>	<p>(ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and</p> <p>(iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.</p>		
	<p>11.12.5. This auditor shall consider any matters arising during the audit of the financial statements that may affect the auditor's evaluation of the service performance information.</p> <p>11.12.6. The auditor shall consider the impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.</p>	<p>48. The auditor shall consider:</p> <p>(a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.</p> <p>(b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.</p>	Same	
<p>Report Content</p> <p>ISA for LCE: Form of Opinion</p>	<p>11.13.1. The auditor's report on the financial statements and the service performance information shall be included in a single report.</p>	<p>49. The auditor's report on the financial statements and the service performance information shall be included in a single report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information.</p>	Same (edited)	
	<p>11.13.2. The auditor shall express an unmodified opinion, with respect to the service performance information, when the auditor concludes that the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.</p>		Added	

	<p>11.13.3. If service performance information prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether to modify the opinion.</p>			
	<p>11.13.4. If the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation. However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such service performance information is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.</p>			
<p>ISA for LCE: Auditor's Report</p>	<p>11.14.1. The auditor shall report in accordance with the specified format and content below unless: (a) The auditor's report includes a modified opinion, emphasis of matter paragraph, other matter paragraph, material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information, in which case the auditor shall modify the auditor's opinion (according to Part 11.15.) or amend the auditor's report (according to Part 11.18.); or (b) The matters in paragraph NZ9.4.1.(a) or NZ9.4.1A. are applicable.</p>		<p>Added</p>	<p>ISA for LCE has a specified form and content to its audit report, unlike NZ AS 1 (Revised). This para</p>

<p>Modifications to the Opinion in the Independent Auditor's Report ISA for LCE: Modifications to the Opinion</p>	<p>11.15.1. The auditor shall modify the opinion in the auditor's report, with respect to the service performance information when: (a) The auditor concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information, as a whole, is free from material misstatement.</p>	<p>53. The auditor shall modify the opinion, with respect to the service performance information when: (a) The auditor concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information, as a whole, is free from material misstatement.</p>	<p>Same (edited)</p>	
	<p>11.15.2. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements.</p>	<p>54. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements.</p>	<p>Same</p>	
	<p>11.15.3. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance</p>	<p>55. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance</p>	<p>Same</p>	

	Information” as appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.	Information” as appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.		
	11.15.4. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.	56. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.	Same	
Emphasis of Matter Paragraphs and Other Matter Paragraphs ISA for LCE: Other Paragraphs in the Auditor’s Report	11.16.1. If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the service performance information that, in the auditor’s professional judgement, is of such importance that it is fundamental to the users’ understanding of the service performance information, and the auditor would not be required to modify the opinion as a result of that matter, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report indicating that the auditor’s report is not modified in respect of the matter emphasised.	57. If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the service performance information, that in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report.	Same (edited)	
	11.16.2. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information that, in the auditor’s professional judgement, is relevant to the users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report the auditor shall include an Other Matter paragraph in the auditor’s report provided this is not prohibited by law or regulation.	58. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor’s judgement, is relevant to users’ understanding of the audit of service performance information, the auditor shall include an Other Matter paragraph in the auditor’s report.	Same (edited)	
Comparative Information ISA for LCE: Comparative Service	11.17.1. In applying part 9.7, the auditor shall determine whether: (a) Prior period comparative service performance information agrees with disclosures presented in the	59. The auditor shall determine whether: (a) Prior period comparative service performance information agrees with disclosures presented in the prior period	Same (edited)	

<p>Performance Information</p>	<p>prior period or when appropriate, have been restated; and (b) The elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods is consistent with the current period or, if there have been changes, whether those changes have been properly accounted for and adequately presented and disclosed.</p>	<p>or when appropriate, have been restated; and (b) The elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods is consistent with the current period or, if there have been changes, whether those changes have been properly accounted for and adequately presented and disclosed.</p>		
<p>Prospective Service Performance Information ISA for LCE: Prospective Service Performance Information</p>	<p>11.17.2 Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall: (a) Assess whether the prospective service performance information agrees with the information presented in the published prospective service performance information: or (b) Assess that any changes have been clearly explained in the service performance information.</p>	<p>60. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall: (a) Assess whether the prospective service performance information agrees with the information presented in the published prospective service performance information: or (b) Assess that any changes have been clearly explained in the service performance information.</p>	<p>Same</p>	
<p>Other Information ISA for LCE: Other Information</p>	<p>11.18.1. In applying Part 9.8, the auditor shall read the other information, and: (a) Consider whether there is a material inconsistency between the other information and the service performance information; and (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.</p>	<p>61. The auditor shall read the other information and consider whether there is a material inconsistency between: (a) The other information and the service performance information; and (b) The other information and the auditor's knowledge obtained in the audit.</p>	<p>Same (edited)</p>	
<p>Special Considerations: An Entity</p>	<p>11.19.1. In applying part 7.4, if the entity is using the services of a service organisation in the context of</p>	<p>42. When planning the audit of service performance information, the auditor shall:</p>	<p>Requirements are simplified in line</p>	

<p>Using a Service Organisation, Groups and Using the Work of Another Practitioner</p> <p>ISA for LCE: Specific Focus Areas</p>	<p>service performance information, the auditor shall:</p> <p>(a) Determine whether sufficient appropriate audit evidence concerning the relevant service performance information assertions is available at the entity; and, if not,</p> <p>(b) Perform further audit procedures to obtain sufficient appropriate audit evidence.</p>	<p>(a) Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit of service performance information sufficient to identify and assess the risks of material misstatement and design, and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.</p>	<p>with the drafting principles. Achieves same outcome</p>	
	<p>11.19.2. If applying Part 10, the auditor shall obtain sufficient appropriate audit evidence regarding:</p> <p>(a) the service performance information of the components; and</p> <p>(b) the aggregation or consolidation process as it relates to the service performance information.</p>	<p>(b) Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.</p>	<p>Requirements are simplified in line with the drafting principles. Achieves same outcome</p>	
<p>Communicating with Those Charged with Governance</p> <p>ISA for LCE: Specific Communications Requirement s</p>	<p>11.20.1. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance:</p> <p>(a) Any significant risks identified with the service performance information.</p> <p>(b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement.</p> <p>(c) Significant difficulties, if any, encountered during the audit of service performance information.</p> <p>(d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during</p>	<p>41. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance:</p> <p>(a) Any significant risks identified with the service performance information.</p> <p>(b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement.</p> <p>(c) Significant difficulties, if any, encountered during the audit.</p> <p>(d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management.</p>	<p>Same</p>	

	<p>the audit that were discussed, or subject to correspondence with management.</p> <p>(e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations.</p> <p>(f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.</p> <p>(g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.</p> <p>(h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.</p>	<p>(e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations.</p> <p>(f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.</p> <p>(g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.</p> <p>(h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.</p>		
	<p>11.21.1. The auditor shall include the following in the audit documentation:</p> <p>(a) The audit engagement letter or other suitable form of written agreement shall include the requirements of paragraph NZ4.7.4, as well as the following with respect to service performance information:</p> <p>(i) The objective and scope of the audit, and</p> <p>(ii) The respective responsibilities of the auditor and those charged with governance,</p> <p>(iii) Identification of the applicable financial reporting framework,</p> <p>(iv) Reference to the expected form and content of any reports to be issued by the auditor;</p>	<p>14. The terms of the engagement shall include:</p> <p>(a) The objective and scope of the audit.</p> <p>(b) The responsibilities of the auditor with respect to the service performance information: ...</p> <p>(c) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for: ...</p> <p>(d) Reference to the expected form and content of the auditor's report.</p>	<p>Requirements simplified</p>	

	(b) Materiality considerations and/or materiality for service performance information;	28. The auditor shall determine and document materiality considerations and/or materiality for service performance information ...	Documentation requirement emphasised in the documentation section, rather than materiality section.	
	(c) The overall responses to the assessed risks of material misstatement at the service performance information level;		Added	Based on para. 7.7.1. Also ISA 330 para. 28a – so this is not a new requirement, but encourages consistency of practice and reinforces documentation requirements. This requirement and those below provides more clarity on the documentation required. Noting in NZAS1 (Revised), auditors only have to “document the nature, timing and extent of the audit procedures performed to comply with this NZ AS”, and examples of the documentation requirements are at para. A7.
	(d) The linkage between the procedures performed and the assessed risks at the assertion level;		Added	From para. 7.7.1. Also ISA 330 para. 28b – so this is not a new requirement, but encourages consistency of practice and reinforces documentation requirements.
	(e) The results of the audit procedures, including the conclusions where these are not otherwise clear;		Added	From para. 7.7.1. Also ISA 330 para. 28c – so this is not a new requirement, but encourages consistency of practice and reinforces documentation requirements.
	(f) All misstatements accumulated during the audit and whether they have been corrected; and		Added	From para. 7.7.1. Also ISA 450 para. 15 – so this is not a new requirement, but encourages consistency of practice and reinforces documentation requirements.
	11.21.1. The auditor shall include the following in the audit documentation: (g) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.	13. ... (g) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.	Same	

Written Submissions Received

Written submissions were received from the following:

Agenda Item	Respondent
5.3.1	Office of the Auditor-General
5.3.2	Joint submission CA ANZ and CPA Australia
5.3.3	C Yang
5.3.4	Eyles Audit
5.3.5	T Scott



17 July 2024

Misha Pieters
Director – Auditing and Assurance
External Reporting Board,
Level 6/154 Featherston St,
Central Wellington 6011

Tēnā koe Misha

Submission on exposure draft “Review of service performance information”

Thank you for providing us with the opportunity to comment on the proposed standard on the review of service performance information dated April 2024 (the Exposure Draft).

The Auditor-General is responsible for auditing all public sector entities in New Zealand, including public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public sector entities are operating and accounting for their performance as intended.

We audit the service performance information included in general purpose financial reports of public sector entities that are “public benefit entities”. Subject to the prevailing legislation, there may be a small number of public sector entities to which the Exposure Draft is applicable.

We have no substantive issues to bring to your attention. Our responses to the consultation questions are included in the attachment to this letter.

We acknowledge the work of you and your team in preparing standards for the audit and review of service performance information. The suite of standards to frame the reporting and assurance of service performance information is a significant achievement for the External Reporting Board. Thank you for your dedication to the work. We appreciate it.

Nāku noa, nā

Todd Beardsworth
Assistant Auditor-General
Audit Quality Group

Responses to consultation questions

- 1. Do you agree that the requirements to obtain an understanding are appropriate for a review engagement on service performance information?**

We agree.

- 2. Do you agree that the requirements for planning are appropriate for a review engagement on service performance information?**

We agree.

- 3. Do you agree that the requirement to consider “appropriate and meaningful” are appropriate for a review engagement?**

We agree.

- 4. Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?**

Use of “consider” is reasonable in the context of a review engagement.

- 5. Do you agree that the requirements for materiality are appropriate for a review engagement on service performance information?**

We agree.

- 6. Do you agree with the requirements proposed to identify where risks may arise for a review of service performance information? If not, why not?**

We agree.

- 7. Do you agree with the requirements proposed for responding to assessed risks? If not, why not?**

We agree.

- 8. Do you consider the wording of the conclusion to be clear? If not, why not, and what clarifications do you recommend?**

We consider the wording of the conclusion to be clear.

- 9. Do you agree with the proposed application date of 12 months following issue of the standard?**

We agree.

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

We have no further comments.

Wednesday, 17 July 2024

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142
Via email: assurance@xrb.govt.nz

Dear Marje

Consultation Document – Exposure Draft: NZ SRE 1 Review of Service Performance Information

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 300,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout New Zealand, Australia and internationally. We welcome the opportunity to provide feedback on the above consultation and make this submission on behalf of our members and in the public interest.

We commend the XRB for developing a standard to assist assurance practitioners in performing review engagements of Service Performance Information (SPI). In our view, a dedicated standard for this type of review engagement will assist assurance practitioners in understanding the scope of a review of SPI and promote consistency in these engagements.

We observe that EG Au 9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities* (EG Au 9) has served the market well up until now. However, we agree that it is a good time to develop a review standard now that an auditing standard for SPI has been issued by the XRB that the Office of the Auditor-General (OAG) has noted it will use as the basis for its auditing standard for service performance.

We support the development of a single review standard that is principles-based, framework neutral and developed with assurance practitioners who are not the auditor of the entity – mainly tier 3 charities – in mind. We also support the use of the same “two-step approach” to the review of the SPI as is required by NZ AS 1 (Revised) *The Audit of Service Performance Information* (NZ AS 1) for audits of SPI.

Our detailed responses to the consultation questions are included in the Attachment to this letter. Should you have any questions about the matters raised in this submission, please contact Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA) at tiffany.tan@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA
Group Executive
Advocacy and International Development
**Chartered Accountants Australia
and New Zealand**

Ram Subramanian CPA
Interim Head of Policy and Advocacy
CPA Australia

Attachment

Understanding

Question 1. Do you agree that the requirements to obtain an understanding are appropriate for a review engagement on service performance information?

Yes, we believe the requirements to obtain an understanding are appropriate.

Planning

Question 2. Do you agree that the requirements for planning are appropriate for a review engagement on service performance information?

Yes, we believe the requirements for planning are appropriate.

Assessment of appropriate and meaningful

Question 3. Do you agree that the requirement to consider “appropriate and meaningful” are appropriate for a review engagement?

We support the use of “appropriate and meaningful” in the standard as this is consistent with both the reporting requirements in PBE FRS 48 and with the requirements for audits of SPI contained in NZ AS 1.

The consultation document states that NZ SRE 1 is intended to take the same “two-step approach” as NZ AS 1 that is, the assurance practitioner must first consider whether the SPI is appropriate and meaningful and then they must form their conclusion that, based on the work performed, nothing has come to their attention to cause them to believe that the SPI does not fairly reflect the entity’s actual service performance. We agree that a “two-step approach”, consistent with NZ AS 1, is appropriate for a review engagement on SPI.

However, we note that in NZ AS 1, the two-step approach is made clear to the practitioner from the outset as it is set out in the objectives of the standard in paragraph 7. However, in the proposed NZ SRE 1, the objectives set out in paragraph 7 do not include the two-step approach in relation to the SPI. It is mentioned in the introduction in paragraph 2, and then in the assurance practitioner’s responsibilities in paragraph 15(a). We believe that it would be clearer and drive more consistency in the engagements if the need for the assurance practitioner to use the “two-step approach” is set out in the objectives of the review standard as it is in NZ AS 1.

Question 4. Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?

We agree that the verb “consider” implies a lower work effort than “evaluate”, as articulated in the [IAASB's Complexity, Understandability, Scalability, and Proportionality \(CUSP\) Drafting Principles and Guidelines](#). However, we are concerned that these differences in the work effort spectrum may not be consistently understood in practice.

Therefore, it would be useful if the standard included more guidance on the work effort expected to “consider” whether the SPI is appropriate and meaningful, including clarification that this work effort is expected to be less than that in an audit engagement under NZ AS 1 where the auditor must “evaluate” whether the SPI is appropriate and meaningful.

Materiality

Question 5. Do you agree that the requirements for materiality are appropriate for a review engagement on service performance information?

Yes, we agree that the requirements are appropriate. However, given the nature of SPI and the need for assurance practitioners to apply both qualitative and quantitative materiality in the performance of procedures and the evaluation of misstatements, we encourage the board to consider whether there needs to be more in the application material on materiality, particularly qualitative materiality as this is an area that assurance practitioners find particularly complex.

We understand that when NZ SRE 1 is issued, the expectation is that assurance practitioners will no longer need to refer to ISAE (NZ) 3000 to perform a review engagement on SPI. However, ISAE (NZ) 3000 has more application material on materiality than the proposed NZ SRE 1 that may be useful to assurance practitioners, and we encourage the board to consider whether some of this material should be replicated in NZ SRE 1 or in other guidance material to accompany the standard.

Risk assessment

Question 6. Do you agree with the requirements proposed to identify where risks may arise for a review of service performance information? If not, why not?

Yes, we agree that a risk-based approach is appropriate.

Response to assessed risk

Question 7. Do you agree with the requirements proposed for responding to assessed risks? If not, why not?

We support the proposed requirements for responding to assessed risks. However, we have heard some feedback from stakeholders that the wording in paragraph 31 may suggest to practitioners that ‘other’ additional procedures, aside from enquiry and analytical procedures, are required in all engagements. As the nature of the procedures performed will be impacted by the SPI prepared by the entity, we recommend the board considers modifying the wording as follows:

“In obtaining sufficient appropriate evidence as the basis for a limited assurance conclusion on the service performance information, the assurance practitioner shall design and perform enquiry and analytical procedures and, **where** the assurance practitioner considers necessary in the circumstances, other procedures.

Similarly, we suggest that the last sentence of paragraph A52 be modified to “For example due to the nature of **some of** the service performance information, analytical procedures may not be relevant and so another substantive procedure may be more appropriate.”

Reporting

Question 8. Do you consider the wording of the conclusion to be clear? If not, why not, and what clarifications do you recommend?

Yes, we consider the wording of the conclusion to be clear.

Application date

Question 9. Do you agree with the proposed application date of 12 months following issue of the standard?

Yes, we agree with the proposed application date.

Other comments

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

No, we have no other comments.

External Reporting Board
Level 6/154
Featherston St,
Central Wellington 6011
Email: assurance@xrb.govt.nz

17 July 2024

Exposure Draft Review of Service Performance Information

Thank you for the opportunity to comment on the Exposure Draft Review of Service Performance Information (ED). Overall, I am supportive of the New Zealand Auditing and Assurance Standard Board's proposed requirements in the ED. In this submission, I would like to focus on the assessment of appropriate and meaningful, which may relate to the other aspects, e.g. understanding the service performance information reported.

In the following section, I provide general comments on not-for-profits, particularly charities, rather than public sector Public Benefit Entities. The views expressed in this submission are my own personal views and do not reflect the views of my organisation.

If you wish to discuss any matter regarding this submission, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Cherrie Yang'.

Cherrie Yang, PhD CA
Senior Lecturer in Accounting
Massey University
Email: cyang1@massey.ac.nz

Assessment of Appropriate and Meaningful

- 1) Do you agree that the requirement to consider “appropriate and meaningful” are appropriate for a review engagement?

It is perhaps necessary to be consistent in introducing the term ‘appropriate and meaningful’ with other relevant standards applicable to NFP PBE, such as NZ AS1, when developing a new standard. However, I have some concerns about the potential use and interpretation of the term based on my prior and current research.

First, determining the appropriateness and meaningfulness of performance measures and other service performance information is highly subjective and, at times, ambiguous for both charity preparers and assurance practitioners. These issues create challenges in developing and assessing performance measures and aligning understanding between charity preparers and assurance practitioners. Variations in interpreting ‘appropriate and meaningful’ may empower preparers to push back against assurance practitioners’ inquiries when disagreements arise, potentially leading to a rubber-stamp approach to the review engagement. This concern is not without sufficient ground. Our prior research¹ on Tier 3 NZ charities identified several issues with reporting service performance information, such as insufficient, irrelevant, and insignificant outputs, as well as outcomes identical to missions. None of these issues indicates ‘appropriate and meaningful’. However, our study shows that assurance practitioners were reluctant to issue qualified reports, demonstrating a high tolerance when determining whether the service performance information was ‘appropriate and meaningful’.

