



NZAuASB Board Meeting Agenda

Thursday, 17 October 2024
9:00 am to 5.00 pm, Generator, Auckland.

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary
B: PUBLIC SESSION						
11am	4	<u>Board Management</u>				
	4.1	Action list	Approve	Paper	3	
	4.2	Chair's report	Note	Verbal		
	4.3	AUASB Update	Note	Verbal		
11:05am	5	<u>NZAuASB workplan</u>				
	5.1	2024/25 Prioritisation schedule	Consider	Paper	4	
	5.2	IAASB meeting report	Note	Paper		3
	5.3	IESBA update	Note	Paper		11
	5.4	XRB environmental scan	Note	Paper		16
11:30am	6	<u>ISA for Less Complex Entities</u>				BM
	6.1	Summary paper	Note	Paper	8	
	6.2	Issues paper	Consider	Paper	11	
	6.3	Consultation Paper	Approve	Paper	25	
	6.4	Exposure Draft	Approve	Paper		22
12:45pm	<i>Lunch</i>					
1:15pm	7	<u>Review Standard on Service Performance Information</u>				LT
	7.1	Summary Paper	Note	Paper	44	
	7.2	Issues paper	Consider	Paper	46	
	7.3	Updated draft standard		Paper		203
2pm	8	<u>GHG assurance</u>				
	8.1	Summary paper	Note	Paper	54	
	8.2	Snapshot	Note	Paper		242
	8.3	GHG guidance plan	Consider	Paper	56	
2:15pm	9	<u>Audit quality measures</u>				
	9.1	Summary paper	Note	Paper	59	
	9.2	Audit quality indicators	Note	Paper	61	
	9.3	Measuring audit quality	Note	Paper	66	
3:15pm	<i>Afternoon Tea</i>					
3:30pm	10	<u>Presentation from Mark Gough Capitals Coalition</u>				KT
	10.1	Summary Paper			71	

Est.Time	Item	Topic	Objective		Page	Supplementary
4:00	11	<u>Sustainability assurance</u>			KT	
	11.1	Summary Paper	Note	Paper	72	
	11.2	Issues	Consider	Paper	74	
	11.3	ISSA 5000 - Requirements				245
	11.4	ISSA 5000 – Application Material				299
4:30pm	12	<u>Modified Auditor’s reports</u>			BM	
	12.1	Summary paper	Note	Paper	77	
	12.2	Application of Modified Audit Report Policy Memo	Note	Paper	79	
	12.3	XRB Policy on Modified Audit Reports	Note	Paper		452
5pm	<u>Closing</u>					

Next Meeting:
5 December (virtual)

NZAuASB Action list

Following August 2024 meeting

Meeting Arose	Board Action	Target Meeting	Status
Oct 2023	Continue to explore next steps on trust and confidence	Oct 2024	Agenda item 9 explores audit quality measures to continue the discussion. To consider research opportunities before committing to next steps.
June 2024	Review environmental scanning to improve link to wider XRB scanning and NZAuASB prioritisation and workplan	October 2024	Done – remove from action list
June 2024	Consider how the Board can assist with the “how” delivery of engagement with outreach audiences	October 2024	Agenda item 2 explores the results of the stakeholder survey on engagement and possible next steps
June 2024	Consider implications of IFRS name change on the auditing standards	2026	Deferred until IFRS 18 is applicable.
N/A	The FMA has highlighted a question relating to the applicability of reporting of key audit matters for entities that are pursuing an initial public offering.	Dec 2024	Staff are exploring the issue.

AGENDA ITEM NO. 5.1
Meeting date: 17 October 2024
Subject: NZAuASB Prioritisation schedule
Date: 1 October 2024
Prepared By: Misha Pieters

Action Required

For Information Purposes Only

Objective

1. The objective is for the Board to NOTE the supplementary papers including environmental scanning and DISCUSS the prioritisation schedule of the NZAuASB for 2024/25.

Matters to Consider

2. Relevant to our prioritisation schedule, we highlight:

Climate related

- a. The XRB will be consulting on transitional changes to the climate regime in October exploring possible arrangements that might be put in place to ease certain disclosure and assurance requirements to allow time for improvements in data availability and quality. Extensive outreach in October.
- b. The IAASB has approved ISSA 5000¹ and the IESBA is on track to approve the IESSA² in December. We continue to monitor developments to inform next steps in New Zealand.
- c. The Australian climate legislation was passed by the House of Representatives in September. This will introduce mandatory climate reporting and assurance in Australia. The AUASB has issued an [exposure draft](#) to phase assurance over the climate statement. We understand that the AUASB is considering mandating the early adoption of ISSA 5000.

Financial Audit Related

- d. The IAASB will restrict the application of the differential requirements in the auditing standards to publicly traded entities, rather than extending to all public interest entities. In August, the NZAuASB had expressed a preference not to expand the differential requirements to PIEs and rather to retain the current settings, that apply to FMC reporting entities with higher levels of public accountability. If the IAASB approves the standard in December, we will be on track to make minor adjustments to the New Zealand standards but these will have minimal impact.
- e. The FMA's Auditor Regulation and Oversight Plan 2024-2027 was published. We plan to explore the inspection findings for the current reviews later this year/early next year.