Second, when identifying and reporting service performance information, charities may have their own preferences and methods. Some may cover different aspects of strategic objectives and missions, while others merely focus on the progress of specific projects or a single service area. Given the varying reporting scope, it is difficult for assurance practitioners to judge the completeness of performance measures and other service performance information. Our preliminary research findings based on Tier 1 and Tier 2 NZ charities suggest that many ‘appropriate and meaningful’ measures are excluded from statutory service performance reporting but are included in other channels, e.g. annual reports and websites. This may be due to the cost and time required to assess the evidence and a preference for verifiable quantitative data. While the level of assurance effort differs between a review and an audit, the subjectivity and ambiguity in determining and assessing appropriate and meaningful performance measures and variations in reporting scope remain similar in both contexts.

- 2) Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?

While the term ‘consider’ indicates less effort than ‘evaluate’, the extent to which an assurance practitioner should ‘consider’ whether service performance information is ‘appropriate and meaningful’ can vary significantly. Therefore, I do not believe the wording change will promote consistency in practice.

¹ Please note the research sample contains more audit than review. The research publication is attached to this submission.

Our research on Tier 3 charities found that assurance over service performance information appeared peripheral and was potentially considered less valuable than the financial statement audit or review by charities and assurance practitioners. Therefore, changing the term to ‘consider’ may further encourage a compliance mindset and devalue the development and reporting of ‘appropriate and meaningful’ service performance information.

Given that the External Reporting Board is proposing the new standard and holds a significant position in the sector, I feel this is an important opportunity to share these concerns while at the same time, I understand that these issues may not be solved by a single organisation nor by this proposed standard. Therefore, in addition to raising the concerns, I propose some possible solutions that I believe will require a collective effort across the sector.

Proposed solutions

To address the issues mentioned above, a collective effort is essential to:

- promote the importance of service performance reporting and assurance.
- improve the quality and transparency of service performance information.
- provide resources and training to support charities, especially the smaller ones, and assurance practitioners.

Charities should ensure their governing bodies have the knowledge and expertise to take responsibility for developing ‘appropriate and meaningful’ performance measures and building a system for recording and reporting service performance information. They could also engage professional advisors to assist in developing performance measures and reporting systems.

Funding providers should streamline their grant applications and acquittal requirements. They could also encourage and support, including financially, small charities in establishing systems and processes to collect and report ‘appropriate and meaningful’ service performance information.

Charity regulators should continue to profile best practices of charity service performance reporting by providing examples of ‘appropriate and meaningful’ service performance information on their website and other channels, e.g. newsletters and social media.

Accounting professional bodies should provide guidance on how to determine and assess ‘appropriate and meaningful’ service performance information from both charities’ and assurance practitioners’ perspectives. They could also offer advice on mediating disagreements between the two parties.

The list could continue to involve more parties willing to participate in this important initiative. I believe this collaborative approach is more likely to reduce reluctance around service performance reporting and assurance and shift mindsets to appreciate the enhanced credibility of service performance information. Over time, these efforts will help improve the assessment of ‘appropriate and meaningful’ service performance information.

Reviews of Service Performance Information

Understanding

Appears to be a lot of specific requirements. Consider a higher-level requirement could be more appropriate.

Many entities that are having a review over their service performance information are small (Less than \$1.1m expenditure) however in our experience, those that want reviews are even smaller than this. Typically, clients want to have an audit at any expenditure over \$500k and a review for anything from \$100,000 to \$500,000 expenditure.

Having this range of requirements could make sense for more complex, larger charities, however we think that the most of the organisations that will use it will be quite small and their service performance may not be thought about as in depth as the standard requires. Usually they are very straight forward, simple and items reported on are clearly an obvious choice. For example, number of donations, number of attendees, etc. Going through each of these steps may too cumbersome for clients, and therefore assurance practitioners when we are required to ask them about it. It will also increase the level of documentation required on reviews and this will increase the costs for clients.

We would support a general requirement such as 'obtaining an understanding of the service performance information, the entity objectives, and its intended users in order to determine whether the service performance information is appropriate and reasonable, and whether there is any indication of a heightened risk where the information disclosed may not be materially correct.' Instead of a more granular set of requirements as currently proposed. This is effectively the approach we use currently and it has worked well for our clients and engagements.

Planning

We note that the planning risk assessment appears appropriate and is something that assurance practitioners should already be doing when performing review engagements over service performance information.

Appropriate and Meaningful

We support the alignment with the auditing standards terminology here. We note that this section is a higher-level understanding as the propose requirement is to *consider* whether it is appropriate and meaningful. Typically, this is straight forward and easy to tell based on the small size of reporting entities.

Materiality

Typically, materiality is more difficult to determine for service performance information and use of professional judgement is required here. Having a materiality threshold is important for reviews of service performance information. We support the proposals.

Designing and Performing Procedures

The requirements are in line with other review requirements for financial information and we support this consistency between the two.

Reporting

Whilst the reporting conclusions for service performance information are clear for an assurance practitioner, we note the main users of reviewed accounts are small clubs and charities. They do not typically have a great understanding of audit terminology and review and audit reports are already quite lengthy to the point where it detracts from the purpose of the reports (being whether the auditor or reviewer materially agrees or not with the information provided).

We would support a more concise required wording in the review report that includes the review of service performance information as in scope but not so much wording that it makes the report lengthy and difficult to read for users.

Timeframe

We support the 12 month timeframe for the standard adoption.

Submitted by Thomas Eyles, CA trading as Eyles Audit

Thomas Eyles
Eyles Audit
thomas@eylesaudit.nz



10 May 2024

Comments on Review of Service Performance Information

I am supportive in general of aligning the review standard with NZ AS 1, including the use of similar language with changes in instructional verbs. However, I emphasise that anecdotal evidence suggests that auditors and preparers are struggling with assuring SSP information and this standard may need further guidance especially relating to point 2 and 3 below. I also draw your attention to other matters.

1) Based on my own working paper, I found a significant (14%) increase in audit fees after the adoption of SSP assurance for Tier 1 entities. I found no difference based on whether NZ AS1 or not. Thus, based on the early evidence there does not appear to be a cost to auditors in learning the new assurance standard, or an efficiency gain. We did not find audit disruptions in contrast to other settings where new accounting/auditing standards had been shorter a greater notice period. Thus, I recommend a longer notice period, with voluntary adoption allowed.

2) Research suggests that both preparers and auditors struggle with appropriate and meaningful. Xu and Yang (2022) suggest that currently auditors adopt a compliance mindset and that the preparation of appropriate and meaningful performance information is both hard for preparers and auditors to verify. Thus, I view the instructional verb could be lowered from consider.

3) Anecdotal evidence suggests that auditors struggle to verify performance information, and requirements for appropriate evidence may be driving performance information selection. For example, the 2023 Annual Report for the Royal New Zealand Ballet (tier 2) had a qualified opinion on the SSP as two performance indicators of “At least 500 young dancers and other creative artists participate in Royal New Zealand Ballet talent development pathways activities; and 20,000 or more attend and participate at RNZB education and community activities annually.” Could not be sufficiently independent verified. It is not clear to me whether a review, would 1) look into this (ie the nothing has come to our attention bar) or 2) whether using predominantly analysis and enquiry it could ever meet the sufficient and appropriate bar.

4) There has long been an audit expectations gap, and accounting research suggests that capital market participants do not distinguish between a review conclusion and

audit opinion. Thus, I recommend that there is an information campaign or guidance given to charities around SSP reviews. I believe that a review offers sufficient assurance to many tier 3 charities but they may need to have better guidance about what is the difference to both choose this option and manage an expectations gap from their users.

Cheers

Tom



Tom Scott

Professor of Accounting, Interim Associate Dean Postgrad
Editor-in-Chief, [Pacific Accounting Review](#)

AFAANZ Fellow

Te Wānanga Aronui o Tāmaki Makaurau | Auckland University
of Technology

09 921 9999 ext 5255 thomas.scott@aut.ac.nz [Google Scholar Profile](#)

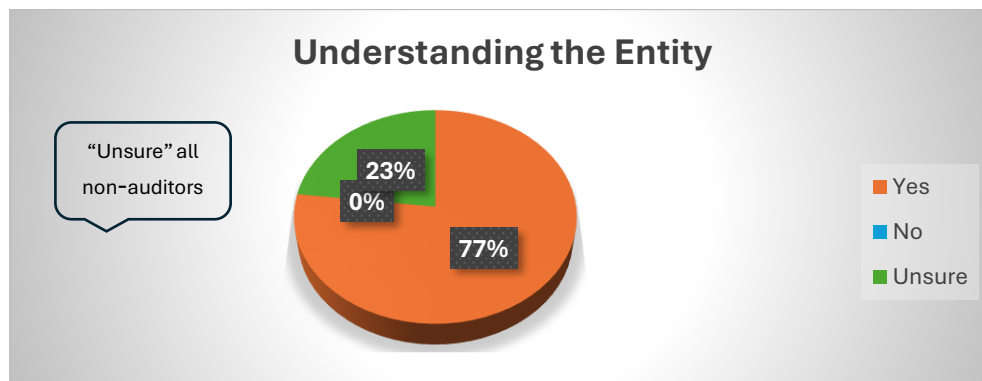


Summary of feedback at our focus group discussion

- There was general agreement that the requirements are appropriate.
- Participants were split on whether the use of the verb “consider” versus “evaluate” is clear and would promote consistency in work effort for a review. Despite this split it was acknowledged that the use of the verb “consider” signaled less work effort than an audit, and overall the requirement was appropriate.
- One participant raised concern with the reference to “other” procedures in the objective and that “other” is given more emphasis than in the review of financial statement standard. The participant felt that analytical review is often achievable.
- General comments made during the focus group echoed tensions we have heard elsewhere between what the preparer is reporting and the need for evidence to support the reporting.

Understanding the Entity

Do you agree that the requirements to obtain an understanding are appropriate for a review engagement on service performance information?

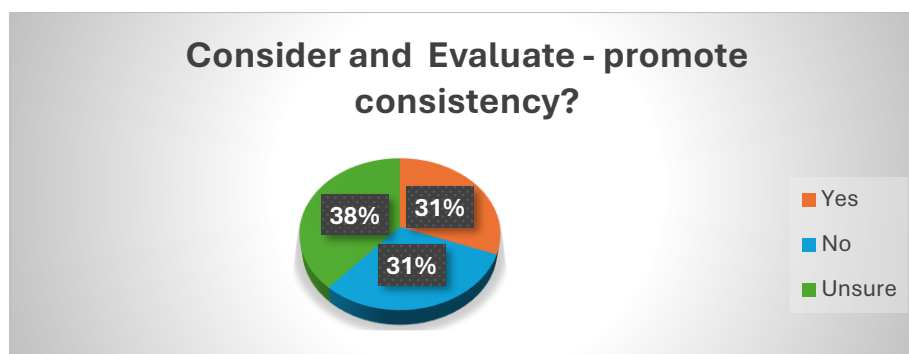


Comments

- Makes sense that the understanding would be consistent with an audit. One area of inconsistency [with audit] is internal controls and that has been called out.
- Feels right as you need understanding of 3 of the 4 areas in doing a review of financial information.

Assessment of Appropriate and Meaningful

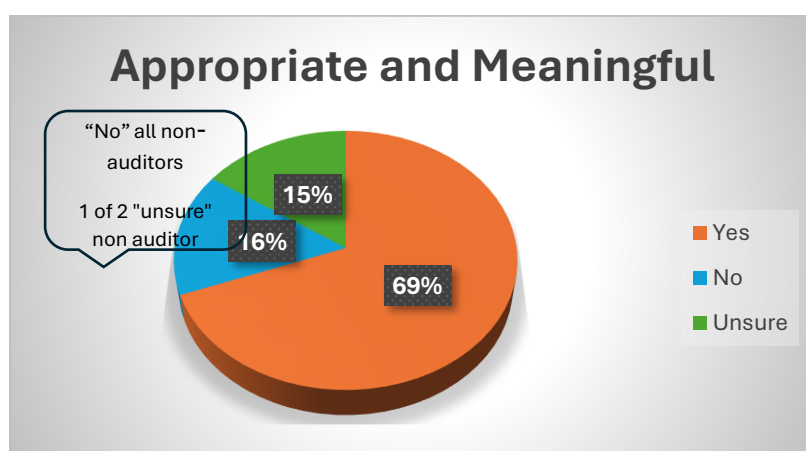
Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?



Comments

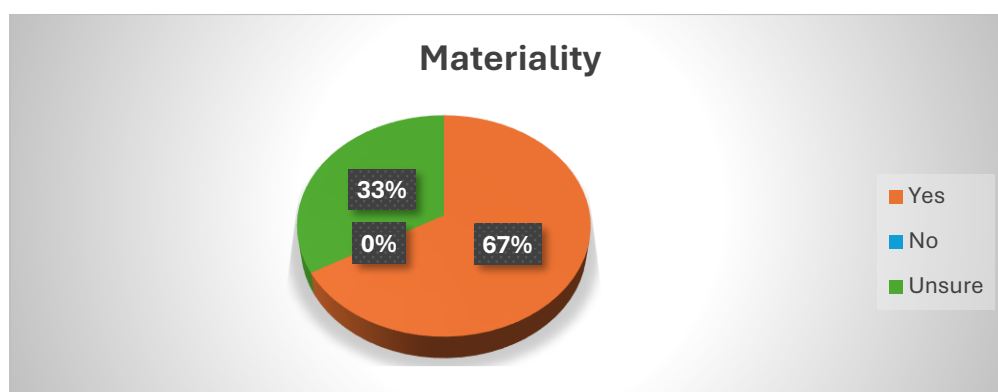
- Regardless, if it was “consider” or “evaluate” they would do the same procedures over a tier 3 entity.
- In terms of language, it is helpful and clear that consider is a lower hurdle than evaluate. Evaluate means to come to a definitive conclusion potentially in a positive assurance with “consider” being lower than that. May result in some variability of how its dealt with in practice, but not sure that it’s an issue. There is plenty of other context and guidance that can be looked to.
- For better explanation some examples would be appropriate showing the difference between considering and evaluating.

Do you agree that the requirements to consider "appropriate and meaningful" are appropriate for a review engagement?



Materiality

Do you agree that the requirements for materiality are appropriate for a review engagement on service performance information?

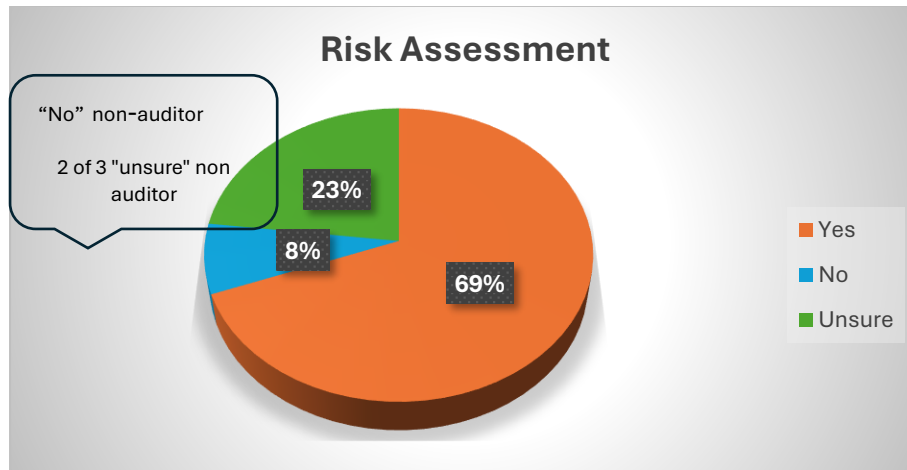


Comments

- Materiality makes sense in regards to \$\$ data. But the whole point of SPI is that it is not solely \$\$ data. Determining materiality of the latter would be very difficult. This is also one of the challenges in sustainability assurance which has the same issue.
- We are currently using our understanding and a bit of the professional judgement aspect to guide what we consider material

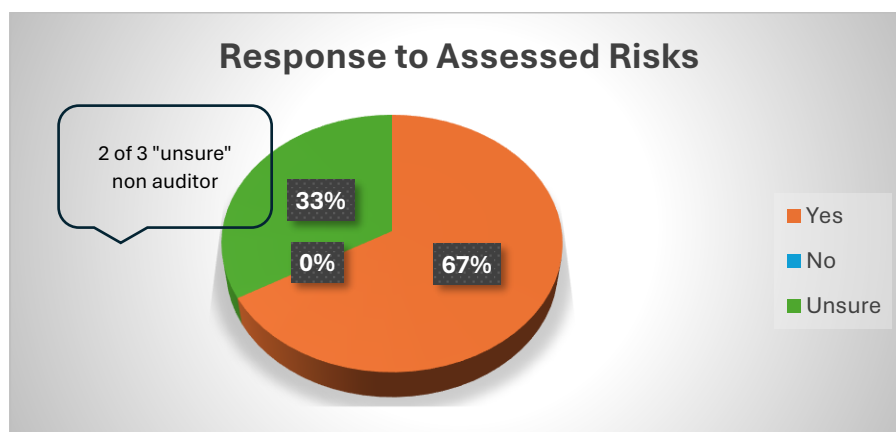
Risk Assessment

Do you agree with the requirements proposed for the assurance practitioner to use their understanding of the entity to identify where areas of material misstatement are likely to arise?



Response to Assessed Risks

Do you agree with the requirements proposed for responding to assessed risks?

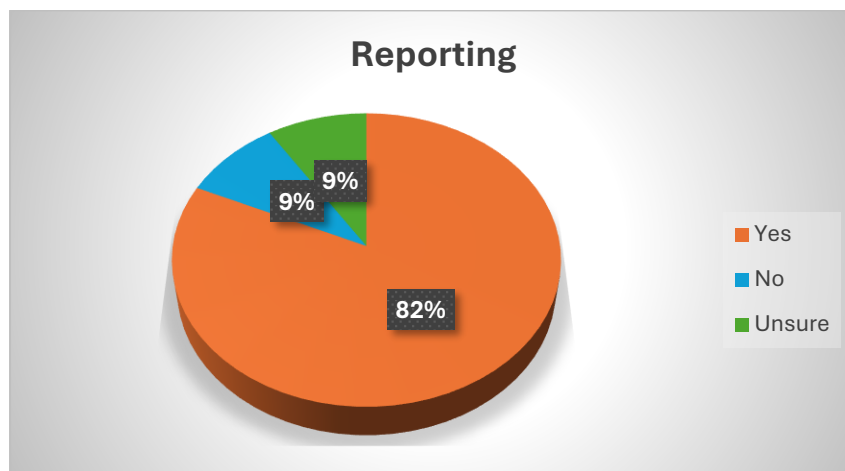


Comments

- Why is this not consistent with financial review standard [including "other" procedures]? In the financial statement review standard the objective and scope it is primarily enquiry and analytical procedures, but SPI also has other procedures. [Presenter explained included as nature of SPI may mean an analytical procedure not possible]. Didn't think reason for including was necessary the case, and are able to perform analytical procedures between the financial and SPI information. Financial review standard acknowledges but is framed differently that you may need to do "other" procedures, but it isn't in the objective part of the standard. So why not the same for the SPI standard? Rare circumstances when can't do AR and this is contemplated in the financial statement review standard. By including it at the start of the standard in the objective, it may change what procedures the practitioner may go away and complete.