Recommendation

3. We request the Board NOTE the prioritisation schedule.

¹ ISSA 5000™ *General Requirements for Sustainability Assurance Engagements*

² IESSA *International Ethics Standards for Sustainability Assurance (including International Independence Standards)*

Domestic Project	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due
Review standard for service performance information	Analyse submissions and issue standard. Analysis included in agenda. On target for approval in December.	Available	Medium	Issue standard	Oct
ISA (NZ) for LCE	Issue exposure draft and finalise standard including chapter on service performance information. Plan to seek approval in Oct.	Available	High	Issue ED Issue standard	Oct By June
Monitor adoption of audit and review of service performance	Monitor developments, hold workshops, work with accounting team and issue guidance as needed Update on XRB initiative	Available	High	Project plan Issue guidance	Dec
Value of audit	Monitor audit reform in UK/Australia Explore audit quality	TBD	TBD	TBD	TBD
	Monitor inspection findings	Available	Medium	Report	Feb
Monitor and comms over mandatory GHG assurance	Monitor developments, hold workshops and issue guidance. Consult on adjustments to climate and assurance standards. Prioritise 1. scope 3 GHG emissions reporting and assurance 2. Key aspects of understanding the assurance report. Refer agenda 8	Available	High	Sandbox held Snapshots Insights/FAQs	Guidance by March 2025
	Explore user needs and value of adding to assurance reports	TBD	TBD	TBD	TBD
Limited versus reasonable assurance	Assist the market understand the spectrum of assurance, what limited assurance actually means and the value of assurance	To manage	High	Animation/video	Dec
XRB strategy for climate assurance – adoption of ISSA 5000/ISO or something else	Consider developing a white paper to consult on climate or sustainability assurance in New Zealand as we monitor international developments and government policy decisions	Available	TBD	TBD	TBD
Competency requirements for sustainability assurance	Explore whether necessary to add requirements or issue guidance	Available	Agreed no further action	TBD	TBD
Update standard setting policy based on developments in assurance over climate disclosures	Revise EG Au2 and update harmonisation/convergence policy	Available	Medium	Updated policy as appropriate	April
Māori engagement	Engage proactively to seek Māori views on relevant issues	To manage	TBD	TBD	
Digitisation	Standards navigator is live. Ongoing maintenance	To manage	TBD	TBD	
Explore assurance related issues related to He Tauira	Monitor He Tauira and if appropriate, consider assurance matters	To manage	Low	None identified	TBD
Technology	To monitor and respond if appropriate	To manage	TBD	TBD	TBD

IAASB

IAASB	2024/25 planned action	Resource	Priority /effort	Key deliverable	Due
Going concern revised standard	IAASB expect to approve in Dec 2024, and issue in March. Issue final updated standard in New Zealand by June 2025	Available	Medium	Standard	June 2025
Public Interest Entity track 2	IAASB expect to approve in Dec 2024, and issue in March. Issue NZ final standard by June 2025.	Available	High	Standard	June 2025
Vision and roadmap for technology	IAASB approved technology position statement Monitor developments	Available	Medium	TBD	Dec 24
Reference framework model in relation to audit evidence	Monitor developments and finalisation of ISA 500 when determined by IAASB	Available	Low	Standard	TBD
Performance aspects in relation to responding to assessed risk and analytical procedures	Monitor developments	Available	Low	Standards	TBD
Narrow scope amendments from IESBA’s use of experts	Consult on proposals (comment period to close July 2025)	Available	Low	Exposure draft	April
Explore issues on materiality in practice to inform international project to revise materiality standard	IAASB project to commence Jan 2025	Available	Medium		
Fraud standard (ISA (NZ) 240)	Monitor developments. IAASB expect to approve in March 2025 and issue in June. Adopt in New Zealand once issued (expected Sep 2025)	Available	High	Standard	TBD
ISSA 5000 Sustainability	ISSA 5000 approved Sept 2024. Update in agenda	Available	Medium	TBD	June
ISRE 2410 Interim Review Engagements	IAASB project commence March 2025. XRB staff support for IAASB	Available	High	Project proposal	June 2025
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained Participate and lead a discussion at NSS meeting.	Available	High		

IESBA

IESBA	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Sustainability ethics and independence revisions	IESBA expected to approve standard in Dec 2024 and issue in Jan 2025. Monitor developments and determine implications	Available	High	Update PES 1	June 2025
Use of experts	IESBA expected to approve standard in Dec 2024 and issue in Jan 2025. Monitor developments and determine implications for XRB.	Available	High	Update PES 1	June 2025
Collective investment vehicles	Monitor IESBAs project on CIVs, pension funds and investment company complexes – ED expected in 2025	Available	Low	TBD	TBD
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD		TBD		
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	TBD
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host IESBA members/staff Participate and lead a discussion at NSS meeting.	Available	High	TBD	TBD

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1
Meeting date: 17 October 2024
Subject: ISA (NZ) for Less Complex Entities
Date: 30 September 2024
Prepared By: BM

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The purpose of this agenda item is to:
 - a. DISCUSS various matters in the issues paper at agenda item 6.2:
 - i. How to manage reputational risks to the XRB for adopting the ISA for LCE.
 - ii. Reflect on the challenges of auditing service performance information (SPI) and consider whether further adjustments are required to the ED.
 - iii. Topics that we did not discuss in the last meeting:
 - Drafting of Materiality in Part 11;
 - Modifications to the ISA (NZ) for LCE arising from compelling reasons; and
 - Conforming amendments arising from the ISA (NZ) for LCE.
 - iv. Supplementary guidance issued by the IAASB.
 - b. APPROVE the exposure draft and consultation document for issue.

Background

2. Following the previous NZAuASB board meeting, staff have made further changes to the consultation document arising from feedback provided. We have also been considering matters as detailed in the issues paper at agenda item 6.2.
3. Staff continue to monitor countries considering adoption, or non-adoption, of the ISA for LCE. In recent months, countries such as Cambodia, India, Indonesia, Bangladesh, Malaysia and Nepal have been undertaking their consultation process regarding the ISA for LCE. There are no issues arising from our monitoring to bring to the Board's attention.

Matters to Consider

Reputational risks in adopting the ISA for LCE

4. As outlined in the issues paper under agenda item 6.2, staff outline the reputational risks to the XRB for adopting the ISA for LCE, and how the risks can be addressed.