Reporting

Do you consider the wording of the conclusion to be clear?



Comments

- The use of "does not" is negative. Could we use more positive language?
- Would it be simpler to split into two conclusions as present fairly is the financial concept and A&M and prepared in accordance with is the SPI concept?
- We don't do the 3rd bullet point - we add after the entity information " and its service performance for the year ended

Other Comments

- Concern that the auditor's determination of what the SPI content should be is the tail wagging the dog. Needs to be careful to protect the integrity of the non-financial reporting benefit that this provides to charities. Tension needing to have an auditable format. Average data collection should not hinder them from doing what they do.
- Hard to let clients know what should be included in SPI. Quite difficult initially, but as time goes by learning from other auditors and getting more information from the Institute and XRB has assisted us being more.
- This is the tension between quantifiable (data) and data that isn't readily auditable for example whether the mental health outcomes have improved for users of a charitable service. It would be impossible to make this determination as an auditor I think.
 - Totally agree [with previous comment] and am challenged about the value of the SoP for that reason.
- The challenge is at the start of an engagement with the client - how can a reviewer have a full understanding of the entity and the stakeholders from the outset, this comes over time
- We split our SPI data into two sections - what is readily reviewable and what is less so. Our auditors audit/review the former and exclude the later. Perhaps this would work here.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.2 (Supplementary)
Subject:	Sustainability Competence – Professional Accountants Analysis
Date prepared:	25 July 2024
Prepared by:	Nimash Bhikha

Infrastructure supporting competency for professional accountants

1. The XRB's assurance standards are developed in the context of an established infrastructure which supports the evaluation of professional development of assurance practitioners.
2. The competency requirements of financial assurance are driven by legislation or professional bodies. For example, licensed auditors have competency requirements codified within the Auditor Regulation Act 2011, and the Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms, issued by the FMA.
3. Chartered Accountant membership bodies are required to apply the International Education Standards when evaluating aspiring professional accountants, before granting them full membership. These contain minimum competencies in a range of subject matters, including financial audits, for all Chartered Accountants.
4. The infrastructure around these standards also includes a Code of Ethics and Quality Management standards, which require the evaluation of competence throughout the engagement. The supporting infrastructure also includes monitoring of engagement compliance and competence by internal teams, and external oversight bodies (including CA ANZ and FMA).
5. As a result, detailed audit related competencies have not been traditionally codified into the XRB's standards but are supported by the overarching supporting standards and mechanisms, which would evaluate and respond to concerns around practitioners' competence.
6. The competency requirements for the assurance of GHG emissions disclosures have also been designed to work with the ethical and quality management requirements written into the standard, where the same competence principles have been included and reinforced through ethical and quality management requirements.
7. The Government has not legislated to put in place any independent monitoring and oversight of the mandatory GHG assurance regime at this stage. Assurance practitioners will need to self-evaluate their competence and independence in line with XRB's standards, without any monitoring. This is different to the oversight regime currently in place for financial assurance.

XRB Competence Requirements for GHG Assurance

8. In [Appendix 1](#), we have extracted the requirements for GHG assurance competence from the relevant XRB standards for GHG assurance which would be used by professional accountants.
 - (a) NZ SAE 1: *Assurance Engagements over Greenhouse Gas Emissions Disclosures*; and

(b) ISAE (NZ) 3410: *Assurance Engagements on Greenhouse Gas Statements*.

Summary of competence requirements

9. The XRB's standard on GHG assurance specifically allows for all competent and independent assurance practitioners to provide this assurance and leverages the underlying competence requirements in ISAE (NZ) 3410. The standard does not detail specific requirements in each area.
10. While some assurance practitioners will comply with other ethical and quality management standards, which also cover competence, this is over and above the requirements within NZ SAE 1 and will be disclosed in their assurance reports.

IAASB/IESBA Competence Requirements for Sustainability Assurance

11. In [Appendix 2](#), we have extracted the relevant requirements related to competence across the following current and proposed standards:
 - (a) Exposure Draft on International Standard on Sustainability Assurance 5000 (ISSA 5000);
 - (b) International Standard on Quality Management 1 (ISQM 1);
 - (c) Exposure Draft on International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA); and
 - (d) Exposure Draft on Using the Work of an External Expert as part of the International Code of Ethics for Accountants.

Summary of competence requirements

12. Assurance practitioners need to identify and consider the competencies required for a sustainability assurance engagement, which occurs at multiple phases on the assurance engagement, including as part of evaluating pre-conditions of the engagement, continuing/accepting the engagement, determining resources and establishing quality management processes, and considering the need to engage an external expert.
13. The IAASB competency requirements are all designed to work together in unison as all the underlying performance standards cannot be adopted within the supporting ethical standards and quality management standards (or standards which are at least as demanding as them).
14. As a result, while the competency principles are not prescriptive or tailored to any individual type of sustainability assurance engagement, there is a reinforcement of work only being performed by those who are competent in the relevant subject matter, and that this is re-evaluated during the engagement.
15. However, the specific required competencies for each type of sustainability assurance engagement are not specified.

International Education Standards (IES) Requirements for Sustainability Assurance

16. In [Appendix 3](#), we have extracted the relevant requirements across the IES standards, where professional accountants need to demonstrate competence for a sustainability assurance engagement. These include:
 - (a) IES 2 *Initial Professional Development – Technical Competence*;

- (b) IES 3 *Initial Professional Development – Professional Skills*;
- (c) IES 4 *Initial Professional Development – Professional Values, Ethics and Attitudes*; and
- (d) IES 6 *Initial Professional Development – Assessment of Professional Competence*.

Summary of competence requirements

17. The IES standards currently combine audit and assurance into one competence focussed on the audit of financial statements. Audit is viewed as a core subject for accounting curriculums and forms a key area of practical experience for many aspiring professional accountants
18. In response to the growing trend of sustainability assurance, an Exposure Draft (ED), with proposed revisions to the IES standards has been released. The ED maintains the overall balance towards the audit of financial statements, but also creates a new assurance competence area focussed on sustainability and other assurance, separate from audit of the financial statements.
19. These changes appear to help provide a base level of competency to aspiring professional accountants who may be involved in sustainability assurance engagements. This appears to create a baseline level of knowledge that all professional accountants will be examined on around the nature of sustainability assurance.
20. However, like other international standards, the competency principles in the IESs are focused on broad concepts of sustainability reporting and understanding differences compared to financial information, without details on specific subject matters (such as GHG competence, cultural reporting competence, social reporting competence etc).

Appendix 1 – Competency Requirements in XRB Standards for GHG assurance

We have summarised the relevant requirements across the IAASB and IESBA standards and highlighted requirements where practitioners need to identify and consider their competence for a GHG assurance engagement.

XRB – NZ SAE 1 (Competence)	XRB – NZ SAE 1 (Quality Management)	XRB – ISAE (NZ) 3410
<p>Competence</p> <p>24. The engagement leader shall have sufficient competence in assurance skills and techniques and sufficient competence in the measurement and reporting of GHG emissions to accept responsibility for the assurance conclusion.</p> <p>25. The engagement leader shall be satisfied that assurance practitioners who are to perform the assurance engagement over GHG disclosures collectively have the appropriate competence and capabilities, including in the measurement and reporting of GHG emissions and in assurance, to perform the GHG assurance engagement.</p> <p>A26. Skills and competence in assurance are developed through extensive training and practical application of assurance techniques, including performance of assurance engagements in accordance with relevant standards and applicable legal and regulatory requirements.</p> <p>A27. Skill and competence in assurance necessary to undertake an assurance engagement include:</p>	<p>Ethical Requirements</p> <p><i>Fundamental Principles</i></p> <p>13. The assurance organisation and the assurance practitioner shall comply with each of the following fundamental principles, and in applying the fundamental principles, assurance practitioners shall be guided not merely by the words, but also by the spirit of the fundamental principles:</p> <p>(d) Professional Competence and Due Care – to:</p> <p>(i) Attain and maintain knowledge and skills necessary to perform the GHG assurance engagement; and</p> <p>(ii) Act diligently and in accordance with applicable standards, laws and regulations.</p> <p>Quality Management Requirements</p> <p>62. The assurance organisation shall design, implement and operate a system of quality management that is appropriate for the conduct of GHG assurance engagements. This includes both quality management processes at the assurance organisation level, as well as on individual assurance engagements.</p>	<p>Acceptance and Continuance of the Engagement Skills, Knowledge and Experience</p> <p>16. The lead assurance practitioner shall:</p> <p>(a) Have competence in assurance skills and techniques developed through extensive training and practical application, and sufficient competence in the quantification and reporting of emissions, to accept responsibility for the assurance conclusion; and</p> <p>(b) Be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including in the quantification and reporting of emissions and in assurance, to perform the assurance engagement in accordance with this ISAE (NZ).</p> <p>A18. GHG competencies may include:</p> <ul style="list-style-type: none"> • General understanding of climate science, including the scientific processes that relate GHGs to climate change. • Understanding who the intended users of the information in the entity’s GHG statement are, and how they are likely to use that information • Understanding emissions trading schemes and related market mechanisms, when relevant. • Knowledge of applicable law and regulation, if any, that affect how the entity should report its emissions, and may also, for example, impose a limit on the entity’s emissions.

XRB – NZ SAE 1 (Competence)	XRB – NZ SAE 1 (Quality Management)	XRB – ISAE (NZ) 3410
<ul style="list-style-type: none"> • Risk assessment methodologies. • Linking the assessed risk and materiality to the nature, timing and extent of assurance procedures. • Applying appropriate procedures (including enquires, inspection, recalculation, reperformance, observation, confirmation, analytical procedures and sampling techniques). • GHG information systems and internal controls (how data is initiated, recorded, collated and reported in GHG disclosures). • Documentation of procedures performed and evidence obtained. • Application of professional scepticism and professional judgement. <p>A28. Skills and competence in GHG emissions are gained through significant experience or training in measuring, analysing, reporting and/or assuring GHG emissions.</p> <p>A29. Skills and competence in GHG emissions necessary to undertake an assurance engagement include:</p> <ul style="list-style-type: none"> • General understanding of climate science, carbon accounting and the generation of carbon emissions. • GHG quantification methods, including associated scientific and estimation uncertainties relevant to the assurance client’s sector. • GHG reporting principles and methods. 	<p>65. When designing and implementing a risk assessment process, the assurance organisation shall consider the following areas:</p> <p>(a) Governance and leadership – including the ultimate responsibility, accountability and operational responsibility for the system of quality management and the internal culture of the assurance organisation around quality;</p> <p>(b) Relevant ethical requirements – including awareness of requirements, and the accumulation and communication of relevant information to and from personnel within the assurance organisation;</p> <p>(c) Acceptance and continuance of client relationships and specific engagements – including competence, capabilities and resources available to complete assurance engagements, and the integrity of the assurance client;</p> <p>(d) Engagement performance – including the responsibility for individual engagement performance, structure, supervision and training of assurance practitioners;</p> <p>(e) Resources – including the availability of human resources, technological resources, intellectual resources and service providers relevant to the performance of assurance engagements</p> <p>Quality Reviewer</p> <p>75. The quality reviewer shall perform a review to evaluate:</p>	<ul style="list-style-type: none"> • GHG quantification and measurement methodologies, including the associated scientific and estimation uncertainties, and alternative methodologies available. • Knowledge of the applicable criteria, including, for example: <ul style="list-style-type: none"> ○ Identifying appropriate emissions factors. ○ Identifying those aspects of the criteria that call for significant or sensitive estimates to be made, or for the application of considerable judgement. ○ Methods used for determining organisational boundaries, that is, the entities whose emissions are to be included in the GHG statement. ○ Which emissions deductions are permitted to be included in the entity’s GHG statement. <p>A19. The complexity of assurance engagements with respect to a GHG statement varies. In some cases, the engagement may be relatively straightforward, for instance, when an entity has no Scope 1 emissions and is reporting only Scope 2 emissions using an emissions factor specified in regulation, applied to electricity consumption at a single location. In this case, the engagement may focus largely on the system used to record and process electricity consumption figures identified on invoices, and arithmetical application of the specified emissions factor. When, however, the engagement is relatively complex, it is likely to require specialist competence in the quantification and reporting of emissions.</p> <p>Particular areas of expertise that may be relevant in such cases include:</p> <p><i>Information systems expertise</i></p>

XRB – NZ SAE 1 (Competence)	XRB – NZ SAE 1 (Quality Management)	XRB – ISAE (NZ) 3410
<ul style="list-style-type: none"> • GHG monitoring techniques and calibration procedures and their consequences for data quality (relevant for the assurance client’s sector). • Understanding of laws and regulations that affect how the assurance client reports its emissions. <p>A30. Measurement and reporting of GHG emissions is a fast-evolving field. Continuous learning to keep up to date with changes will be important aspect of the assurance practitioner’ competencies.</p>	<p>(a) The appropriateness of the engagement leader and assurance practitioners’ competencies to complete the assurance engagement;</p> <p>(b) The basis for the engagement leader’s determination that relevant ethical and independent requirements have been met;</p>	<ul style="list-style-type: none"> • Understanding how emissions information is generated, including how data is initiated, recorded, processed, corrected as necessary, collated and reported in a GHG statement. <p><i>Scientific and engineering expertise</i></p> <ul style="list-style-type: none"> • Mapping the flow of materials through a production process, and the accompanying processes that create emissions, including identifying the relevant points at which source data is gathered. This may be particularly important in considering whether the entity’s identification of emissions sources is complete. • Analysing chemical and physical relationships between inputs, processes and outputs, and relationships between emissions and other variables. The capacity to understand and analyse these relationships will often be important in designing analytical procedures. • Identifying the effect of uncertainty on the GHG statement. • Knowledge of the quality control policies and procedures implemented at testing laboratories, whether internal or external. • Experience with specific industries and related emissions creation and removal processes. Procedures for Scope 1 emissions quantification vary greatly depending on the industries and processes involved, for example, the nature of electrolytic processes in aluminum production; combustion processes in the production of electricity using fossil fuels; and chemical processes in cement production are all different. • The operation of physical sensors and other quantification methods, and the selection of appropriate emissions factors.

Appendix 2 – Competency Requirements in IAASB and IESBA Standards for Sustainability Assurance

We have summarised the relevant requirements across the IAASB and IESBA standards and highlighted requirements where practitioners need to identify and consider their competence for a sustainability assurance engagement.

IAASB – ISSA 5000 ED	IAASB – ISQM 1	IESBA – Ethics & Sustainability ED	IESBA – Use of Experts ED
<p>25. The practitioner shall accept or continue the engagement only when:</p> <ul style="list-style-type: none"> • The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; • The practitioner has determined that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time, to perform the engagement; <p>32. The engagement leader shall have:</p> <p>(a) Competence and capabilities in assurance skills and techniques developed through extensive training and practical application; and</p> <p>(b) Sustainability competence sufficient to accept responsibility for</p>	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p> <p>(a) Judgements by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</p> <p>(i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgements; and</p> <p>(ii) The firm’s ability to perform the engagement in accordance with professional standards and</p>	<p>R5113.1 A sustainability assurance practitioner shall comply with the principle of professional competence and due care, which requires a practitioner to:</p> <p>(a) Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and</p> <p>(b) Act diligently and in accordance with applicable technical and professional standards.</p> <p>R5113.1 A1 Serving sustainability assurance clients with professional competence involves the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.</p>	<p>R5390.5 If the sustainability assurance practitioner has identified an external expert to use for a professional service, the practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:</p> <p>(a) The nature, scope and objectives of the work to be performed by the external expert; and</p> <p>(b) In the context of sustainability or other assurance engagements, the provision of information needed from the external expert for purposes of assisting the practitioner’s evaluation of the external expert’s competence, capabilities and objectivity.</p> <p>R5390.6 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary competence, capabilities and</p>

IAASB – ISSA 5000 ED	IAASB – ISQM 1	IESBA – Ethics & Sustainability ED	IESBA – Use of Experts ED
<p>the conclusions reached on the engagement.</p> <p>17(tt). Sustainability competence defined as competence in the sustainability matters that are the subject of the sustainability assurance engagement and in their measurement or evaluation.</p> <p>41. The engagement leader shall determine that members of the engagement team, and any practitioner’s external experts and internal auditors who provide direct assistance, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement.</p> <p>54A. If the practitioner plans to use the work of a practitioner’s external expert, the practitioner shall:</p> <p>(a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes.</p>	<p>applicable legal and regulatory requirements.</p> <p>Resources</p> <p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management:</p> <p>a) Personnel are hired, developed and retained and have the competence and capabilities to:</p> <p>(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or</p> <p>(ii) Perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.</p> <p>(b) Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate</p>	<p>R5113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organizational skills facilitate the practitioner’s interaction with entities and individuals with whom the practitioner interacts.</p> <p>R5113.1 A3 Maintaining professional competence requires a sustainability assurance practitioner to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the practitioner.</p> <p>R5113.1 A4 Continuing professional development enables a practitioner to develop and maintain the capabilities to perform competently within the professional environment.</p> <p>R5113.2 In complying with the principle of professional competence and due care, a sustainability</p>	<p>objectivity for the practitioner’s purpose.</p> <p>5390.6 A2 Factors that are relevant in evaluating the competence of the external expert include:</p> <ul style="list-style-type: none"> • Whether the external expert’s credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed. • Whether the external expert belongs to a relevant professional body and, if so, whether the external expert is in good standing. • Whether the external expert’s work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, in the external expert’s field or area of expertise. • Whether the external expert can explain their work, including the inputs, assumptions and methodologies used. • Whether the external expert has a history of performing similar work for

IAASB – ISSA 5000 ED	IAASB – ISQM 1	IESBA – Ethics & Sustainability ED	IESBA – Use of Experts ED
<p>(b) When evaluating the objectivity of a practitioner’s external expert, inquire regarding interests and relationships that may create a threat to that expert’s objectivity;</p> <p>(c) Obtain a sufficient understanding of the field of expertise of the expert to determine the nature, scope and objectives of that expert’s work for the practitioner’s purposes.</p>	<p>competence to perform their roles, and are held accountable or recognised through timely evaluations, compensation, promotion and other incentives.</p> <p>(c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements.</p> <p>(d) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.</p>	<p>assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the practitioner’s authority have appropriate training and supervision.</p>	<p>the professional accountant’s firm or other clients.</p> <p>R5390.12 The sustainability assurance practitioner shall not use the work of the external expert if:</p> <ul style="list-style-type: none"> • (a) The practitioner is unable to obtain the information needed for the practitioner’s evaluation of the external expert’s competence, capabilities and objectivity; or • (b) The practitioner determines that the external expert is not competent, capable or objective.