5. We consider that clear messaging and communication is key to managing reputational risk. We have previously discussed the comms plan with the NZAuASB, which has informed the development of the consultation document. The consultation process will gauge stakeholder opinions around the potential benefits and risks.
6. Our key comms message is that the standard tailors the audit requirements appropriately to the audit of an LCE. It does not change the quality or the scope of the audit engagement, but instead signposts the auditor to the requirements and principles that are relevant to a less complex entity. These messages will be communicated during the consultation process and after the consultation process through ongoing education of stakeholders with the provision of guidance to help to mitigate the risks. We welcome the boards feedback on any further risks, and mitigations.

Audit of Service Performance Information in conjunction with Part 1-10 of the ISA (NZ) for LCE

7. In agenda item 6.2 we identify potential requirements within Parts 1-10 that might pose difficulties for auditors when auditing SPI and consider if there are any changes needed to the requirements or EEM in Part 11 prior to consulting on service performance information. The purpose is to ensure that Part 11 is fit for purpose and does not contribute to issues in practice.
8. We recommend adding EEM to the areas of audit evidence (sources of information and attribution), but there is no further EEM we recommend adding at this stage on sampling of SPI. We considered long-form reporting and whether to re-introduce an option within Part 11, but on balance do not recommend adding a long-form reporting requirement in the ISA (NZ) for LCE.
9. We seek views on any other areas that the Board considers that adjustment or further guidance (EEM) or requirements is needed prior to issuing a consultation document.

Topics from the August 2024 meeting

10. In agenda item 6.2 we recommend:
 - a. new drafting on materiality,
 - b. not adding a requirement on performance materiality and
 - c. adding EEM in relation to misstatements of qualitative SPI.

We recommend the board agrees to both the minor modifications to the ISA (NZ) for LCE arising from compelling reasons, and conforming amendments arising from the ISA (NZ) for LCE. These topics were in the August 2024 issues paper, but not fully discussed.

Supplementary guidance

11. The IAASB has issued further guidance documents on reporting, adoption of the standard and the authority. These are discussed in the issues paper at agenda item 6.2. We intend including links to these resources on the landing page of the consultation.

Consultation Document and Exposure Draft

12. We seek any further feedback on the consultation document at agenda item 6.3 and exposure draft at agenda item 6.4 prior to its approval. We welcome comments offline or at the meeting.

Planned engagement

13. Subject to NZAuASB approval, we propose a 108-day consultation period commencing Monday 4 November 2024, closing on Wednesday 19 February 2025. Although this is slightly longer than the standard 90-day consultation process, staff believe this would give sufficient time prior, and after, the usual Christmas office close downs in New Zealand for stakeholders to provide feedback. We will run engagement activities both sides of the closedown in line with our communications plan.

Recommendations

14. This consultation will also seek feedback on issues around service performance information as well as providing an opportunity for feedback on the auditing standards from this sector of the audit market. We therefore recommend that the Board, subject to any changes requested at the meeting:
 - a. APPROVE the draft consultation document
 - b. APPROVE the exposure draft.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues paper
Agenda item 6.3	Consultation document
Supplementary Agenda item 6.4	ED ISA (NZ) for LCE

ISA (NZ) for LCE: Issues Paper

A. Reputational risks in adopting the ISA for LCE

1. The XRB Board is interested in how the NZAuASB plans to manage reputational risks to the XRB in adopting the ISA for LCE. We have listed possible key reputational risks for the XRB for adopting the ISA for LCE and how these can be addressed:

- (a) Australia and Canada have publicly announced that they will not adopt the ISA for LCE.

Canada considers the standard will not adequately meet the needs of Canadian auditors. Many Canadian entities obtain services other than audits, such as reviews or compilations. Concerns include a lack of guidance on transitioning from the ISA for LCE to the ISAs, and auditors being unable to rely on reports on the operating effectiveness of controls of service organisations. Canada is concerned that having two sets of auditing standards potentially raises public interest issues, such as creating the perception of a new level of assurance engagement, adding to the confusion in the marketplace.

The AUASB's [feedback statement](#) noted that overall practitioners in Australia did not support the adoption of the standard, and that the current guidance published by the AUASB is deemed sufficient for their needs. In their view, while the ISA for LCE may be a valuable educative and training tool and may allow some practitioners to focus on requirements relevant to the typical nature and circumstances of the audit of an LCE, these benefits are outweighed by public interest considerations including the perception that an LCE standard is a lesser quality or scaled down audit product, a possible expectation of reduced work effort, despite the level of assurance being the same and the time lag in updating the LCE standard.

In New Zealand, we have heard support for the use of the ISA for LCE. Our communications plan emphasises that there are potentially many less complex entities, including public sector entities like schools, where there is strong local support for the use of the ISA for LCE. Our consultation document seeks views on the timing of the maintenance of the ISA for LCE.

- (b) Stakeholder dissatisfaction – some may expect that an audit using the ISA for LCE will lower the cost of the audit. This may not be the case. Our communications plan emphasises that this standard is not about lowering the cost, it is about tailoring the standard appropriately.
- (c) Stakeholders may have differing views on the necessity for a separate standard, potentially leading to criticism of the XRB. However, our research to date indicates support for us in NZ, particularly from the OAG and CAANZ. Our consultation process will encourage a robust debate to ensure all perspectives are heard .
- (d) Stakeholders may perceive that the XRB is issuing a lower quality standard or promoting a lesser quality audit. This is addressed in the consultation document, reinforcing that it is not a lesser standard but one tailored to the audit of a LCE and both audits under the ISA for LCE and the ISAs (NZ) enable an auditor to obtain reasonable assurance.
- (e) There's a risk that some auditors might inappropriately use the ISA for LCE standard for more complex audits. If this leads to audit failures, the XRB could be criticised for not providing clear enough guidance or safeguards. This risk is also be addressed in our consultation document which discusses the proposed guardrails in the Authority section of the ISA for LCE.

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| 2. We welcome the boards feedback on any further risks and possible mitigations. |
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B. Audit of Service Performance Information in conjunction with the ISA for LCE

3. Following on from recent engagement that has highlighted challenges in auditing service performance information (SPI), we continue to explore root causes and possible solutions.
4. NZ AS 1 (Revised)¹ was designed to be applied in conjunction with the full suite of ISAs (NZ) for financial statements. In developing NZ AS 1 (Revised), the importance of the holistic engagement was prioritised. The principle established is that the auditor is required to apply the full ISAs (NZ), but that due to the nature of SPI, anything specific or different would be the focus of a specific standard on SPI. NZ AS 1 (Revised) includes requirements that are specifically relevant to SPI or require a different approach to financial statements. In developing proposed Part 11, staff have adopted a similar principle, that Part 11 is applied in conjunction with Parts 1-10 of the ISA (NZ) for LCE.
5. We understand that some consider the need to apply the full auditing standard requirements add to the challenges in auditing SPI. The notion of developing an all-inclusive standard that deals with the audit of SPI, without requiring the auditor to follow the full ISAs (NZ) was suggested as a possible consideration. Staff have reflected on this suggestion as part of the project to develop the ISA for LCE, but worked on developing a separate Part for SPI. This will be addressed in our consultation.
6. Staff have reviewed Parts 1-10 of the ISA for LCE to determine if any requirements, when applied to auditing SPI, present challenges, and whether changes need to be made in the ED ISA (NZ) for LCE.
7. Staff considered each requirement in Parts 1-10, applying the lens of whether the requirement was fit for purpose when applied to SPI:
 - (a) We identified areas required by ISA for LCE, not necessarily relevant for an audit of SPI, such as inventory testing; journal testing; related party, and accounting policy disclosures testing. In these cases, the auditor would not need to apply these requirements as they are not “relevant requirements” (1.4.1.)². An option could be to specify identified requirements as not relevant. We consider these matters may benefit from the exercise of professional judgement. We do not recommend any change to the standard.
 - (b) We did a deep dive into areas that we have heard ‘noise’ about in our engagement, including on audit evidence, sampling and attribution. We also considered long-form reporting. Staff considered other available guidance and requirements including the EER guidance³, proposed ISSA 5000, ISAE (NZ) 3000, the OAGs standards, and other international public sector publications like the IDI Performance Audit ISSAI Implementation Handbook, issued by the INTOSAI Development Initiative and the US Government Accountability Office’s Yellow Book of standards. Staff also took into account the drafting principles of the ISA for LCE, including the principle that that EEM is only included to further explain concepts or procedures in the requirements or why procedures are undertaken, but does not explain how the procedures should be implemented. This research helped inform the staff analysis and recommendations summarised below.

Audit Evidence

8. Gathering audit evidence can be difficult when auditing SPI, due to the unique nature of this information, which differs from financial statement audits.

¹ NZ AS 1 (Revised) *The Audit of Service Performance Information*, applicable periods beginning on or after 1 Jan 2024.

² Unless otherwise stated, number references in brackets in this section are to parts/paragraphs in the ISA (NZ) for LCE.

³ IAASB Guidance: Extended External Reporting <https://www.xrb.govt.nz/dmsdocument/4022/>

9. Some of these challenging areas may include:
- Internal control systems related to the preparation of SPI may be less developed or less well 'embedded' into the operations than those related to the preparation of financial information.
 - SPI often relies on systems and data collection methods that may be less mature or standardised than financial reporting systems. The diverse nature of SPI can lead to various forms of audit evidence that may differ from those typically encountered in financial audits. Challenges may include:
 - Identifying appropriate sources of information for the audit of SPI.
 - Considering quality of information to be used as evidence and is it relevant and reliable.
 - Using qualitative information as audit evidence that is internally generated.
 - Using information as audit evidence that is obtained from external sources.
 - Considering what procedures to perform to obtain sufficient appropriate audit evidence.
 - Considering whether sufficient appropriate audit evidence has been obtained.
10. The current international project on audit evidence is exploring underlying challenges relating to audit evidence including:
- Consistently determining the nature, timing and extent of audit procedures designed and performed that are responsive to assessed risks, and enable the auditor to obtain sufficient appropriate audit evidence to support their opinion.
 - Making professional judgements and exercising professional scepticism with respect to such matters.
 - Considering the relevance and reliability of information from internal and external information sources.
 - Evaluating the relevance and reliability of information intended to be used as audit evidence about the operating effectiveness of controls.

These challenges are potentially heightened for SPI, which covers a diverse range of information that is still maturing, with a potential for a mismatch between auditor and regulatory oversight judgements relating to the sufficiency and appropriateness of the audit evidence.

11. We found guidance in the EER guidance, para 337, on the use of internally sourced information. The use of internal sources for reporting information can pose challenges in obtaining evidence for qualitative SPI, and the auditor may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources, alone, may not be sufficient.
12. Although the guidance does not come from NZ AS 1 (Revised), we believe it will help auditors understand the concepts.

Recommendation

13. We recommend adding to the exposure draft, EEM (below 11.9.1.) on internal sources to address the challenge of using qualitative information that is internally generated as audit evidence.

Internal sources

The use of internal sources as a basis for reporting the information may present a challenge in the context of obtaining evidence for qualitative service performance information. For example, information may be entered directly into the entity's system on a real time basis without any hard copy documentation to

support it, or may be obtained through informal communication by way of telephone calls, email or other internal communications.

The auditor may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources, alone, may not be sufficient. For example, when information is being captured by the entity directly onto a computerised system, the auditor may need to understand and confirm the physical and logical security and access controls in place around the entry of information, and the basis for the entries being made. When information is gathered through informal communications, the preparer's underlying books and records may need to include sufficient evidence to back up those communications.