Appendix 3 – Competency Requirements in IES Standards for Sustainability Assurance

We have summarised the relevant requirements across the IES standards and highlighted requirements where professional accountants need to demonstrate competence for a sustainability assurance engagement.

IFAC – IES 2, 3 & 5 ED		IFAC – IES 6 ED														
<table border="1"> <thead> <tr> <th>Competence Area (Level of Proficiency¹)</th> <th>Learning Outcomes</th> </tr> </thead> <tbody> <tr> <td rowspan="7">(e) <u>Audit and assurance</u> (Intermediate)</td> <td>(i) Describe the <u>elements</u>, objectives, and phases involved in performing an audit of financial statements.</td> </tr> <tr> <td>(ii) Apply International Standards on Auditing (<u>ISAs</u>) or other relevant auditing standards, laws, and regulations applicable to an audit of financial statements.</td> </tr> <tr> <td>(iii) Assess the risks of material misstatement in the financial statements and consider the impact on the audit strategy.</td> </tr> <tr> <td>(iv) Apply quantitative methods <u>and appropriate automated tools and techniques that are</u> used in audit engagements.</td> </tr> <tr> <td>(v) Identify relevant audit evidence, including contradictory evidence, to <u>in</u>form judgments, <u>make decisions</u>, and reach <u>informed well-reasoned</u> conclusions.</td> </tr> <tr> <td>(vi) Conclude whether sufficient and appropriate audit evidence has been obtained.</td> </tr> <tr> <td><u>(vii) Explain the key elements of assurance engagements and applicable standards that are relevant to such engagements.</u></td> </tr> <tr> <td rowspan="4">(f) <u>Assurance</u> (Foundation)</td> <td>(i) <u>Describe the elements, objectives, and phases involved in performing assurance engagements, including assurance of sustainability information.</u></td> </tr> <tr> <td><u>(ii) Explain international standards on assurance³ or other relevant assurance standards, laws, and regulations, including those applicable to assurance of sustainability information.</u></td> </tr> <tr> <td><u>(iii) Describe the risks of material misstatement and consider the impact on an assurance engagement.</u></td> </tr> <tr> <td><u>(iv) Identify relevant assurance evidence, including contradictory evidence, to form judgments, and reach informed conclusions.</u></td> </tr> </tbody> </table>	Competence Area (Level of Proficiency ¹)	Learning Outcomes	(e) <u>Audit and assurance</u> (Intermediate)	(i) Describe the <u>elements</u> , objectives, and phases involved in performing an audit of financial statements.	(ii) Apply International Standards on Auditing (<u>ISAs</u>) or other relevant auditing standards, laws, and regulations applicable to an audit of financial statements.	(iii) Assess the risks of material misstatement in the financial statements and consider the impact on the audit strategy.	(iv) Apply quantitative methods <u>and appropriate automated tools and techniques that are</u> used in audit engagements.	(v) Identify relevant audit evidence, including contradictory evidence, to <u>in</u> form judgments, <u>make decisions</u> , and reach <u>informed well-reasoned</u> conclusions.	(vi) Conclude whether sufficient and appropriate audit evidence has been obtained.	<u>(vii) Explain the key elements of assurance engagements and applicable standards that are relevant to such engagements.</u>	(f) <u>Assurance</u> (Foundation)	(i) <u>Describe the elements, objectives, and phases involved in performing assurance engagements, including assurance of sustainability information.</u>	<u>(ii) Explain international standards on assurance³ or other relevant assurance standards, laws, and regulations, including those applicable to assurance of sustainability information.</u>	<u>(iii) Describe the risks of material misstatement and consider the impact on an assurance engagement.</u>	<u>(iv) Identify relevant assurance evidence, including contradictory evidence, to form judgments, and reach informed conclusions.</u>	<p>Framework of Professional Values, Ethics, and Attitudes</p> <p>9. IFAC member organizations shall provide, through professional accounting education programs, a framework of professional values, ethics, and attitudes for aspiring professional accountants to (a) apply professional skepticism and exercise professional judgment, and (b) act in an ethical manner that is in the public interest.</p> <p>Relevant Ethical Requirements</p> <p>10. IFAC member organizations shall integrate relevant ethical requirements throughout professional accounting education programs for aspiring professional accountants.</p> <p>Learning Outcomes for Professional Values, Ethics, and Attitudes</p> <p>11. IFAC member organizations shall prescribe the learning outcomes for professional values, ethics, and attitudes to be achieved by aspiring professional accountants by the end of IPD. These learning outcomes shall include those listed in Table A.</p> <p>A14. By establishing learning and development activities that cover professional values, ethics, and attitudes, IFAC member organizations promote a commitment for the aspiring professional accountant to act in the public interest. Acting in the public interest includes:</p> <ul style="list-style-type: none"> (a) developing an awareness and concern for impact on the public; (b) developing a sensitivity to social responsibilities; (c) lifelong learning; (d) a predisposition to quality, reliability, responsibility, timeliness, and courtesy; and (e) a respect for laws and regulations.
Competence Area (Level of Proficiency ¹)	Learning Outcomes															
(e) <u>Audit and assurance</u> (Intermediate)	(i) Describe the <u>elements</u> , objectives, and phases involved in performing an audit of financial statements.															
	(ii) Apply International Standards on Auditing (<u>ISAs</u>) or other relevant auditing standards, laws, and regulations applicable to an audit of financial statements.															
	(iii) Assess the risks of material misstatement in the financial statements and consider the impact on the audit strategy.															
	(iv) Apply quantitative methods <u>and appropriate automated tools and techniques that are</u> used in audit engagements.															
	(v) Identify relevant audit evidence, including contradictory evidence, to <u>in</u> form judgments, <u>make decisions</u> , and reach <u>informed well-reasoned</u> conclusions.															
	(vi) Conclude whether sufficient and appropriate audit evidence has been obtained.															
	<u>(vii) Explain the key elements of assurance engagements and applicable standards that are relevant to such engagements.</u>															
(f) <u>Assurance</u> (Foundation)	(i) <u>Describe the elements, objectives, and phases involved in performing assurance engagements, including assurance of sustainability information.</u>															
	<u>(ii) Explain international standards on assurance³ or other relevant assurance standards, laws, and regulations, including those applicable to assurance of sustainability information.</u>															
	<u>(iii) Describe the risks of material misstatement and consider the impact on an assurance engagement.</u>															
	<u>(iv) Identify relevant assurance evidence, including contradictory evidence, to form judgments, and reach informed conclusions.</u>															

IFAC – IES 2, 3 & 5 ED	IFAC – IES 6 ED
<p>Review of Professional Accounting Education Programs 8. IFAC member organizations shall regularly review and update professional accounting education programs that are designed to achieve the learning outcomes in IES 2.</p> <p>Assessment of Technical Competence 9. IFAC member organizations shall establish appropriate assessment activities to assess the technical competence of aspiring professional accountants.</p> <p>IPD A2. An aspiring professional accountant is an individual who has commenced a professional accounting education program as part of IPD. IPD is the learning and development through which aspiring professional accountants first develop competence leading to performing a role as a professional accountant. IPD builds on general education and includes professional accounting education, practical experience, and assessment. IPD continues until aspiring professional accountants can demonstrate the professional competence required for their chosen roles in the accountancy profession.</p> <p>A3. Professional values, ethics, and attitudes are defined as the professional behavior and characteristics that identify professional accountants as members of a profession. These include the ethical principles generally associated with, and considered essential in, defining the distinctive characteristics of professional behavior.</p>	<p>Consequently, professional accountants contribute to confidence and trust in the functioning of markets and the economy in general.</p> <p>Developing Learning Outcomes A16. The learning outcomes for professional values, ethics, and attitudes are to be achieved by aspiring professional accountants by the end of IPD, regardless of their intended future accounting specialization or role. These learning outcomes provide the base to enable professional accountants to develop specializations in different accounting roles, for example an audit engagement partner or a taxation specialist.</p> <p>A17. IAASB pronouncements govern audit, review, assurance, and related service engagements that are conducted in accordance with international standards. Although the term professional skepticism is defined specifically within the context of audit and assurance engagements, the attitudes, skills and behaviors that contribute to professional skepticism are relevant to all aspiring professional accountants, regardless of their future role as a professional accountant. As a result, IPD includes learning and development activities that address the skills, attitudes, and behaviors necessary for aspiring professional accountants to have the ability to apply professional skepticism. The skills, attitudes, and behaviors contributing to professional skepticism are further developed following IPD, through CPD.</p>

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.3 (Supplementary)
Subject:	Sustainability Competence – Non-Accountants Analysis
Date prepared:	25 July 2024
Prepared by:	Nimash Bhikha

Infrastructure supporting competency for non-accountants

1. The ISO verification/validation standards have predominantly been developed through the codification of requirements directly into standards to ensure global consistency. Subject specific competency requirements are included within the appropriate ISO standards, such as detailed GHG competencies within ISO 14066:2011.
2. The ISO standards are written to be used in conjunction with other ISOs within the same suite of standards, and competence requirements for verification and validation work may be addressed in ISO standards at varying levels. However, there may be no specific requirements within the ISO standard themselves which require compliance with other ISOs.
3. For accredited certification/assurance programmes, verifiers are appointed by each individual programme after considering their competence in line with specific accreditation and certification programme/scheme manuals. This is based on the competence of the individual verifier, rather than the assurance organisation as a whole. There is no automatic “rollover” of verifiers/validators or organisations, and each engagement must be agreed, by the programme.
4. Verifiers who are not operating within an accredited programme would engage with entities directly and would be appointed as individuals. Verifiers/auditors may hold individual subject matter competence certification (e.g. from Exemplar Global), but these are not a requirement for accreditation.
5. The focus on individual appointments means entities are given the opportunity to assess the competence of the verifier for their specific engagement, in addition to the competence of the assurance organisation as whole.
6. Organisations who are accredited to provide verification under accredited programmes, are subject to independent monitoring by the Joint Accreditation System of Australia and New Zealand (JASANZ), which periodically checks the competence of individual verifiers and the programme’s processes to evaluate and appoint them.

XRB Competence Requirements for GHG Assurance

7. In [Appendix 1](#), we have extracted the requirements for GHG assurance competence from the relevant XRB standards for GHG assurance which would be used by non-accountants.
 - (a) NZ SAE 1: *Assurance Engagements over Greenhouse Gas Emissions Disclosures*; and

- (b) ISO 14064-3: 2019 *Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements.*

Summary of competence requirements

8. The XRB's standard on GHG assurance specifically allows for all competent and independent assurance practitioners to provide this assurance and leverages the underlying competence requirements in the existing ISO GHG emissions assurance standards (ISO 14064-3: 2019).
9. The current XRB standard contains principles for the evaluation of competence and is designed to work with the ethical and quality management requirements incorporated into the standard. The standard requires competence in both assurance skills and technical subject matter competence but does not detail specific requirements in each area.
10. While some assurance practitioners will comply with other ethical and quality management standards, which also cover competence, this is over and above the requirements within NZ SAE 1 and will be disclosed in their assurance reports.
11. We note that ISO 14064-3: 2019 does not have any specific competency requirements and is an engagement specific performance standard only. However, other ISO standards contain specific competency requirements before a practitioner can utilise ISO 14064-3: 2019.

International Organisation for Standardization (ISO) Competence Requirements for GHG Assurance

12. Below we have summarised the requirements related to competence across the ISO standards in relation to GHG verification and validation engagements and environmental matters. The full details of the ISO requirements cannot be extracted due to copyright.
13. Competence requirements for verification and validation teams are contained across varying ISO standards, including
 - (a) ISO 14066: 2011 *Greenhouse Gases – Competence Requirements for greenhouse gas validation teams and verification teams, and*
 - (b) ISO 14065: 2020 *General principles and requirements for bodies validating and verifying environmental information.*

Summary of GHG competence requirements

14. The ISO standards define competence requirements to achieve consistency in the international marketplace and maintain public confidence in GHG reporting and other communications. Competence requirements cover the following areas:
 - General knowledge around GHG programmes and methodologies;
 - Technical knowledge of types of GHG emissions and quantification and reporting principles;
 - Sector knowledge around identifying GHG emissions and factors which can materially affect the GHG assertions;
 - Data and information auditing knowledge;
 - Skills in relation to validation and verification activities; and
 - Team leader knowledge around evaluating and demonstrating competence.

15. ISO 14065: 2020 requires the assurance organisation to manage the competence of their personnel and ensure that teams have the competence to effectively perform engagements.
16. The ISO standards contain guidance around the evidence that can be used to support competence. The ISO competency requirements place the responsibility on the individual performing the work to demonstrate their own necessary competence, in reference to education, training or experience.
17. For accredited programmes, individuals need to demonstrate their competence to the programme firstly, who would then appoint them to engagements.

Sustainability Assurance standards

18. The ISO requirements do not contain any prescription around competence requirements on other subject matters beyond GHG emissions. ISO are currently developing a standard on sustainability assurance. This identifies overarching considerations which need to be made when assessing sustainability competence. However, this does not contain specific detailed competencies, as it does for GHG competencies.
19. There remain significant questions around whether a similar prescriptive approach to specific competencies could be developed for certain types of sustainability assurance engagements (for example: assurance over cultural reporting).

AccountAbility Standards for Sustainability Assurance

20. In [Appendix 2](#), we have extracted the relevant requirements across the AA1000 Assurance Standard 2008, where practitioners need to demonstrate competence for a sustainability assurance engagement.

Summary of competence requirements

21. The AS1000 standard requires practitioners to not do engagements where they do not possess the necessary competencies, and that organisations ensure the engagement team, as a whole, are demonstrably competent, and are able to provide information to support this to interested stakeholders
22. The requirements within AS1000 follow a similar principle as the XRB standards in respect of requiring overall competence for the engagement being performed, but not prescribing a specific list of competencies which need to be met before assurance services can be performed.

Appendix 1 – Competency Requirements in XRB Standards for GHG assurance

We have summarised the relevant requirements across the XRB’s standards and highlighted requirements where practitioners need to identify and consider their competence for a GHG assurance engagement.

XRB – NZ SAE 1 (Competence)	XRB – NZ SAE 1 (Quality Management)
<p>Competence</p> <p>24. The engagement leader shall have sufficient competence in assurance skills and techniques and sufficient competence in the measurement and reporting of GHG emissions to accept responsibility for the assurance conclusion.</p> <p>25. The engagement leader shall be satisfied that assurance practitioners who are to perform the assurance engagement over GHG disclosures collectively have the appropriate competence and capabilities, including in the measurement and reporting of GHG emissions and in assurance, to perform the GHG assurance engagement.</p> <p>A26. Skills and competence in assurance are developed through extensive training and practical application of assurance techniques, including performance of assurance engagements in accordance with relevant standards and applicable legal and regulatory requirements.</p> <p>A27. Skill and competence in assurance necessary to undertake an assurance engagement include:</p> <ul style="list-style-type: none"> • Risk assessment methodologies. • Linking the assessed risk and materiality to the nature, timing and extent of assurance procedures. • Applying appropriate procedures (including enquires, inspection, recalculation, reperformance, observation, confirmation, analytical procedures and sampling techniques). • GHG information systems and internal controls (how data is initiated, recorded, collated and reported in GHG disclosures). • Documentation of procedures performed and evidence obtained. 	<p>Ethical Requirements</p> <p><i>Fundamental Principles</i></p> <p>13. The assurance organisation and the assurance practitioner shall comply with each of the following fundamental principles, and in applying the fundamental principles, assurance practitioners shall be guided not merely by the words, but also by the spirit of the fundamental principles:</p> <p>(d) Professional Competence and Due Care – to:</p> <p>(i) Attain and maintain knowledge and skills necessary to perform the GHG assurance engagement; and</p> <p>(ii) Act diligently and in accordance with applicable standards, laws and regulations.</p> <p>Quality Management Requirements</p> <p>62. The assurance organisation shall design, implement and operate a system of quality management that is appropriate for the conduct of GHG assurance engagements. This includes both quality management processes at the assurance organisation level, as well as on individual assurance engagements.</p> <p>65. When designing and implementing a risk assessment process, the assurance organisation shall consider the following areas:</p> <p>(a) Governance and leadership – including the ultimate responsibility, accountability and operational responsibility for the system of quality management and the internal culture of the assurance organisation around quality;</p> <p>(b) Relevant ethical requirements – including awareness of requirements, and the accumulation and communication of relevant information to and from personnel within the assurance organisation;</p>

XRB – NZ SAE 1 (Competence)	XRB – NZ SAE 1 (Quality Management)
<ul style="list-style-type: none"> • Application of professional scepticism and professional judgement. <p>A28. Skills and competence in GHG emissions are gained through significant experience or training in measuring, analysing, reporting and/or assuring GHG emissions.</p> <p>A29. Skills and competence in GHG emissions necessary to undertake an assurance engagement include:</p> <ul style="list-style-type: none"> • General understanding of climate science, carbon accounting and the generation of carbon emissions. • GHG quantification methods, including associated scientific and estimation uncertainties relevant to the assurance client’s sector. • GHG reporting principles and methods. • GHG monitoring techniques and calibration procedures and their consequences for data quality (relevant for the assurance client’s sector). • Understanding of laws and regulations that affect how the assurance client reports its emissions. <p>A30. Measurement and reporting of GHG emissions is a fast-evolving field. Continuous learning to keep up to date with changes will be important aspect of the assurance practitioner’ competencies.</p>	<ul style="list-style-type: none"> (c) Acceptance and continuance of client relationships and specific engagements – including competence, capabilities and resources available to complete assurance engagements, and the integrity of the assurance client; (d) Engagement performance – including the responsibility for individual engagement performance, structure, supervision and training of assurance practitioners; (e) Resources – including the availability of human resources, technological resources, intellectual resources and service providers relevant to the performance of assurance engagements <p>Quality Reviewer</p> <p>75. The quality reviewer shall perform a review to evaluate:</p> <ul style="list-style-type: none"> (a) The appropriateness of the engagement leader and assurance practitioners’ competencies to complete the assurance engagement; (b) The basis for the engagement leader’s determination that relevant ethical and independent requirements have been met;

Appendix 2 – Competency Requirements in AA1000AS for Sustainability Assurance

We have summarised the relevant requirements across the AccountAbility AA000AS standard and highlighted requirements where practitioners need to demonstrate competence for a sustainability assurance engagement.

AccountAbility AA1000AS (2008)

3.3 Competence

An assurance provider shall not accept an engagement if it does not possess the necessary competencies.

Assurance providers shall ensure that the individual assurance practitioners and organisations, including external experts, involved in an assurance engagement are demonstrably competent.

The assurance provider shall be prepared, given the absence of any undue risk and upon requires by a reporting organisation, to make available to interested stakeholders about the competencies of the assurance practitioners involved in its assurance engagement.

3.3.1 Assurance practitioner competence

The assurance provider shall ensure that the individual assurance practitioners and organisations, including external experts, involved in an assurance engagement are, as a team, demonstrably competence in the following areas as a minimum:

- The AccountAbility Principles;
- Application of reporting and assurance practices and standards;
- Sustainability subject matter (including the specific subject matter of the engagement); and
- Stakeholder engagement.