14. We also found guidance on the auditor's approach to obtaining evidence from various sources, from proposed ISSA 5000 paragraphs A259 and A260. This may be useful to the auditor given what we have heard around the challenges of obtaining and identifying the source of information to use as audit evidence.

Recommendation

15. We also recommend adding to the exposure draft, EEM (below 11.9.1.) on the auditor's approach to obtaining evidence from various sources. This addition addresses the challenge of ensuring the reliability of service performance information used as audit evidence. It emphasises that the auditor is not required to perform an exhaustive search for information but should leverage their understanding of the entity and its service performance information to identify appropriate sources. Furthermore, it highlights the importance of obtaining consistent evidence from different sources to increase assurance and the need to address any inconsistencies in the evidence obtained.

The auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as evidence. The auditor's understanding of the relevant aspects of the entity and the service performance information from part 11.4. may assist the auditor in identifying appropriate sources of information.

The auditor ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining information intended to be used as evidence from different sources or of a different nature may indicate that an individual item of information intended to be used as evidence is not reliable. For example, corroborative information obtained from a source independent of the entity may increase the assurance the auditor obtains from a representation from management. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the auditor determines what additional procedures are necessary to resolve the inconsistency.

16. The other guidance we found was either replicated in whole or in part within the ISA for LCE and/or Part 11, was not suitable to be included in the standard due to the drafting principles (such as a list of questions to consider whether sufficient appropriate evidence has been obtained).

17. Does the board agree with the recommendations to add the above EEM?

Sampling

18. In financial statement audits, determining sample sizes often relies on quantitative calculations based on population size, expected error rates, and desired confidence levels. However, for SPI, which can include both quantitative and qualitative information, traditional sample size determination methods

may not always be possible. Therefore, the auditor may need to use sample size lookup tables or create a sample size based on judgment.

19. Challenges for auditors include "How does an auditor prove a sample size?" and "How much is enough?" These challenges arise from the diverse nature of SPI and the current state of SPI reporting systems.
20. We considered whether the sampling requirements could be causing some additional challenges in requiring too much information to be obtained. We reviewed a number of other standards⁴ which cover assurance over financial and non-financial information.
21. We observed that the key principles of sampling are to:
 - (a) Consider the purpose of the audit procedures and the characteristics of the population from which the sample will be drawn.
 - (b) Determine a sample size sufficient to reduce sampling risk to an acceptably low level.
 - (c) Select items in a way that each sampling unit in the population has a chance of selection.
 - (d) Perform procedures on the items selected, and evaluate the results.
22. Overall, we found that the key principles on sampling in those standards are very similar to what is already found in the ISA (NZ) for LCE (para. 7.3.17.). The EEM on sampling in the ISA for LCE (para. 7.3.17) already address the challenges identified – particularly around statistical vs non statistical sampling, and the sample size and design.

Recommendation

23. Staff have reviewed the guidance in ISSA 5000, para A.444, the EER guidance and other assurance standards, but have not found any additional relevant guidance that exists in the standards in the context of sampling qualitative and quantitative information. While providing some guidance over the sample size and sampling qualitative information could be considered, determining an appropriate sample design and sample size is ultimately a matter for the auditor's professional judgement, experience, and their firm's methodology. Therefore, we do not recommend further guidance or requirements that could be added to Part 11.

<p>24. Does the board agree with staff analysis and recommendation not to add anything further to Part 11 on sampling?</p>

Attribution

25. One of the assertions of SPI is "Attributable to the entity—the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with either directly or in conjunction with other entities with common goals."
26. Challenges for auditors in this area could arise when an entity reports service performance that:
 - the entity was not actually involved in; or

⁴ including ED ISSA 5000 *General Requirements for Sustainability Assurance Engagements*, ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements*, SAE 3150 *Assurance Engagements on Controls*, and ISAE (NZ) 3402 *Assurance Reports on Controls at a Service Organisation*, and SAE 3100 (Revised) *Compliance Engagements*.

- the auditor is uncertain if the entity can report due limitations of being able to access the source of information used to prepare the SPI; or
 - the entity was involved in the service performance along with other entities, but the SPI is based on information outside the entity's direct control or traditional reporting boundary; or
 - is prepared by a service organisation.
27. When using Part 11, the auditor is required to evaluate whether the SPI is appropriate and meaningful (11.5.2.), and the standard states that "The auditor may consider whether the service performance information inappropriately attributes service performance to the entity."
28. If the entity reports SPI that it was not actually involved in, the auditor would evaluate whether the SPI is indeed appropriate and meaningful, and adjust their opinion accordingly.

Recommendation

29. We recommend that the following is added to EEM at paragraph 11.9.1. (based on application material from proposed ISSA 5000, para A241, A255 and A256), to cover circumstance where the auditor is uncertain if the entity can report SPI due to a lack of evidence, or the entity was involved in the service performance along with other entities, but the SPI is based on information outside the entity's direct control or traditional reporting boundary:

One factor that affects the sufficiency or appropriateness of evidence, is whether the source of the information used to prepare the disclosures is accessible. For example, if the service performance information reported includes information from entities outside of the entity's operational control, there may be limitations on access to such information or to the work of another auditor that may have provided assurance on such information. Such limitations may affect the auditor's evaluation of the relevance and reliability of this information intended to be used as evidence.

There may be limitations on management's ability to obtain information from entities outside of the entity's operational control. Therefore, the auditor may need to place more focus on whether management's (or those charged with governance's) selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present service performance information is appropriate and meaningful in accordance with the applicable financial reporting framework, including understanding management's process for obtaining the underlying data.