3.3.3 Assurance provider competence

The organisational assurance provider shall be able to demonstrate adequate institutional competencies. Competencies shall include:

- Assurance oversight mechanism to ensure quality of provision;
- Understanding the legal aspects of the assurance process; and
- Infrastructure and systems to ensure quality delivery of assurance.

3.4 Due care

Assurance providers and individual assurance practitioners shall exercise due care at all times in accordance with the needs of the users of their assurance statement, the importance of the task and the competencies required.

Submissions and other feedback received

Part 1: Written submissions

Part 2: Virtual feedback forum

Part 3: Practitioner focus group, OAG, Charities Services

Part 1: Written submissions

Written submissions were received from the following:

Agenda Item	Respondent
9.3.1	Office of the Auditor-General
9.3.2	Deloitte
9.3.3	KPMG
9.3.4	EY
9.3.5	Joint submission CA ANZ and CPA Australia
9.3.6	Dr Michael Pratt FCA

Part 2: Virtual feedback forum

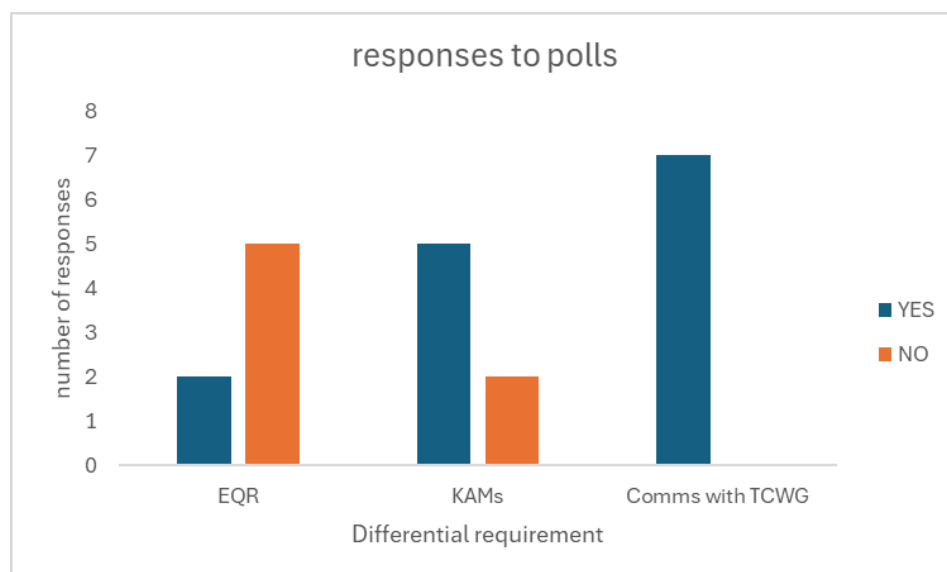
10 Attendees with a good mix of representation:

- preparer/user, governance and auditor groups
- for profit and not for profit sector, tier 1 and tier 2 entities
- auditors of FMC HLPAs entities, as well as tier 1 public sector or not for profit entities

I. Definition of PIE:

All agreed that the definition of PIE for purposes of the auditing standards should be the same as the of PIE in ethical standards.

II. Differential requirements



A. Engagement quality review

2 participants (1 practitioner, 1 academic) support the proposal for mandatory engagement quality review. Those participants in favour of mandatory engagement quality review consider it appropriate that all tier 1 entities have the same safeguards in place, and question why, if engagement quality review is required for FMC reporting entities, it should not be required for large public sector and other not for profit entities that receive significant public funds. From a stakeholder perspective, engagement quality review provides an additional level of assurance.

The remaining 5 participants (1 preparer, 1 governance, 3 practitioners) do not support expanding the differential requirement to include mandatory engagement quality reviews for PIEs. The main concern is the significant additional cost of engagement quality review with little added benefit given existing standards require a risk-based approach to engagement quality review.

Those opposed cited increased compliance costs, where benefits do not outweigh the additional cost. Engagement quality review adds a significant additional cost to the audit fee. The quality management standards already require a risk-based approach to determining which entities require an engagement quality review.

Participants also noted a distinction between level of protection required for FMC reporting entities and public sector entities compared with other not-for-profit entities, e.g., charities, in terms of the level of risk and investor protection required. Tier 1 charities are often large, in terms of size, but not overly complex.

Participants also noted that the charities are already grappling with service performance reporting, which is a primary communication to their audience. There is significant concern in the charity space about the increased compliance cost. Where is the extra value that we are seeing for the extra cost for an organization that is already operating with a significant concern around its cost base?

In the public sector, the OAG has established its own policy for engagement quality review that is risk-based.

Concerns were also expressed about the impact of the proposal on auditor rotation requirements, in terms of limiting the auditor pool. Requiring mandatory engagement quality review may exclude or make it much more difficult for some of the smaller audit firms. Outside the main centres, availability of auditors is already a challenge. This would make it more difficult to find a suitable auditor outside the main centres.

B. Key audit matters

5 of 7 respondents (1 preparer, 1 governance, 1 academic, 2 practitioners) support expanding the differential requirement to include key audit matters for public interest entities. Some of the supporters (1 governance, 1 practitioner) indicated that they were on the fence about whether to agree with the proposals and, for them it was a close call, but that on balance they supported more transparency. 2 respondents (2 practitioners) do not support the proposal.

Supporters acknowledged the value of KAMs but also acknowledged concerns of opponents about cost and potential for KAMs to become a boilerplate exercise, particularly

for entities that are not particularly complex. These concerns need to be balanced with the benefits of improved transparency and engagement with the entity and governance.

There was support for the idea of focusing on potential key audit matters at the start of audits, even if it doesn't lead to a key audit matter being reported.

C. Communications with those charged with governance

All respondents support expanding the differential requirements related to mandatory communications with those charged with governance to PIEs, noting the value of enhanced communications with governance. There is not a lot of additional cost involved, but generates a lot of value.

Part 3: Practitioner focus group, OAG, Charities Services

3.1 Practitioner focus group

Alignment of definitions: Conceptually yes, but not practically given the way PIE is defined in NZ

Engagement Quality Review (EQR): No support for extending the application of EQR to all PIEs

- Unclear whether EQR for a charity will provide value given the significant increase in cost.
- Charities are often not complex therefore EQR is of limited value.
- Unintended consequence of mandatory EQR is the impact on the auditor resource given auditor rotation requirements. Finding an auditor is already a challenge, particularly in regional areas.
- EQR requirements already have a risk lens.
- EQR useful where there is complexity and complex auditor judgements. Charities may be large, but often little judgement is involved. EQR is unlikely to result in a different outcome.

Key audit matters: No support for extending the application of KAMs to all PIEs

- Writing of KAMs is senior resource intensive – lots of review required
- In the charity space, KAMs are more likely to deal with SSP information rather than financial information. Financial information is often not complex.
- Entities have a lot of autonomy over what they report in the SSP. Reporting standards are not as precise as for financial reporting.

Communications with those charged with governance: Easy to do but question the value.

- Quality management reporting to TCWG is addressed in transparency reports

Concerns about the current PIE definition

- Using size alone to determine public accountability is arbitrary. Public interest extends beyond mere size
- Charity communities care more about service performance information and resource utilization.
- Public accountability for public benefit entities differs from for profit entities. Funders have more influence and can request information from charities.

- Additional reporting burden may not be justified for charities that don't receive significant funding from the public.
- Proposing to use the definition of PIE in a different context from what it was developed for.
- The nature of the public accountability is different because the nature of the stakeholders is different and the level of influence that those stakeholders have over those entities is different

General comment: Trying to fix lack of understanding at the user end through putting more in the auditor's report. Before going broader than the international position we need to have a robust cost/benefit analysis for it.

3.2 Office of the Auditor-General

- Concern about cost vs benefit of proposals as cost will be passed on to the entity. There must be a tangible benefit to the users of the report.
- EQR: Concerns about the implications for auditor rotation. Limited pool of auditors.
- Marginal benefit of EQR as current requirements for EQR are risk based, i.e., based on risk profile 2/3 of public sector tier 1 reporting entities already have an EQR. Additional cost for entities with lower risk profile but with very little marginal benefit particularly for entities that are not complex, very little judgement, not as subjective.
- In the public sector the same level of independence/requirements for independence apply to all engagements
- Tier 1 is set for financial reporting entities. It wasn't set with audit in mind, but has been applied to independence and now proposed for auditing standards.
- Consider that there should be a different definition of PIE aligned to FMC reporting entities considered to have a higher level of public accountability, but the independence requirements should be PIE plus to scope in public sector and not-for-profit entities
- Do not see value in adding KAMs for public sector entities.
- IAASB feedback statement June 2021 concluded not to expand KAM beyond listed entities.
- The Auditor-General has a keen interest in this consultation.

3.3 Charities Services

- Don't want to add cost without an appreciable benefit.
- Concerned about the shortage of auditors and the impact on resource availability for charitable entities. Concerns around impact on transparency, i.e., delays in getting information on the register.
- Accountability is important to funders of charitable entities. Unclear whether additional audit requirements would improve accountability. Many users take comfort in the fact that an audit has been performed. Funders often have strings attached to funding, i.e., for a specific purpose and require report-back from the entity. Interested in outcomes based results.
- Many charitable organizations are funded through government.
- Users tend to be funders and supporters.
- As a government agency, concerned with reducing regulatory barriers.



John Ryan

4 June 2024

Marje Russ
Chair
New Zealand Auditing and Assurance Standards Board
Level 6
154 Featherston Street
WELLINGTON 6011

Tēnā koe Marje

Proposed public interest entity amendments

Thank you for seeking comment on the consultation document “Public Interest Entity Amendments” dated March 2024 (the Consultation Document).

As you will be aware, I am responsible for auditing all public sector entities in New Zealand, including public benefit entities and for-profit entities. My Office, together with the auditors I appoint to act on my behalf, provide the New Zealand Parliament and the public with independent assurance that public sector entities are operating and accounting for their performance as intended.

The Consultation Document raises an important question: Should the existing New Zealand definition of a “public interest entity” (PIE)¹ be extended to apply to circumstances beyond the audit independence considerations for which the definition was originally developed? In my opinion, your Board has not demonstrated that the extension of the New Zealand definition of a PIE to different circumstances satisfies the “compelling reason test” that is used to justify a modification of an international standard. This matter is discussed further in Attachment 1.

The Board’s proposals to require key audit matters in audit reports and engagement quality reviews for a substantial number of Tier 1 public organisations, will impose significant compliance costs on those organisations without demonstrable benefits to users. In my opinion, those additional compliance costs cannot be justified.

This places me in a difficult position as New Zealand’s public sector auditor because I have a statutory responsibility² to satisfy myself that the audit fees charged to public entities are reasonable. If your Board proceeded with proposals for which I could not justify the costs, I would need to consider

¹ The New Zealand definition of a “public interest entity” (PIE)¹ that currently applies to *PES 1: International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1)

² Section 42 of the Public Audit Act 2001

departing from the Board's standard and set my own standard, as I am permitted to do under the Public Audit Act 2001.

Attachment 2 responds to the Board's consultation questions.

If you have any questions, please contact Todd Beardsworth at todd.beardsworth@oag.parliament.nz

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMRyan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General

Attachment 1: Should the New Zealand definition of a “public interest entity” be applied universally to all standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB) where a requirement refers to public interest entities?

We recognise that the NZAuASB sets ethical and professional, and auditing and assurance standards that converge with the international standards issued by the IAASB or the IESBA. Departures from international standards are permitted, but only if “compelling reasons” exist to justify a departure. The “compelling reason test” is contained in an External Reporting Board (XRB) document “NZAuASB Policy and Process for International Conformance and Harmonisation of Standards”.

In the context of the current “public interest entity” (PIE) proposals we reflect on the application of the compelling reason test in the context of PIEs.

The initial version of the International Code of Ethics (the international Code) was promulgated by the IESBA with an effective date of 1 January 2011. The Code was amended and issued for application in New Zealand (the New Zealand Code) by the New Zealand Institute of Chartered Accountants; that was responsible for issuing New Zealand’s ethical and auditing standards at that time.

When the XRB came into existence on 1 July 2011 one of the early tasks assigned to the NZAuASB was to satisfy itself that the New Zealand Code was fit-for-purpose in New Zealand. An aspect of this process was to ensure conformity with the international Code. At that time the NZAuASB reaffirmed the wider definition of a PIE (an entity that reports under Tier 1) that had been included in the New Zealand Code by the New Zealand Institute of Chartered Accountants was appropriate and in accordance with the “compelling reason test” that applied at that time.

The broader definition of a PIE was reaffirmed on the basis that:

- the change had been approved through proper “due process” and was supported by New Zealand stakeholders; and
- the public interest in New Zealand was better served by New Zealand auditors exhibiting a higher standard of auditor independence for a greater proportion of entities subject to audit when compared to the International Code.

What was not known at the time, was that the term PIE would be used in other standards and applied in circumstances unrelated to auditor independence. Applying the New Zealand definition of a PIE to circumstances unrelated to auditor independence risks the possibility of unintended consequences.

A forerunner of using the term PIE to new circumstances was in 2017 when new auditor rotation requirements were introduced. These requirements were in response to the familiarity threat to independence when an auditor had a long association with an entity subject to audit. The new rotation requirements were applied to PIEs, as defined in the New Zealand Code.

The auditor rotation requirements place a considerable strain on audit firms when assigning a small number of key audit partners across a firm’s audit portfolio. Concerns were raised at the time by

auditors because of the logistical problems that were created. Nonetheless, audit firms (through considerable effort and ingenuity) have found a way to comply with the auditor rotation requirements.

In 2024 the IAASB made the decision to use the term PIE, as defined by the IESBA, in the International Standards on Auditing (ISAs) in place of the term 'listed entities'. From an international ISA perspective this is appropriate and aligns with how we currently apply the equivalent ISA NZ requirements (i.e., reference to 'listed entities' in ISAs NZ requirements have been replaced with 'FMC reporting entities considered to have a higher level of public accountability').

The IAASB's decision will be a problem if it is applied verbatim in New Zealand. The appropriateness of the definition of a PIE in the New Zealand Code to other standards is being questioned. In our view, the NZAuASB's wider definition of a PIE is not responsive to the public interest or risk. As a consequence, the NZAuASB definition of a PIE scopes in many entities that are large, but in every other respect are of limited public interest and where risk is minimal. A direct consequence is that the requirements are inappropriately applied to a significant number of entities where the cost of the additional requirements is not accompanied by clearly demonstrable benefits in the public interest.

In addition, we note that some entities that possess the attributes of public interest and risk are not caught by the NZAuASB's wider definition of a PIE – for example, a small entity that is being prepared for sale to the public.

It is likely that the IAASB standards will continue to extend their application to PIEs in the future. This possibility increases the importance of the NZAuASB settling on an enduring solution to the current issue. Otherwise, the issue will continue to be debated each time the NZAuASB consults with stakeholders about adopting an international standard issued by the IAASB for application in New Zealand that places a requirement on the auditors of PIEs.

A possible solution is to continue to apply the 'PIE specific' independence provisions of the New Zealand Code to entities that apply Tier 1 financial reporting frameworks. However, the New Zealand Code should no longer refer to those entities as PIEs. If this was done, references to PIEs in the ISAs that are adopted for application in New Zealand could reflect a new New Zealand definition of a PIE that closely aligns to the IESBA definition. A possible new definition for PIEs is "FMC reporting entities considered to have a higher level of public accountability". This definition is already applied when specifying entities for which an engagement quality review is required (under PES 3) and when the auditor is required to include key audit matters in their audit report (under ISA (NZ) 701).

Attachment 2: Responses to questions for respondents

- 1** *Do you agree that the same definition of public interest entity should be used for the auditing and assurance standards and the professional and ethical standards? If not, please explain why not.*

We do not agree that the definition of a PIE, as currently specified for application under PES 1 should be applied to other professional and ethical standards, or to auditing and assurance standards.

We have been comfortable with this definition in the New Zealand Code because it was used for differential independence requirements. The Auditor-General applies a higher level of independence requirements than the New Zealand Code to all public sector entity audits.

In our view, a definition of a PIE that aligns to the IESBA definition should be applied to international standards issued by the IAASB when they are adopted in New Zealand.

- 2** *For each of the existing 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.*

We note that the recent IAASB Exposure Draft³ on PIEs contains several observations of relevance to this question.

Paragraph 16 of the Explanatory Memorandum to the IAASB Exposure Draft states:

“The IAASB proposes that for the ISQMs and ISAs, the purpose of the differential requirements is to meet “the heightened expectations of stakeholders regarding *the audit engagement*” [Emphasis added by the IAASB]. The reference to “the heightened expectations of stakeholders regarding the audit engagement” implies (to us) a focus on public interest and risk. Such notions are not reflected in a PIE definition which includes entities that apply Tier 1 financial reporting frameworks (particularly for not-for-profit entities, and public sector entities). Tier 1 financial reporting frameworks are applied by entities based on the size of their expenditure. Public interest and risk are not necessarily directly related to financial size of an entity.

Paragraph 31 of the Explanatory Memorandum to the IAASB Exposure Draft states:

“In addition, the IESBA formed the view that establishing an overarching objective and expanding the PIE categories in the IESBA Code should bring some level of global consistency to the types of entities that should be treated as PIEs (i.e., a global baseline)”. In our view, this statement indicates that the NZAuASB needs to understand the purpose of

³

Proposed Narrow Scope Amendments to:

- International Standards on Quality Management;
- International Standards on Auditing; and
- International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements* as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

a requirement and apply a definition of a PIE that closely equates to the international definition, unless there is a compelling reason not to do so in the New Zealand context.

The proposals are a blunt and expensive tool to enhance audit quality. It is unclear that audit quality will be enhanced beyond the current risk-based approach to EQRs and KAMs.

a) Mandatory engagement quality review.

We do not agree that the definition of a PIE, as currently specified for application under PES 1, should be applied to other professional and ethical standards, or to auditing and assurance standards. As discussed in Attachment 1 the existing definition of a PIE is not responsive to the public interest or risk.

The Auditor-General's auditing standards already extend engagement quality reviews beyond the minimum requirements of PES 3. The Auditor-General's criteria for engagement quality review reflect public interest and risk⁴.

The Auditor-General addresses risks related to audit quality in other ways, including:

- the Auditor-General applies AG PES 3 to his audit service providers in addition to their compliance with PES 3;
- the Auditor-General requires appointed auditors to submit modified audit reports to his Opinions Review Committee to consider the appropriateness of the modification under the circumstances and the quality of the audit report before it is issued; and
- the Auditor-General has identified a small number of entities where increased involvement by his leadership team is required.

b) Required communications with those charged with governance about the firm's system of quality management.

We do not agree that the definition of a PIE, as currently specified for application under PES 1, should be applied to other professional and ethical standards, or to auditing and assurance standards. As discussed in Attachment 1 the existing definition of a PIE is not responsive to the public interest or risk.

c) Communications about auditor independence.

Higher independence requirements are applied to Tier 1 entities under PES 1. It follows, as a matter of principle, that communications about auditor independence should align to Tier 1 entities. However, we do not consider Tier 1 entities are PIEs for the reasons given in Attachment 1..

All audit reports issued by the Auditor-General and on his behalf describe compliance with ethical requirements, including independence in a separate paragraph.

⁴ The Auditor-General's criteria for requiring an EQR is available in AG PES 3.

d) Communicating key audit matters in the auditor’s report.

We do not agree that the definition of a PIE, as currently specified for application under PES 1, should be applied to other professional and ethical standards, or to auditing and assurance standards. As discussed in Attachment 1 the existing definition of a PIE is not responsive to the public interest or risk.

Following the IAASB’s post-implementation review of key audit matters (KAMs), the IAASB noted (in a June 2021 feedback statement) there was a “lack of broad support to extend the communication of KAM beyond PIEs as costs were considered to exceed benefits for entities other than PIEs”.

This is important feedback because it provides a strong evidential basis for not extending KAMs reporting beyond PIEs, as defined in the IESBA standards. This finding also aligns with our own experience in reporting KAMs.

The Auditor-General currently includes KAMs in the audit reports of a few entities in addition to the public sector entities that are also FMC reporting entities. The primary examples of this are the audit reports for the Financial Statements of the Government and for Health New Zealand.

It is not feasible to include KAMs for all public sector entities that apply Tier 1 financial reporting frameworks.

e) Name of the engagement partner.

In our opinion, the engagement partner should be named in the audit report for every audit. This is current practice for audit reports issued by or on behalf of the Auditor-General.

3 Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

If the NZAuASB intends to extend the definition of PIEs in PES 1 (entities where Tier 1 reporting is mandatory) to other standards this will impose significant compliance costs on those organisations without producing any demonstrable benefits to users. Those additional compliance costs cannot be justified; particularly when the definition of a PIE in PES 1 is not responsive to public interest or risk.

In the public sector there are approximately 295 entities that apply Tier 1 financial reporting frameworks due to their size. The NZAuASB proposals will result in⁵:

- An additional 95 entities being subject to engagement quality review (bearing in mind that these entities have already been assessed against the AG PES 3 criteria as not requiring an EQR); and

⁵ Details of these entities are available to the XRB on request.

- An additional 280 entities where auditors will need to include KAMs in the audit report.

The proposed requirements will place a substantial burden on already scarce audit resources. We already manage that resource with the public interest and risk as critical drivers. A PIE definition that does not reflect public interest or risk is not helpful in assisting auditors to assign audit resources to where they are most needed.

The proposals will require additional training for audit service providers who currently do not have experience in writing KAMs. They will also increase demand on our processes to mitigate risks for audit reports, other than standard audit reports.

4 Are there any other significant public interest matters that you wish to raise?

It is likely that the IAASB will continue to extend the application to PIEs to other standards in the future. We urge the NZAuASB to develop an enduring solution to this issue. Otherwise, the issue will continue to be debated each time the NZAuASB consults with stakeholders about adopting an international standard issued by the IAASB for application in New Zealand that places a requirement on the auditors of PIEs.

4 June 2024

External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Submitted electronically

Dear Board Members

Deloitte Submission on Public Interest Entity Amendments

Thank you for the opportunity to comment on the Public Interest Entity Amendments Consultation which sets out the proposed narrow scope amendments to auditing and assurance standards.

Our global firm (Deloitte Touche Tohmatsu Limited) has provided a submission to the IAASB in response to the ED of *Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised)* which can be accessed [here](#). This submission largely disagrees with the proposals made by the IAASB.

We note that implementation of the proposals could have unintended consequences in New Zealand given our wider definition of a public interest entity in New Zealand. If the IAASB were to expand the differential requirements from “listed entities” to “public interest entities” then we consider further analysis will be required by the New Zealand standard-setter on the continued appropriateness of our public interest entity definition. At present we do not believe that there are strong reasons to depart from global standards (as per the NZAuASB’s approach to convergence to international standards).

We have included our reasons for this position in Appendix 1, along with our comments in response to the particular questions raised.

Please do not hesitate to contact me should you require further clarification on any of the matters discussed.

Yours sincerely



Victoria Turner
Partner
for Deloitte Limited

Appendix 1: Specific Questions for Comment on Public Interest Entities Amendments

- 1. Do you agree that the same definition of public interest entity should be used for the auditing and assurance standards and the professional and ethical standards? If not, please explain why not.**

Our global firm (Deloitte Touche Tohmatsu Limited) has provided a submission to the IAASB in response to the ED of *Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised)* which can be accessed [here](#). This comments on some of the difficulties in determining the definition of a PIE and the need for the IESBA and IAASB to undertake further dialogue on this point.

Our comments in this submission are limited to the New Zealand ramifications of these proposals given the wider definition of a public interest entity in New Zealand which includes large public sector and not-for-profit entities (such as registered charities and incorporated societies).

We note that the Consultation Document sets out the reason for the differential requirements, stating in section 3 that: *“These differential requirements have been considered 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.”* Large public sector and not-for-profit entities do not have the same investor relationship as for-profit entities, so financial condition is not always a primary driver for users of the financial statements. Further analysis is therefore required to determine whether the benefits obtained from the additional requirements outweigh the costs incurred. At present we do not believe that there are strong reasons to depart from global standards (as per the NZAuASB’s approach to convergence to international standards) which would only impose the differential requirements on their narrower definition of a public interest entity.

Further, we note that auditors are encouraged to treat other entities as public interest entities based on the factors set out in paragraph 400.9 and 400.19.A1 (refer PES 1.400.19 A1¹). An unintended consequence of the differential requirements may be that entities pressure auditors (or auditors themselves feel pressure for other reasons) to not exercise their judgement in this way due to the additional cost and/or public nature of key audit matters that might be reported.

- 2. For each of the existing 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.**
 - b) Required communications with those charged with governance about the firm’s system of quality management.**
 - c) Communications about auditor independence.**
 - d) Communicating key audit matters in the auditor’s report.**
 - e) Name of the engagement partner.**

Our global firm submission, as referenced above, sets out the reasons why we largely disagree with the differential requirements being extended to public interest entities.

¹ These references are taken from the version of PES 1 effective for periods beginning on or after 15 December 2024 after revisions are made to the definition of a public interest entity.

3. Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

The Consultation Document does not provide any analysis as to whether the benefits would outweigh the costs other than the number of engagements likely to be impacted due to our wider definition of a public interest entity so we are unable to comment on whether the benefits are likely to outweigh the costs. We consider that the implementation of these differential requirements (if approved by the IAASB) should trigger a reconsideration of the New Zealand definition of a public interest entity, with further cost / benefit analysis needed.

Further, we note that section 3 of the consultation document stated that *“The differential requirements do not change the work effort required for an auditor to conclude whether the financial statements are fairly presented.”* We believe that this underestimates the effort required (and therefore cost incurred) to provide the additional communications proposed. In particular, communications to those charged with governance are different to communications of key audit matters in the audit report because the knowledge base of each group differs. Writing a key audit matter requires additional consideration to ensure that it is written in plain English and that it is consistent with the financial statements. Given the public nature of the audit report, there are often additional checks required to ensure the report is appropriate for the users, as well as enhanced dialogue with those charged with governance on the key audit matters.

4. Are there any other significant public interest matters that you wish to raise?

No.



External Reporting Board
PO BOX 11250
Manners St Central
Wellington 6142

20 May 2024

To Whom it may concern

Public Interest Entity Amendments - Narrow scope amendments to auditing and assurance standards

KPMG welcomes the opportunity to provide comments on the External Reporting Board ('XRB') *Public Interest Entity Amendments – Narrow Scope amendments to auditing and assurance standards* Consultation document, March 2024 (the 'consultation').

Our comments to the questions you seek comment on are included below.

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

We agree there is merit to a consistent definition of public interest entity across the auditing and assurance standards and the professional and ethical standards for the objective of understandability and simplicity.

However, we have concern that in doing so, that all entities that report using tier 1 financial reporting requirements will be subject to the expanded independence and audit quality requirements unnecessarily, as we do not consider that the current public interest entity ('PIE') definition included in the Code of Ethics capturing certain public sector entity or not-for-profit entities is an accurate reflection of the risk of all these entities.

We refer to our previous letter dated 15 August 2022 in response to your invitation to comment – NZAuASB 2022-2 Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES-1 for further comment on this.

Question 2. For each of the existing 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.

Our firm has applied a risk-based approach in designing, implementing and operating the engagement quality review component of our system of internal control and as a result, already mandate an engagement quality review wider than is required under applicable law, regulation or professional standards. However, consistent with our response to question 1 above, that does not extend to all Tier 1 financial reporting entities as we do not consider there to be quality risks with all these entities. As such, we do not agree with the proposal to extend the application of mandatory engagement quality reviews to all entities captured by the proposed definition of public interest entity. This will raise the costs of the new PIE audits, which we anticipate will be passed onto clients with very little benefit in return (see discussion under question 3 below). We recommend the XRB to consult directly with the affected entities for their view on whether they agree this is in the public interest.



b) Required communications with those charged with governance about the firm's system of quality management.

We believe stakeholder confidence in New Zealand businesses is essential to the prosperity of all New Zealanders and that high quality, independent audit is the cornerstone of that confidence. To increase confidence of the public in our audits, our firm already includes our System of Quality Management statement of effectiveness within our annual Audit Quality Transparency Report, which extends beyond the current requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. We agree that requiring communications with those charged with governance about the firm's system of quality management is in the public interest.

c) Communications about auditor independence.

As mentioned above, an independent audit is critical. We agree that requiring communications about independence is in the public interest.

d) Communicating key audit matters in the auditor's report.

Whilst we do agree that key audit matters may be in the public interest by providing better transparency about the audit, providing additional information to understand the professional judgement of the auditor, helping the public in understanding the areas of crucial management judgement and encouraging the public to further engage with those charged with governance and management on matters of most significance; we draw attention to our comments to question 1. Given we believe the current proposed definition of a PIE does not necessarily reflect the risk of such entities, we do not consider that there will necessarily be more complex areas of the audit that require a higher level of professional judgement or areas of crucial management judgement that would need to be addressed through communication of key audit matters in the auditor's report.

Additionally, we consider that the requirement of PBE FRS 48 *Service Performance Reporting* for public benefit entities to prepare a Statement of Service Performance has provided a vast improvement on information disclosed for the public interest, particularly in relation to whether an entity has used funds for the purpose intended, what it has achieved with the resources available to it, and whether it could have done more with those resources.

Therefore, we consider the auditor should be able to continue to voluntarily report key audit matters when considered appropriate but that this differential requirement should not be mandated. We also note that there is a cost associated to reporting key audit matters, particularly in the initial year and we comment on cost versus benefit further below. We recommend the XRB to consult directly with the affected entities for their view on whether they agree this is in the public interest.

e) Name of the engagement partner.

We do not believe there is any benefit to the public interest by disclosing the name of the engagement partner. Our audit partners are not signing the audit reports based on their work alone. The firm signature reflects the support provided by the firm to enable that partner to opine. However, should the definition of public interest entity be revised, we agree with the proposal to extend the name of the engagement partner to all public interest entity audit reports to promote consistency.

Question 3. Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

In respect of the extended differential requirements we agreed with above, being required communications with those charged with governance about the firm's system of quality management and communications about auditor independence. We do not consider these to have significant incremental cost and as such, that the benefits of those proposals outweigh the costs.

In respect of the name of the audit partner, whilst we do not agree this should be included, we do admit there is little cost associated with this change.

As we have outlined above, we believe mandatory engagement quality review and communicating key audit matters in the auditor's report are of limited benefit. Additionally, these are the areas that would have the more



significant associated costs.

We are concerned that additional compliance costs will result in higher audit fees having to be charged by the auditor to ensure the client generates a sufficient return for the auditor and that this would reduce the funds that these entities have that can be spent on activities in the public interest. We also believe these additional costs are also of relevance in the current climate where public benefit entities are commonly experiencing declining revenues from their fundraising and donation activities combined or stretched government funding, alongside the added cost of having to comply (including establishing new or evolving components of internal control) with the new requirements of PBE FRS 48 *Service Performance Reporting*.

Question 4. Are there any other significant public interest matters that you wish to raise?

We have no additional comments to make on the Consultation.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Darby Healey'.

Darby Healey

Partner



**Building a better
working world**

Ernst & Young
2 Takutai Square
Britomart
Auckland 1010 New Zealand
PO Box 2146 Auckland 1140

Tel: +64 9 377 4790
Fax: +64 9 309 8137
ey.com/nz

External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

31 May 2024

Submission on Consultation Document - 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

Dear Sir / Madam

Ernst & Young New Zealand (EY) welcomes the opportunity to provide comments on the XRB's 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.

As this relates to international standards, our EY Global Assurance Standards and Global Professional Practice (EY Global) has also responded to the International Auditing and Assurance Standards Board (IAASB) directly on the proposals. To avoid duplicating EY Global's comments through this local response, we refer the XRB to our EY Global response, which is appended to this letter. We have not included direct comments on the exposure draft beyond the questions asked by the XRB.

Our responses below to the questions posed by the XRB are limited to the application of these proposals in the New Zealand environment.

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

On the face of it, the proposal by the IAASB to apply the definition of Public Interest Entity (PIE) currently used in the IESBA International Code of Ethics for Professional Accountants to auditing assurance standards appears logical. However, the current PIE definition was established for independence purposes, not for application of auditing requirements. As a result, and given the New Zealand specific PIE definition, we do not consider that the current PIE definition is fit for purpose to be adopted in relation to differential auditing requirements. The reasons for this are explained further below. We therefore believe that if this proposal is adopted internationally and is being considered for implementation in New Zealand, the PIE definition in New Zealand should be revisited.

We have provided comments in section 4 below regarding our practical experience of the PIE definition in New Zealand and suggest a potential solution to how the PIE definition might be amended for New Zealand to alleviate the imposition of additional audit requirements on entities where they may be considered unnecessary.

**Building a better
working world****2. For each of the following 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.**

- ▶ Mandatory engagement quality review (EQR)

We are strongly of the view that extending the requirement for an EQR to all PIEs would be an unnecessary burden for the audits of most large public benefit entities (PBEs) and large for profit public sector entities. This opinion is based on three main issues: contribution to audit quality, additional cost burden and rotation requirements restricting availability of auditors to the sector.

Contribution to audit quality

The role and principal value of an EQR to an audit is their contribution to improving/ensuring audit quality through their review and challenge of the audit work in areas of complexity, key risks and the judgements made during an audit.

Those public sector PBEs, large for profit public entities and large charities, which are not already subject to EQR appointment (currently generally by OAG criteria), are generally simple entities with comparatively little complexity or subjectivity in their reporting/audit. In these cases, the role of the EQR provides significantly less incremental value and change or challenge to the audit than it does in a complex or subjective audit.

Additional cost burden

Performance of EQR duties in accordance with ethical and auditing standards takes a significant amount time by senior resources and adds significant incremental cost. While the time taken on less complex entity audits is generally less than on complex audits, there is a minimum commitment required to fulfil the extensive requirements of an EQR. As a result, the appointment of an EQR is a significant additional cost for the audit and audit fees would increase for those entities if an EQR is required. Increased audit fees would be particularly problematic in the charities sector where cost pressures are acute. Coupled with the limited (and likely nil) impact on audit quality, we consider the cost impact outweighs the potential benefit.

Rotation

The appointment of EQRs to all PIEs combined with the rotation requirements for PIEs may significantly reduce the availability of auditors to charities. Smaller firms in the New Zealand market may not have sufficient partners to meet the EQR and rotation requirements for all PIEs which would limit the availability of providers in the sector (with any firm with 3 or fewer partners effectively unable to audit these charities for more than one rotation, making them highly unappealing). In addition, the rotation impacts on larger firms would also create challenges. While larger firms have sufficient partners to enable rotation, only a small number of partners work on charities and thereby suitable EQR resources are very limited. The resulting complexity and time burden will make large charity audits less appealing, and firms may reconsider whether to continue servicing and/or taking on new clients in this sector.

- ▶ Required communications with those charged with governance about the firm's system of quality management

These communications would not be difficult or costly to achieve and therefore we are not significantly concerned about their application to all PIEs. We do however query the benefit of these communications to the entities potentially receiving them.

- ▶ Communications about auditor independence

These communications are not difficult or costly to achieve for these types of entities. However, as we note below in section 4, we provide almost no non-assurance or non-audit services to large PBEs, and suspect other firms are similar. These requirements are therefore largely redundant.

**Building a better
working world**

- ▶ Communicating key audit matters in the auditor's report

In our view, Key Audit Matters (KAMs) are of significant benefit to the reader's understanding of the audit process and findings in instances where they are making significant financial decisions based on those financial statements. For listed or regulated entities (such as banks), this extends to analysts and regulators. However, the presentation of a KAM does come at an additional cost to the audit. We believe that careful consideration should be given to any extension of the entities to which the requirement for KAMs is applied.

An additional consideration in relation to entities which report service performance information is that KAMs may be in relation to this element of reporting as well as the financial elements of the reporting. This is not currently a common occurrence and so it is likely that consideration of these and writing them appropriately will take longer (and so be more costly) than more familiar financial statement KAM areas. We consider there is a significant risk that they become "boilerplate" and so have lesser value than they might otherwise do.

We believe that KAMs are of limited benefit to the large PBEs and public sector for profit entities sectors for the following reasons:

- ▶ Audit Committees, management, the OAG and Ministers (where relevant) are in a position to receive detailed information about the conduct of the audit through Audit Committee reporting and directly from the auditors. KAMs would not be a method used by management, or those in a fiduciary capacity, to obtain any additional information as regards the audit process.
- ▶ In relation to large charities, we believe that the use of financial reporting is very limited. Many large charities are funded by organisations (government or funding trusts) which have the ability to obtain any financial information they require. Public donors (where there are any) generally do not consider the financial statements prior to offering donations/funding. Even if they do, additional commentary in the audit report is likely to be valued by an even smaller subset of donors.
- ▶ Many of the entities the requirement for KAMs would be extended to are simple entities with limited audit complexity and judgements. As noted above, KAMs could become "boilerplate" in these situations which would lessen their value.

We also note that larger firms will already have the experience and processes in place for writing KAMs. Smaller firms may not have the same experience and processes and as such these audits may become less attractive to smaller providers.

- ▶ Name of the engagement partner

These communications would not be difficult or costly to achieve and therefore we are not significantly concerned about their application to all PIEs.

3. Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

We do not agree that the benefits of the proposals outweigh the expected costs. Please see our detailed responses above. In our view, as the PIE definition is currently written in New Zealand, these requirements will significantly increase the audit costs for the impacted entities with little or no additional benefit. The additional costs will largely be driven by the extended requirement for EQR and KAMs. We also believe that these proposals will limit the availability of auditors for the impacted sectors due to rotation requirements.