The auditor may be unable to obtain sufficient appropriate evidence if the auditor determines that it is not practicable to obtain information intended to be used as evidence. For example, management's ability to obtain service performance information attributable to the entity may be limited given a lack of operational control over the other entities with common goals or the absence of direct contractual arrangements. If management is unable to obtain information for material service performance information and has not otherwise obtained such information through other means, the auditor may have a limitation on scope. The auditor's inability to obtain sufficient appropriate evidence requires the auditor to express a qualified opinion or disclaimer of opinion on the service performance information in accordance with paragraph 9.5.2. of the ISA (NZ) for LCE.

30. In some cases, entities may use service organisations as part of its reporting process. This may be the case if the entity is reporting SPI in conjunction with other entities. The ISA for LCE provides requirements for when a service organisation is used but it should be noted that if an auditor of a LCE

intends to use a report provided by a service auditor of a service organisation either as audit evidence about the design and implementation of controls at the service organisation (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organisation are operating effectively (i.e., a type 2 report), the auditor would be unable to use the ISA for LCE.

31. The ISA for LCE does not include requirements addressing use of such reports as audit evidence, as the IAASB concluded that this would ordinarily not be applicable to an audit of a LCE. This distinction is crucial because it highlights the limitations of the ISA for LCE when dealing with complex scenarios involving service organisations. It may limit the use of the ISA for LCE in the NZ context if auditors rely on type 1 or 2 reports, however we believe that the use of service organisations may not be common in NZ, and the use of such reports is not as prevalent as Australia and Canada. Although as the June 2023 IAASB agenda papers note, the auditor may obtain a copy of the type 1 or 2 report and use it for its general understanding of the entity but that these reports are not used as audit evidence, i.e. relied upon. Staff have no further suggestions to add regarding the use of a service organisation.

32. Does the board agree with the staff recommendation to add EEM on attribution to Part 11?

Long-form reporting

33. Defined in NZ AS 1, a longform report is an “Auditor’s report including information and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion”. This was carried into NZ AS 1 from ISAE (NZ) 3000, which provided assurance practitioners with the option to choose from “a “short-form” or “long-form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports include other information and explanations that are not intended to affect the assurance practitioner’s conclusion.”
34. Some may favour a long-form report as it provides the opportunity for the auditor to document findings or recommendations for improvements to the service performance information.
35. There were mixed views as to whether the standard should refer to a long-form report. Whilst some submitters were supportive of allowing flexibility, others were concerned that this may give undue prominence to the service performance information.
36. When NZ AS 1 was revised, long-form reporting was not carried over into the revised standard.
37. In the research undertaken by our summer interns earlier in the year, they did not note any examples of auditor’s reports that were a long-form report across the 585 reports sampled. In addition, staff reached out to an academic researcher of a recent paper on service performance information reporting, whose research looked at 130 reports, they responded that they had not come across any long-form audit reports in their research either.
38. ISSA 5000 permits recommendations in the assurance practitioner’s report. The application material states that “Including the practitioner’s recommendations on matters, such as improvements to the entity’s information system, in the assurance report may imply that those matters have not been appropriately dealt with in preparing the sustainability information. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users,

and whether they are worded appropriately so that they will not be misunderstood as a qualification of the practitioner’s conclusion on the sustainability information.”

Recommendation

39. Incorporating long-form reporting into the ISA for LCE would be challenging due to the mandated format and content requirements of the auditor's report. As described in paragraphs NZ9.4.1. and 11.14.1 of the ISA for LCE, departures from the specified format and content in Part 9 or Part 11 are not permitted, except where an amendment is required for compliance with law or regulation, or in the Auditor-General’s Auditing Standards, or when the opinion or report needs to be modified in response to the specific engagement circumstances. Staff do not recommend adding any requirements on long-form reporting into Part 11.

- 40. **Does the board agree not to add a long-form report requirement for service performance information in the ISA (NZ) for LCE?**
- 41. **Are there any other areas that the Board considers we need to provide further guidance (as EEM) or requirements in relation to the audit of service performance information within Part 11 of the ISA for LCE prior to issuing a consultation document?**

C. Items from previous board meeting to discuss at this meeting

42. In this section we cover the topics that were in the previous issues paper, but not fully discussed at the August 2024 meeting.

Materiality

- 43. Staff have considered materiality in light of the drafting principles that the ISA for LCE is clear, understandable and concise.
- 44. We thought the original drafting of the second bullet point (11.6.1.(b)) was unclear: “Determine materiality considerations and/or materiality for service performance information” – one could question how do you determine and consider materiality at the same time?
- 45. We looked for alternative wording. ISSA 5000 sets out the key materiality requirements in a less confusing way. We recommend that we use this. The change is illustrated in the table below.
- 46. We confirm that we continue to have the same key materiality principles in Part 11 as is in NZ AS 1 (Revised) – this has been illustrated in the mapping documents previously presented to the board, which we won’t repeat here.

Previous version	Updated version
<p>11.6.1. The auditor shall:</p> <p>(a) Using the understanding gained in part 11.4., determine the significant elements/aspects of service performance.</p> <p>(b) Determine materiality considerations and/or materiality for service performance information</p>	<p>11.6.1. The auditor shall:</p> <p>(a) Using the understanding gained in part 11.4., determine the significant elements/aspects of service performance.</p> <p>(b) Consider materiality for qualitative service performance information; and/or</p> <p>(c) Determine materiality for quantitative service performance information.</p>

The supporting EEM is as follows:

In considering or determining the materiality for service performance information, the auditor may firstly consider which elements/aspects of service performance are important to intended users, i.e. the significant elements/aspects of service performance. Having identified those, the auditor may then consider what are the material performance measures and/or descriptions that measure performance in those significant elements/aspects of service performance.

The auditor's understanding of the entity is important in determining what are the significant elements/aspects of the entity's service performance which are important to users of the service performance information. Understanding what elements/aspects of service performance are significant to users may assist the auditor in focusing their audit efforts and applying professional judgement when considering any misstatements identified.