4. Are there any other significant public interest matters that you wish to raise?

When the NZAuASB consulted on the definition of PIE in New Zealand (NZAuASB 2022-2 *Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES 1*), the current proposals had not been publicised, nor were they expected. The responses provided to the NZAuASB may have been significantly different had these proposals been known at the time. If the proposals above are advanced internationally, we believe it would be appropriate to re-consult on the NZ PIE definition and so to re-consider the nature and scale of entities included in this. It is particularly important that the NZ PIE definition is retested against compelling reasons test in the NZAuASB's *Policy and Process for International Conformance and Harmonisation of Standards*. When the current NZ PIE definition was first established and the extension of the international definition was assessed against this test, the extent of the requirements related to PIEs which are now being proposed were not known. We consider it essential that any extension of the requirements for PIEs is retested, particularly considering requirements 14.c and 14f and 15 of the compelling reasons test.

We provide comment below regarding our practical experience of the New Zealand PIE definition as it relates to PBEs and provide a suggested solution for amendment to the definition.

As detailed in our previous response to NZAuASB 2022-2 *Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES 1*, we believe the New Zealand PIE definition is overly broad. We do not seek to repeat our previous submission here. In addition to the matters we raised in that submission, we provide the following points:

Funding of large charities

We understand that one of the reasons for the XRB to include large charities within the PIE definition is to address the perception of fiduciary duty created by the accepting of public money as donations. We do not agree that the majority of large charities in New Zealand owe a particular fiduciary duty to the public, given many charities do not receive any public funding or the funding from donations is a very minor part of their income. We currently audit approximately 30 large charities in broadly the following categories:

Category of charity	Main source of funding
Non-governmental organisation which provides services within their community through contracts with government agencies	Government contracts. The government agencies are able to perform their own due diligence and receive required reporting on the use of their funds through the contract terms.
Self funded charities where the operations are funded by a business the charity runs, or a legacy asset base	For profit entities owned and controlled by the charity or previously accumulated/donated funding base. These entities are not taking public money.
Industry bodies	Funded through levies on the industries they represent.
Churches and related organisations	High asset bases with income largely from assets such as investment income or schools. Some income is from donations at the parish level although the stakeholders are interested in the services provided by (and possibly financial position/performance of) the particular parish and not the consolidated "umbrella" entity which would be subject to PIE reporting requirements.
Public Benefit Entities within Maori Trusts	Funded by the investment or business holdings of the trust.



**Building a better
working world**

Non audit services provided to charities

Based on our experience, we believe removing public sector PBEs and large charities from the PIE definition in New Zealand would have little impact on the ethical behaviour of those firms serving them for the following reasons:

- ▶ The OAG regulates the provision of other services to public sector entities by their professional advisors.
- ▶ Very limited non-assurance services are provided to charities as such organisations are relatively simple and they often do not have the resources to engage professional advisors.

Suggested solution

If it is seen as undesirable to remove large PBEs and public sector for profit entities from the ethical standards they are currently subject to, they could be removed from the definition of PIE but the requirements relating to PIEs in the New Zealand ethical standards could be amended to apply to "PIEs and large PBEs and large public sector for profit entities". Under this approach, the current ethical requirements applicable to these large PBEs and large public sector for profit entities would remain and the expanded auditing requirements proposed for PIEs would not apply to these entities.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in New Zealand. We would be pleased to discuss our comments if this is helpful. Should you wish to do so, please contact Simon Brotherton at simon.brotherton@nz.ey.com or on 027 294 3421.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Brotherton', written in a cursive style.

Simon Brotherton
Partner

Enclosures

1. Ernst & Young Global Limited response to the Exposure Draft (ED), Proposed Narrow Scope Amendments to International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs) and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code (ED-PIE), issued by the International Auditing and Assurance Standard Board (IAASB).



Ernst & Young Global
Limited
1 More London Place
London
SE1 2AF
United Kingdom

Tel: + 44 20 7980 0000
Fax: + 44 20 7980 0275
ey.com

8 April 2024

Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th floor
New York, New York 10017

Exposure Draft: Proposed Narrow Scope Amendments to ISQMs, ISAs And ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code

Dear Mr. Botha,

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft (ED), *Proposed Narrow Scope Amendments to International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs) and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code (ED-PIE)*, issued by the International Auditing and Assurance Standard Board (IAASB).

Paragraph 19 of the ED-PIE states that respondents to relevant IAASB matters addressed in the International Ethics Standards Board for Accountants (IESBA) PIE Exposure Draft encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards' standards, and in doing so, supported alignment in the types of entities to which differential requirements apply. This intended alignment was the basis for our initial support for this initiative; however, we are now concerned whether this alignment really can, or should be pursued further, due to the IESBA's recent clarifications regarding the intended implementation of the IESBA definition of PIE.

At its 20 March 2024 plenary session, IESBA further discussed and confirmed the implementation of its *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA Code Revisions). IESBA confirmed agreement with both the conclusion in the IESBA staff issued *Staff Questions and Answers; March 2023 - Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA FAQs) and Agenda Item 8-A *PIE Rollout Issues and Working Group Views* prepared for the March 2024 IESBA meeting (IESBA Agenda Item 8-A). This included confirming IESBA's intent to depart from its normal practice of promulgating the precise definitional boundaries in the Code and instead allowing the relevant local bodies to more precisely define which entities should be included as PIEs.

In addition, IESBA Agenda Item 8-A clearly states in paragraph 27, "that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are



**Building a better
working world**

committed to complying with the Code, such as a member firm of the Forum of Firms) *means first and foremost compliance with local laws and regulations*, whatever they may be at the time of the audit report” (emphasis added). Paragraph 32 of that same paper clearly states that this conclusion applies even when the local body is still undergoing or has not yet initiated the process of adoption and implementation of the IESBA Code Revisions. It is our understating that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

This recent clarification (and impending FAQ) that firms should apply the local definition of PIE, regardless of whether it contains all the categories of PIEs within the IESBA definition, to comply with the IESBA Code appears to be a more significant departure from normal practice than the IAASB understood during its development of the ED-PIE. This departure raises concerns as it may result in differences in the application and implementation of the IESBA Code Revisions and the ED-PIE because the IAASB has not expressed the same intent to significantly depart from its normal practice of establishing a baseline definition.

Instead, the proposed requirement in ISQM 1 paragraph 18A implies that the firm shall treat an entity as a PIE in accordance with the definition in paragraph 16(p)A *as well as* more explicit definitions established by law, regulation and professional requirements.

Based on the way the definition is drafted in the ED-PIE, we do not believe it was the intent of the IAASB for the definition of PIE in the jurisdiction to fully take precedence over the baseline definition in the IAASB standards. We read the IAASB’s ED-PIE as having the intention that the PIE definition as proposed would be the baseline expected to be enforced by auditors, even when local bodies have not adopted the PIE definitions into local law or regulation, which is inconsistent with the implementation of the definition in the IESBA Code Revisions.

Unsupportive of the adoption of the definition of PIE at this time

The recent clarification of the implementation approach adopted by IESBA highlights the challenges that exist in setting a global definition of PIE that is dependent upon jurisdictions to adopt and/or refine a definition. We strongly agree that the jurisdictions are best placed to determine the PIE definition; however, many jurisdictions have not taken action or actions being taken will not be effective by the IESBA revisions effective date of 15 December 2024. We, therefore, question the viability of the IAASB aligning with IESBA’s clarified implementation approach that the auditor apply the definition of PIE that is in effect at the jurisdiction level. This would be a significant departure from the IAASB’s normal practice of setting global baselines and we believe this approach needs to be further evaluated by the IAASB to determine the consequences for its standards (refer to our response to Q2 for our views on likely unintended consequences).

On balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the IESBA implementation approach, conduct its own outreach to jurisdictions to understand the consequences of applying local PIE definitions in the context of the IAASB standards and determine the appropriate approach for the IAASB standards (refer to our suggestions for potential path forward in our response to Q2).



Unsupportive of the adoption of the definition of “publicly traded entity” at this time

We do support the concept of converging with the IESBA Code's definition of “publicly traded entity”, replacing the existing definition of “listed entity”, as we believe the proposed definition of “publicly traded entity” is capable of consistent implementation by auditors and can result in consistent implementation across jurisdictions (regardless of the actions in the jurisdiction). However, because the definition of publicly traded entities is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction for the PIE definition based on the challenges we outline above and in our response to Q2.

Other significant comments for the IAASB's consideration

As explained in our response to Q3C, we question the necessity of expanding the applicability of the existing requirement regarding communicating to those charged with governance a statement about the auditor's independence in paragraph 17 of ISA 260 (Revised) from audits of listed entities to audits of all entities. We do not believe this change is necessary as a statement of the auditor's independence is clearly made in the auditor's report. We also do not think it is appropriate for a 'narrow scope' project specific to audits of public interest entities to impose new requirements for audits of entities other than public interest entities.

As explained in our response to Q6, we strongly suggest that the IAASB publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its views on the effects of the confirmed IESBA implementation approach on the ED-PIE and the IAASB's intended next steps. It would be helpful for the IAASB to explain to its stakeholders, and the respondents to the ED-PIE, the differences between the implementation of the IESBA and IAASB standards and the implications for entities and their auditors, as well as for users of the auditor's report.

We also believe it is important for the IAASB to communicate that the listed entity definition currently in the IAASB standards remains in effect until any revisions to the IAASB standards are adopted, regardless of the auditor's treatment of the entity for purposes of independence under the revised IESBA Code.

Our responses to the specific questions on which the IAASB is seeking feedback are set out below.



Objective for Establishing Differential Requirements for PIEs

Q1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why? (EM Section 1-B, paragraphs 13-18)

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the recent clarification of the IESBA implementation approach, including the challenges it presents to the ED-PIE, to determine the appropriate approach for the IAASB standards.

We do support, however, the guidance in paragraphs A29A–A29C of ISQM 1 and paragraphs A81A–A81C of ISA 200 in the ED-PIE and suggest that the IAASB revisit this guidance, along with obtaining further information about local definitions of PIEs, to determine whether there is a viable way to re-purpose this guidance into a framework for the identification of entities in which there is a significant public interest.

Definitions of PIE and “Publicly Traded Entity”

Q2. Do you agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why? (EM Section 1-C, paragraphs 19-26)

Disagree, with comments below

Misalignment between IESBA and IAASB implementation approaches of the PIE definition

Paragraph 19 of the ED-PIE states that respondents to relevant IAASB matters addressed in the IESBA PIE Exposure Draft encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards' standards, and in doing so supported alignment in the types of entities to which differential requirements apply. This intended alignment was the basis for our initial support for this initiative, however, we are now concerned whether this alignment really can, or should be pursued further, due to the IESBA's recent clarifications regarding the intended implementation of the IESBA definition of PIE.

At its 20 March 2024 plenary session, IESBA further discussed and confirmed the implementation of its *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA Code Revisions). IESBA confirmed agreement with both the conclusion in the IESBA staff issued *Staff Questions and Answers; March 2023 – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA FAQs) and Agenda Item 8-A *PIE Rollout Issues and Working Group Views* prepared for the March 2024 IESBA meeting (IESBA Agenda Item 8-A). This included confirming IESBA's intent to depart from its normal practice of promulgating the precise definitional boundaries



in the Code and instead allowing the relevant local bodies to, more precisely, define which entities should be included as PIEs.¹

In addition, IESBA Agenda Item 8-A clearly states in paragraph 27² “that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the Forum of Firms) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report” (emphasis added). Paragraph 32 of that same paper clearly states that this conclusion applies even when the local body is still undergoing or has not yet initiated the process of adoption and implementation of the IESBA Code Revisions. It is our understating that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

This recent clarification (and impending FAQ) that firms should apply the local definition of PIE, regardless of whether it contains all the categories of PIEs within the IESBA definition, to comply with the IESBA Code appears to be a more significant departure from normal practice than the IAASB understood during its development of the ED-PIE. This departure raises concerns as it may result in differences in the application and implementation of the IESBA Code Revisions and the ED-PIE because the IAASB has not expressed the same intent to significantly depart from its normal practice of establishing a baseline definition.

Instead, the proposed requirement in ISQM 1 paragraph 18A implies that the firm shall treat an entity as a PIE in accordance with the definition in paragraph 16(p)A as well as more explicit definitions established by law, regulation and professional requirements. The construction of the requirement using “as well as” in the ISQM 1 definition seems to be implying that, first and foremost, the firm is required to treat anything that falls in the categories of the PIE definition as a PIE (which is the opposite of the IESBA conclusion in IESBA Agenda Item 8-A that compliance with the IESBA Code by firms *means first and foremost compliance with local laws and regulations*).

Based on the way the definition is drafted in the ED-PIE, we do not believe it was the intent of the IAASB for the definition of PIE in the jurisdiction to fully take precedence over the baseline definition in the IAASB standards. We read the IAASB’s ED-PIE as having the intention that the PIE definition as proposed would be the baseline expected to be enforced by auditors, even when local bodies have not

¹ Excerpt from IESBA FAQ #11: “In developing the revised PIE definition, the IESBA recognized that it cannot provide refined specifications of the mandatory categories that would be globally applicable. The IESBA considered that the relevant local bodies have the responsibility, and are best placed, to assess more precisely which entities should be scoped in as PIEs in their jurisdictions. Accordingly, the IESBA determined that it would be appropriate under these circumstances to depart from its normal practice of promulgating the precise definitional boundaries in the Code. Instead, the IESBA determined to allow the relevant local bodies to more precisely define which entities should be included as PIEs under each of the three mandatory categories under paragraph R400.17(a)-(c), and to include additional entities as PIEs in their jurisdictions under paragraph R400.17(d).”

² Paragraph 27 of Agenda Item 8-A *PIE Rollout Issues and Working Group Views* prepared for the March 2024 IESBA meeting states in full: “In light of the provisions set out in the IESBA PIE Revisions, in particular paragraphs R400.17 and R400.18 to 400.19 A1, as well as the considerations and rationale of the IESBA highlighted in the IESBA BfC, the WG is of the view that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the FoF) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report.”



adopted the PIE definitions into local law or regulation, which is inconsistent with the implementation of the definition in the IESBA Code Revisions.

We believe the IAASB did intend that when a jurisdiction has refined the categories in the PIE definition, the auditor would be able to apply the refinements. However, it is not clear what the IAASB's intentions are when a jurisdiction decides to not include one of the categories in its definition. We have the understanding that the IAASB intended for the auditor to also apply the differential requirements in its standards to entities in the missing category, which is also inconsistent with the implementation of the definition in the IESBA Code Revisions.

Unsupportive of the adoption of the definition of PIE at this time

The recent clarification of the implementation approach adopted by IESBA highlights the challenges that exist in setting a global definition of PIE that is dependent upon jurisdictions to adopt and/or refine a definition. We strongly agree that the jurisdictions are best placed to determine the PIE definition; however, many jurisdictions have not taken action or actions being taken will not be effective by the IESBA revisions effective date of 15 December 2024. We, therefore, question the viability of the IAASB aligning with IESBA's clarified implementation approach that the auditor apply the definition of PIE that is in effect at the jurisdiction level. This would be a significant departure from the IAASB's normal practice of setting global baselines and we believe this approach needs to be further evaluated by the IAASB to determine the consequences for its standards.

On balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the IESBA implementation approach, conduct its own outreach to jurisdictions to understand the consequences of applying local PIE definitions in the context of the IAASB standards and determine the appropriate approach for the IAASB standards (refer to our suggestions for potential path forward below).

We believe that either approach to implementing the PIE definition (i.e., either as a global baseline or by following the definition of the jurisdiction) has potential unintended consequences. The following are specific consequences that we believe the IAASB should specifically include in its further evaluation:

- The consequences of inaction by jurisdictions: It is our understanding that the IAASB is purposely seeking consistency with IESBA. IESBA's approach is premised on jurisdictions adopting and/or refining IESBA's PIE definition. However, IESBA indicated, as shown on Slide 3 presented as part of the 20 March 2024 IESBA plenary session discussing the PIE Rollout, that responses to the IESBA Adoption and Implementation Questionnaire were such that 36% of IFAC member organizations responding (professional accountancy organizations) did not report any adoption progress, 48% reported that adoption was under discussion, while only 16% of respondents reported that revisions to the local definition of PIE will be adopted. The IAASB should evaluate the effects on its approach of actions taken or not taken by the jurisdictions.
- Unintended consequences – scope in too many entities: We believe that the extension of the requirements to PIEs as proposed in the ED-PIE as a global baseline would be beneficial only if the

individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs with specific consideration to those entities for which the differential requirements in the IAASB standards should apply. If jurisdictions do not refine this definition in the context of the effects of the increased requirements in the IAASB standards, there may be unintended consequences due to firms and auditors being required to apply the extended requirements (e.g., performing EQRs and reporting KAMs) to entities for which the increased audit cost may outweigh the benefits of the incremental procedures.

Our concerns relate to categories (ii) and (iii) in the PIE definition for banks and insurance companies as the nature of these entities is such that, when not refined by the jurisdiction, could have the effect of being wide-reaching in some jurisdictions, resulting in auditors being put in a position of treating many of these entities as PIEs (when they may not in fact have "significant public interest"). There are also circumstances when the definition of public interest entity in local law or regulation includes other entities below the threshold of those "in which there is significant public interest".

We suggest that the IAASB engage with national standard setters, through evaluating their responses to this ED-PIE and by engaging in follow-up outreach, to understand the extent to which local PIE definitions are appropriate to meet the IAASB's objective of the proposed differential requirements.

- Unintended consequences – current IAASB "listed entity" requirements do not apply to any entities in a jurisdiction: If the IESBA implementation approach is followed, and jurisdictions have no definition of PIE in law or regulation, there is the unintended consequence that any requirements in the IAASB standards that only apply to PIEs would not be applied in the jurisdiction. This means that auditors would no longer be required to apply the current "listed entity" requirements in the IAASB standards to any entities in the jurisdiction, even those that are publicly traded entities, which is definitely not in the public interest. We acknowledge that ISQM 1 paragraph A29G and ISA 200 paragraph A81G of the ED-PIE allow the firm or the auditor to determine whether it is appropriate to treat other entities as public interest entities; however, we don't believe reliance on this application material is enough to compensate for omissions in the jurisdiction's definition of PIE. We believe the current requirements in the IAASB standards for "listed entities" should continue to be applied to audits of publicly traded entities (at a minimum).
- Consequences to the inter-operability of the IESBA Code and the IAASB standards: If the IAASB takes a different approach to implementation of the PIE definition than IESBA, there will be inconsistent treatment of many entities as PIEs for independence versus audit purposes. For firms, it will be very challenging to operationalize what is intended to be the same definition for both IESBA and IAASB standards using different requirements and implementation models. We also believe that the result of two different implementation approaches will create inconsistencies and possible confusion for stakeholders, including those charged with governance and other users of the auditor's report. If the PIE-ED is issued as exposed (i.e., with the PIE definition as a global baseline), issues such as the following will arise from the lack of inter-operability between the IESBA Code and the IAASB standards:

- If an entity is determined to be a PIE for only audit purposes, independence communications to those charged with governance in accordance with ISA 260 would not be converged with communications required by the IESBA Code. As a result, the required statement in the auditor's report that the auditor communicates "all relationships and other matters that may reasonably be thought to bear on the auditor's independence" may be misleading because the auditor may not fulfill the communication requirements in the IESBA Code that apply to PIEs (refer to our response to Q3B).
- Inconsistencies in the auditor's report between the independence statement required for PIEs under the IESBA Code and other disclosures in the auditor's report that are required for PIEs under the ISAs (e.g., Key Audit Matters).
- Under the IAASB standards, engagement quality reviews would be required for audits of PIEs as defined by the IAASB standards, but under the IESBA Code, the requirements related to rotation of engagement quality reviewers would only apply to audits of PIEs as defined by the IESBA Code (refer to our response to Q3A).
- Consequences for future differential requirements in the IAASB standards: Our view is also forward-looking, meaning that we are not just thinking about the requirements that the IAASB is proposing to elevate in the ED-PIE to PIEs, but we expect that the differential requirements in the IAASB standards that apply to PIEs will grow over time. It is important that this ED-PIE sets the appropriate baseline that the IAASB uses in its future standard-setting efforts (e.g., Proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, already proposes expanding the proposed reporting requirements to PIEs).