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) The service performance information contains 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.*

The auditor's considerations and/or determination of materiality is a matter of professional judgement. The evaluation required by paragraph 11.5.2. may assist the auditor to consider and/or determine materiality.

The auditor's professional judgement about misstatements that will be considered material provides a basis for:

- Determining the nature, timing and extent of procedures to identify and assess risks of material misstatement;*
- Identifying and assessing the risks of material misstatement; and*
- Determining the nature, timing and extent of further audit procedures.*

Considering materiality for qualitative service performance information involves the auditor to actively reflecting upon factors that may lead to potential material misstatements. Examples of factors that may be relevant to the auditor's consideration of materiality for qualitative service performance information include:

- The importance of the element/aspect of service performance to achieving the entity's service performance objectives.*
- How the service performance information is presented.*
- The extent of interest shown in particular aspects of service performance by, for example funders, key stakeholders or the public.*
- Whether a potential misstatement would be significant based on the auditor's understanding of known previous communications to the intended users, on matters relevant to the information needs of those users.*

Considering qualitative factors may help the auditor to identify disclosures that may be more significant to the intended users. Qualitative factors may also be relevant when determining materiality for quantitative disclosures

When determining materiality for quantitative service performance information, a percentage is often applied to a chosen benchmark as a starting point. The benchmark for materiality will likely differ from the financial statements. The auditor may need to exercise professional judgement beyond the traditional approach of applying a percentage to a chosen benchmark.

Materiality may be expressed in terms of the appropriate unit of account for each significant element/aspect of service performance or performance measure and/or description reported. The auditor is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account.

Performance materiality

47. Performance materiality is defined in the ISA for LCE as “The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.” (Appendix 1)
48. The ISA for LCE has EEM on quantitative performance materiality at para. 5.3.3.:

Performance materiality (which, as defined, is one or more amounts) is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. It is affected by the auditor’s understanding of the entity, updated during the risk identification and assessment; and the nature and extent of misstatements identified in previous audits and thereby the auditor’s expectations in relation to misstatements in the current period.

49. We considered if Part 11 could have a requirement on performance materiality based on ISSA 5000, paragraph 9 which states: *For quantitative disclosures, the auditor shall determine performance materiality.*
50. This could be supported by EEM (based on para. A313 of ISSA 5000), which highlights that although quantitative performance materiality does not address qualitative misstatements, auditors design procedures to increase the likelihood of identifying qualitative misstatements. *Performance materiality does not address misstatements that would be material solely due to qualitative factors. However, designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent it is possible to do so, may also assist the auditor in addressing aggregation risk.*
51. However, we have noted that:
- NZ AS 1 (Revised) is silent on performance materiality.
 - ISA for LCE already requires auditors to set performance materiality for the audit of financial statements.

- Given the nature of SPI , setting performance materiality for qualitative SPI would be difficult – performance materiality is usually a quantitative amount.
 - ISAE (NZ) 3000 (Revised), which auditors previously used to audit SPI, does not specifically mention performance materiality. However, it is addressed in paragraph A98. of ISAE (NZ) 3000 (Revised) which says that when quantitative factors are applicable it may be appropriate “when planning the nature, timing and extent of procedures for the assurance practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.”
52. On balance, at this stage, staff have not added a requirement or EEM on performance materiality into Part 11, given that it would be inconsistent with NZ AS 1 (Revised).

Misstatements over qualitative service performance information

53. To further assist the auditor when determining whether qualitative SPI is materially misstated, staff propose adding the following to EEM below paragraph 11.10.1. This is based on proposed ISSA 5000. The suggested wording provides further guidance to auditors on considering qualitative misstatements which are more difficult to evaluate than quantitative misstatements

Misstatements in qualitative information are as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by management, or those charged with governance, the auditor may accumulate them by listing them, or marking up or highlighting them in a copy of the service performance information. When it is not possible to add the misstatements together to determine their effect in the aggregate, the auditor may consider whether there are any commonalities among the misstatements, such as whether the misstatements reflect a more favourable outcome that is collectively material, or indicate management bias.

54. **Does the Board agree with the proposed new drafting of materiality requirements (para 11.6.1.)?**
55. **Does the Board agree not to add performance materiality requirements to Part 11?**
56. **Does the Board agree to add EEM in relation to misstatements of qualitative SPI?**

Modifications to the ISA (NZ) for LCE arising from compelling reasons

57. Given that the NZAuASB has previously identified the compelling reasons to amend the ISAs (NZ) for various requirements throughout the ISAs (NZ), we have carried across those same amendments into the ISA (NZ) for LCE.
58. Broadly we have made amendments to the ISA (NZ) for LCE in relation to the following:
- Responsibilities for the financial statements being those of governance rather than management. This adjusts requirements relating to the engagement letter, auditor’s report, and written representations.
 - Adding reference to the specific NZ financial reporting frameworks, and the NZ standard setters (i.e. NZAuASB/NZASB/XRB).
 - Adding reference to the New Zealand Professional and Ethical Standards, and the requirement to refer to them in the auditor’s report.
 - Timing of the going concern assessment, being 12 months from the date of the auditor’s current report.

- Requiring, when applicable, the auditor to discuss facts which become known after the financial statements have been issued within a reasonable period of time with management and, where appropriate, those charged with governance.
 - Guidance for the auditor to communicate with management if the auditor will intend to rely on a written public statement.
 - Adding guidance that comparative financial statements are not included in financial statements prepared under NZ generally accepted accounting practice.
 - Delete reference to checks/cheques in the definition of Accounting Records – as these are no longer used in New Zealand, they are unlikely to be applicable to less complex entities.
59. To undertake this task, we reviewed each ISA (NZ) auditing standard for those types of paragraphs prefixed with “NZ” or which have been amended for NZ circumstances. For each of those paragraphs, we then considered whether they should be included in the ISA (NZ) for LCE, i.e. are they relevant for an audit of a less complex entity. When making the necessary modifications, we also considered the drafting and alignment principles set by the IAASB. In keeping with current practice, each amended paragraph or amended EEM in the ISA (NZ) for LCE is prefixed by “NZ”. Amended requirement paragraphs have “[Amended by the NZAuASB]” added to also indicate that the paragraph differs from its international equivalent.
60. This topic, along with the below on conforming amendments, is discussed in our consultation document.