Unsupportive of the adoption of the definition of "publicly traded entity" at this time

We do support the concept of converging with the IESBA Code's definition of "publicly traded entity", replacing the existing definition of "listed entity", as we believe the proposed definition of "publicly traded entity" is capable of consistent implementation by auditors and can result in consistent implementation across jurisdictions (regardless of the actions in the jurisdiction). We believe it continues to be in the public interest to have differential requirements in the IAASB standards for audits of listed (or publicly traded entities) at a minimum. However, because the definition of publicly traded entities is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction for the PIE definition based on the challenges we outline above. We do not believe it would be appropriate for the IAASB to take a staged approach to revising the applicability of its differential requirements (e.g., by proceeding with implementation of changing applicability of the requirements from "listed entities" to "publicly traded entities" in the near term and then implementing a further change to "PIEs" after further outreach and evaluation).

Suggestions for potential path forward for the IAASB

Although we believe alignment is important between the IESBA Code and IAASB standards, we do not believe that the IESBA implementation approach is necessarily the right one for the ED-PIE for the



reasons explained above. As an immediate next step, it is important for the IAASB to publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its point of view about the recent clarification of the IESBA implementation approach on the implementation approach for ED-PIE (refer to our response to Q6).

To move this project forward, we believe the IAASB needs to revisit the overarching objective of setting differential requirements in its standards for entities of significant public interest and further evaluate the criteria under which such differential requirements would be expected to apply, which we expect would include publicly traded entities at a minimum. Consistent with the view of IESBA, we continue to believe it is the jurisdictions and the national standard setters that are best placed to define PIEs. However, there may be cases when entities that may meet the strict definition of PIE in the jurisdiction do not meet the objectives of the differential requirements in the IAASB standards, in which case further clarifications may be needed by national standard setters.

Overall, it may not be feasible for the IAASB to determine, and for auditors to apply, a global baseline definition of PIE. A different approach or framework may need to be taken to provide a basis for setting differential requirements to meet "the heightened expectations of stakeholders regarding the audit engagement" for entities in which there is "significant public interest".³

We believe the IAASB should more formally engage with national standard setters to discuss their views about locally extending the applicability of the existing differential IAASB requirements to entities for which the national standard setter believes have significant public interest in the context of their jurisdiction. We believe that having the national standard setters leading these decisions is consistent with IESBA's and IAASB's belief that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the overarching objective.⁴

Whatever path forward is taken, it remains very important for the IAASB standards and the IESBA Code to be inter-operable by firms – and in a practical manner. In addition, the effects on the auditor's report of any differences between the treatment of entities for audit versus independence purposes should be specifically considered to avoid any expectation gap about the audit or the independence requirements applied.

³ Refer to the description of PIEs in ISQM 1 paragraphs A29A and A29B in the ED-PIE.

⁴ Refer to paragraphs 23 and 24 of the Explanatory Memorandum included in the ED-PIE.



Differential Requirements in the ISQMs and ISAs

Q3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)? (EM Section 1-D, paragraphs 27-40 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

We believe that the extension of the requirements related to engagement quality reviews to PIEs as proposed in the ED-PIE would be beneficial only if the individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs with specific consideration to those entities for which the differential requirements in the IAASB standards should apply. If jurisdictions do not refine this definition, there may be unintended consequences due to firms and auditors being required to apply the extended engagement quality review requirement in the IAASB standards to entities for which the increased audit cost outweighs the benefits of the incremental procedures.

In addition, under the IAASB standards, engagement quality reviews would be required for audits of PIEs as defined by the IAASB standards, but under the IESBA Code, the requirements related to rotation of engagement quality reviewers would only apply to audits of PIEs as defined by the IESBA Code. This will cause misalignment between the appointment of engagement quality reviewers under ISQM 2 and the rotation requirements for engagement quality reviewers in the IESBA Code.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Q3B. Do you agree with the IAASB's proposals for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)? (EM Section 1-D, paragraphs 27-38 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Q3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)? (EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

With respect to required communication with those charged with governance about auditor independence, if an entity is a PIE only for audit purposes, the statements in paragraph 44 of the EM related to achieving convergence with the IESBA Code and accommodating a "future-proof approach" to alignment in independence communications are not achieved. The ISA 260 requirement to communicate "all relationships and other matters" that "may reasonably be thought to bear on independence" may not include the matters required to be communicated by the IESBA Code for PIEs. Because the auditor's responsibility to communicate "all matters" that affect independence would be stated in the auditor's report due to the proposed conforming amendments to ISA 700 (Revised), this may be viewed as misleading when only the independence communications required under the IAASB standards are made (and not the communications that only apply to PIEs under the IESBA Code).

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

In addition, we have concerns about the proposed expansion of paragraph 17 in ISA 260 (Revised) in the ED-PIE for audits of entities other than PIEs.

We question the necessity of expanding the applicability of the existing requirement in paragraph 17 of ISA 260 (Revised) regarding communicating a statement about the auditor's independence from audits of listed entities to audits of all entities because:

- This requirement was previously not a standalone communication; it provided context to the other required communications about independence for audits of listed entities (i.e., those communications now in paragraphs 17A(a) and (b) of ISA 260 (Revised) and applicable only to audits of public interest entities).
- When considering the requirement in paragraph 17 as redrafted together with the requirement in paragraph 20 of ISA 260 (Revised) for the auditor to communicate in writing "when required by" paragraph 17, the result is requiring a written statement for audits of entities other than PIEs.

- A statement about the auditor's independence is a required element of the auditor's report and therefore is already communicated in writing for all audits.
- This communication requirement change is also proposed to result in a change to the auditor's report for all audits (i.e., revisions to paragraph 40(b) of ISA 700 (Revised) that address the description of the auditor's responsibility). The change in the auditor's report provides little incremental informational value to users of the report in light of the existing required affirmative statement about independence in the Basis for Opinion section.

Overall, we do not understand the rationale for the change to paragraph 17 of ISA 260 (Revised) for audits of entities other than public interest entities, including whether additional communications to those charged with governance are expected beyond providing them the statement in the auditor's report. If this requirement is maintained, we recommend the IAASB provide application material about the intention of the requirement and, for audits of entities other than public interest entities, guidance on the nature and extent of information to be communicated.

In addition, we do not believe it is appropriate for a 'narrow scope' project specific to audits of public interest entities to impose significant new requirements for audits of entities other than public interest entities. The IAASB should be mindful of the implementation effort that will be involved by firms for such a minor change. See also our response to Q8 on the effective date.

Q3D. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)? (EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

We believe that the extension of the requirements related to KAMs to PIEs as proposed in the ED-PIE would be beneficial only if the individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs or the requirements for reporting KAM (e.g., certain jurisdictions do not require KAM for smaller listed entities). If jurisdictions do not refine this definition or the reporting requirements, there may be unintended consequences due to firms and auditors being required to apply the extended KAM requirements in the IAASB standards to entities for which the increased audit cost outweighs the benefits of the incremental procedures.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.



Q3E. Do you agree with the IAASB's proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(l))? (EM Section 1-D, paragraphs 27-38 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Q4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why? (EM Section 1-D, paragraphs 47-51)

Disagree, with comments below

As stated in our response to Q2, we support the concept of converging with the IESBA Code's definition of "publicly traded entity", replacing the existing definition of "listed entity", as we believe the proposed definition of "publicly traded entity" is capable of consistent implementation by auditors and will result in consistent implementation across jurisdictions regardless of the actions in the jurisdiction. However, because the definition of publicly traded entity is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction of the PIE definition based on the challenges we outline in our response to Q2.

Proposed Revisions to ISRE 2400 (Revised)

Q5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why? (EM Section 1-E, paragraphs 52-57)

Agree (with no further comments)



Other Matters

Q6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Yes, with comments below

Communication of the effects of the IESBA implementation approach on the ED-PIE

As explained in our response to Q2, the IESBA confirmed that compliance with the IESBA Code by firms *means first and foremost compliance with local laws and regulations*, whatever they may be at the time of the audit report. It is also our understanding that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

We strongly suggest that the IAASB publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its views on the effects of the confirmed IESBA implementation approach on the ED-PIE and the IAASB's intended next steps. It would be helpful for the IAASB to explain to its stakeholders, and the respondents to the ED-PIE, the differences between the implementation of the IESBA and IAASB standards and the implications for entities and their auditors, as well as for users of the auditor's report.

Staff guidance on the applicability of the requirements for listed entities in the ISAs when IESBA Code revisions become effective

We believe it is important for the IAASB to emphasize that the "listed entity" definition in the IAASB standards remains in effect until revisions to that definition from the ED-PIE are effective. Reiterating the requirements that continue to apply to audits of listed entities in the form of staff guidance would be useful for firms and auditors so that these are appropriately factored into their implementation of the IESBA Code revisions. This guidance would also be useful to educate stakeholders on the differences to expect during the transition period.

For example, for an entity that is not a PIE under the IESBA Code, but remains a listed entity under the ISAs, the auditor's report will not include the statement required by ISA 700 paragraph 28 that the auditor is independent of the entity in accordance with the independence requirements applicable to audits of PIEs, but the auditor's report will continue to be required to include KAMs, the name of the engagement partner and reporting on Other Information.

Timely updates to the Authority of the ISA for LCE

We note that paragraph 10 of the ED-PIE acknowledges that the IAASB has considered the impact of the adoption of the PIE definition on the Authority of the ISA for Audits of Financial Statements of Less Complex Entity (the ISA for LCE). However, no further action is noted. We believe that the IAASB should deliberate and implement conforming amendments to the Authority of the ISA for LCE concurrently with the effective date of the ED-PIE. We believe the criteria in the Authority of the ISA for LCE would need to be aligned to any new definitions at the same time as the IAASB standards,



otherwise, illogical scenarios may occur (e.g., an entity not being permitted to use the ISA for LCE because they fall under the existing definition of listed entity, even when they are not a publicly traded entity or PIE under the new definitions).

Additional editorial comment for the IAASB's consideration

We suggest the following revision to ISA 260 paragraph A29A of the ED-PIE to clarify that both examples given are only applicable to PIEs:

A29A. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance for matters that may reasonably be thought to bear on independence. For example, for audit clients that are public interest entities, the IESBA Code requires the auditor to communicate with those charged with governance information regarding fees and the provision of non-audit services ~~for audit clients that are public interest entities~~.

Q7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

No response

Q8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after approval of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

See comments on effective date below

Allow sufficient time for additional IAASB outreach and firm implementation

As explained in our response to Q2, we do not believe that the IESBA approach is aligned with the implementation approach that the IAASB intended for the ED-PIE . We believe the next steps for the IAASB are to revisit the overarching objective of setting differential requirements in its standards for entities of significant public interest and engage in further outreach to jurisdictions to understand the conditions under which such differential requirements would be expected to apply. Therefore, any potential effective date for this project will depend on the next steps determined by the IAASB.

In determining an effective date, the IAASB should factor in the time needed for firms and jurisdictions to work through any issues in the inter-operability between the IAASB and IESBA standards and any other expected complexities in implementation.



Concerns with early adoption of revisions applicable to all entities

If the PIE-ED is finalized in the time frame proposed and the revisions applicable to all entities proposed in ISA 260 paragraph 17 and ISA 700 paragraph 40(b) remain (refer to our response to Q3c), we have concerns with allowing early adoption of these revisions. We suggest that the IAASB prohibit early adoption of these revisions or otherwise be clear that the implementation of the change to the auditor's report is intended to be implemented together with the auditor's report changes for fraud and going concern.

Alignment of effective dates with Fraud and Going Concern projects

Even though we agree with aligning the effective date of any auditor reporting enhancements that may result from this project, with the fraud and going concern projects, we believe the IAASB needs to consider the efforts for the way forward for this project before determining if this is possible.

We also suggest that the IAASB provide a comprehensive summary of all the anticipated and final changes to the auditor's report as an implementation aid to auditors when final standards are issued.

We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Eric Spiekman, Global Professional Practice (Eric.Spiekman@ey.com).

Yours sincerely,

Ernst + Young Global Limited

Tuesday, 4 June 2024

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
Level 6, 154 Featherston Wellington
PO Box 11250 Manners St Central
Wellington 6011 New Zealand

By email: assurance@xrb.govt.nz

Dear Marje

Consultation Document: Public Interest Entity Amendments

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the XRB's Consultation Document, Public Interest Entity Amendments (the CD). We make this submission on behalf of our members and in the public interest.

There is support for the same definition of a public interest entity (PIE) being used for the auditing and assurance standards and the professional and ethical standards. However, there is little support for extending the engagement quality review (EQR) requirements to PIEs, and mixed views on extending the requirement to report key audit matters (KAM) to PIEs. The difficulty in reconciling such views may point to the need to revise the New Zealand definition of a PIE to better reflect an appropriate balance of entities subject to the differential requirements in the auditing and assurance standards and PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. This is on the basis that the extant definition of a PIE was designed solely within the context of the independence requirements of PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

Additionally, as acknowledged in the CD; under a risk-based audit approach it is unclear whether extending the differential requirements to all PIEs is necessary or if it would positively impact audit quality enough to justify the cost. There are already multiple sub-levels of differential requirements; for instance, the differential requirement in ISA (NZ) 720 (Revised) *The Auditor's Responsibility Relating to Other Information* has not been extended to apply to PIEs. Therefore, we caution against a blanket extension of all other differential requirements to all PIEs.

Our detailed responses to the specific questions raised in the CD are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au

Sincerely,

Simon Grant FCA

Group Executive – Advocacy and International
Chartered Accountants Australia and
New Zealand

Ram Subramanian CPA

Interim Head of Policy and Advocacy
CPA Australia

Attachment

Responses to consultation questions

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

We support the same definition of a PIE being used for the auditing and assurance standards and the professional and ethical standards. Alignment of these important terms and definitions should assist with consistent application.

2. For each of the following 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

Overall, we recognise the importance of considering extending the engagements that are required to be subject to EQR to PIEs. However, we do not support extending the engagement quality review (EQR) requirements to public interest entities (PIEs) as it would also include public benefit entities (PBEs) as currently defined.

One of the main reasons the IAASB decided not to expand the differential requirements for EQRs beyond listed entities in previous public consultations, deliberations, and discussions, was due to the unintended consequences of the requirements applying to smaller entities that could be scoped into the definition of a PIE and for which it may be impracticable or overly burdensome to apply the requirements in such cases.

When the approach to defining a PIE was changed, the definition of a PIE remained unchanged as it was consistent with the new approach. As a result, extending the EQR requirement to more entities would still present practical difficulties for small and medium practices (SMPs). For example, it reduces the number of auditor rotation options available within a firm.

We note that the EQR requirement already applies to a broader set of entities than listed entities in New Zealand, being financial market conduct reporting entities considered to have a higher level of public accountability (FMCREHLPA). There is a distinction between the level of protection needed for FMCREHLPA and PBEs. Quite often PBEs – public sector entities and not-for-profit entities (i.e., charities) – are PIEs by virtue of only being “large” (as defined), not because they have public accountability, which is the sole criteria for for-profit entities to be a PIE. They are not necessarily more complex or higher risk. In addition, it may be that many “large” charities and public sector entities are actually smaller than for-profit entities that have public accountability.

We understand the Office of the Auditor-General (OAG) has its own policy around which public sector entities must be subject to EQR and that this is currently working well.

We also understand that very few charities are currently required by firms' policies and procedures to have an EQR under the risk-based approach in paragraph 34(f)(iii) of PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

b) Required communications with those charged with governance about the firm's system of quality management

In our view, the two differential requirements in PES 3 should apply to the same group of entities to avoid creating unnecessary complexity.

c) Communications about auditor independence

We support extending the requirement for communication with TCWG about auditor independence to PIEs. It is logical for all differential requirements relating to auditor independence to apply to the same group of entities.

d) Communicating key audit matters in the auditor's report

Overall, we recognise research shows important benefits of KAMs, including that they increase transparency of the auditors' work. However, we received mixed views on extending the requirement to report KAMs to PIEs (as currently defined).

We understand that voluntary reporting of KAM amongst PBEs is not very prevalent in practice. This may be due to an actual or perceived lack of demand from intended users. We would support the extension of KAMs to PIEs if there was clear evidence that there would be benefits for users, and that these outweighed the increased costs that would come from a requirement to report KAMs.

e) Name of the engagement partner

We support extending the requirement for the name of the engagement partner to be included in the auditor's report to PIEs. The benefit of additional transparency to intended users clearly exceeds the negligible cost of requiring it.

3. Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

We agree that the benefits outweigh the expected costs for some of the proposals. However, for EQR and KAMs it is less clear as mentioned above.

The definition of a PIE was developed for the purpose of the independence requirements in PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* and has not previously been applied in the context of the auditing and assurance standards or PES 3. On this basis it is not clear that a blanket

extension of the differential requirements to all PIEs (as currently defined) is needed, nor whether this would have a positive impact on audit quality that would exceed the cost of requiring it. In particular, it would exacerbate the extant concerns in the charitable sector around the cost of audit.

4. Are there any other significant public interest matters that you wish to raise?

We acknowledge that if the IAASB proceeds with the proposals in its ED PIE – Track 2 the XRB will have to adopt the amendments. In which case the XRB may need to reconsider the New Zealand definition of a PIE to better reflect an appropriate balance of entities subject to the differential requirements in the auditing and assurance standards and professional and ethical standards.

To address the concerns about the extension of EQR and KAM requirements to PBEs, the inclusion of PBEs in the definition of a PIE could be reassessed. One potential solution could be decoupling the definition of a PIE from the Tier 1 financial reporting requirements and linking it to the definition of public accountability or FMCREHLPA instead. This is, of course, so long as it is consistent with the new approach to defining a PIE.

FirstName	Dr Michael
LastName	Pratt FCA
Organisation	Sustainable Enterprise Ltd
Email	mike@sustainableenterprise.org
Comments	I don't believe the cost benefit equation justifies extending audit effort for NZ PB entities. More evidence is needed to demonstrate what significant benefit from the extra audit work effort will be delivered for the charities area.
Consultation Page URL	https://www.xrb.govt.nz/consultations/assurance-standards-in-development/public-interest-entity-amendments/