61. Does the Board agree with the logic to carry forward amendments made due to compelling reasons in the ISAs (NZ) into the ISA (NZ) for LCE, where applicable? Does the Board have any comments on the added NZ paragraphs?

Conforming amendments arising from the ISA (NZ) for LCE

62. We have reviewed the proposed conforming amendments from the IAASB (located at the back of the standard) and considered the applicability in the NZ context. Arising from this review, we propose that conforming amendments are made to the standards listed below. These are shown at the back of the standard at supplementary agenda item 6.4.
- XRB Au1, *Application of Auditing and Assurance Standards*
 - PES 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
 - PES 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
 - PES 4, *Engagement Quality Reviews*
 - ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*
 - ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*
63. Broadly, these amendments either add reference to the ISA (NZ) for LCE in the standards above or, in the case of ISRE (NZ) 2400, remove the reference to the ISAs (NZ) and instead add a general reference to auditing standards issued by the XRB.

64. We will also take the opportunity to update IAPN 1000, Special Considerations in Auditing Financial Instruments, to include the amendments arising from the ISA for LCE and the ISA (NZ) 315 (Revised 2019) revisions which were included in the IAASB 2021 Handbook. We have contacted the IAASB on this IAPN, and they have no further immediate plans to update this IAPN, so it still does not include updates from ISA 540 (Revised). As changes to IAPN do not get gazetted look at updating this practice note when we come to finalise the standard, or in due course.
65. If the ISA (NZ) for LCE is issued in NZ, we are considering splitting the conforming amendments section into a standalone standard – similar to how the conforming amendments arising from ISA (NZ) 600 (Revised) were issued as a standalone standard. Why would we do this? Partly because it would make the standard easier to digitise. Also, over time, conforming/consequential amendments become less relevant to the users of the standard. And having them in a separate standard prevents them from cluttering the core standard.

66. Does the Board agree with the proposed conforming amendments?

D. Supplemental guidance

67. To support adoption and implementation of the ISA for LCE, the IAASB has issued the following supplemental guidance⁵:

- (a) Auditor Reporting Supplemental Guidance. This supplemental guidance provides assistance for auditors regarding the auditor’s report and modifications to the auditor’s report. This guide will be useful for NZ auditors as it provides illustrative modified audit reports which are not provided in the standard itself.

We will link to this document from the consultation page on the XRB’s website, noting that the illustrative reports will be adjusted for NZ circumstances should we adopt the standard.

These adjustments may include:

- Updating code of ethics references to PES 1
- Referring to those charged with governance as being responsible for the financial statements, rather than management
- Adding the NZ specific independence declaration “Other than in our capacity as auditor we have no relationship with, or interests in, the Entity.”
- As the ISA for LCE enables auditors to add a link to the auditor’s responsibilities on the XRB’s website, we will adjust this guide accordingly.

We are also considering adding the illustrative modified audit reports over service performance information to this document, based on the example modified auditor’s report found in NZ AS 1 (Revised), should we adopt the standard.

- (b) Authority of the Standard Supplementary Guidance. This guidance helps auditors in determining when to use the standard, in particular it provides additional examples of qualitative characteristics of a less complex entity. It sets out the roles and responsibilities of:
- Firms (Firms are responsible for establishing policies or procedures in relation to the permitted use of the ISA for LCE by their engagement teams),
 - Engagement teams (the engagement partner is required to evaluate whether the use of the standard is appropriate for a particular audit engagement)

⁵ Available on the IAASB website: <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities>

- Standard setters (may modify the classes of entities set out in paragraph A.1.(c) of the standard (i.e., the specific prohibitions), and may determine quantitative thresholds.) The guidance notes that “it is in the public interest to ensure that the use of the standard in individual jurisdictions is clarified as far as possible through local laws or regulations, or through modifying the classes of entities to which the standard cannot apply and determining quantitative thresholds.”

The guidance confirms that the analysis and discussions to date on the application of the NZ standard are in line with the international guidance. We therefore confirm our recommendation of the proposals to add a specific prohibition on FMC HLPAs entities, and not have a qualitative threshold.

For the consultation, we propose linking to this document, but noting that in NZ the Authority of the ISA for LCE is proposed to be adjusted for NZ circumstances should we adopt the standard (e.g. including FMC HLPAs entities in the specific prohibition and at this stage not including a quantitative threshold).

- (c) The adoption guide was issued by the IAASB in September. This guide is designed to help jurisdictions adopt the ISA for LCE. It provides information on key benefits of the standard and suggestions regarding building consensus to adopt, tailoring the authority and promoting the standard. Our comms plan covers many of the points raised in the adoption guide.

68. Does the board agree with our position on the supplementary guidance – that in the consultation process we link to the IAASB versions?

ISA (NZ) for Less Complex Entities

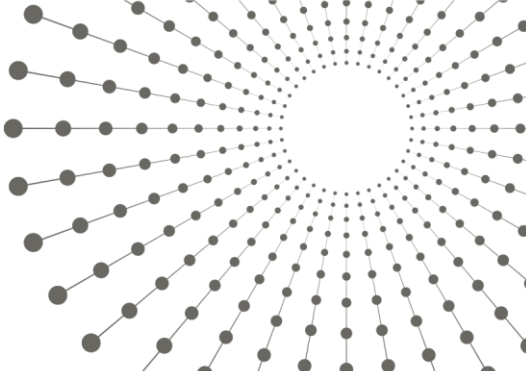
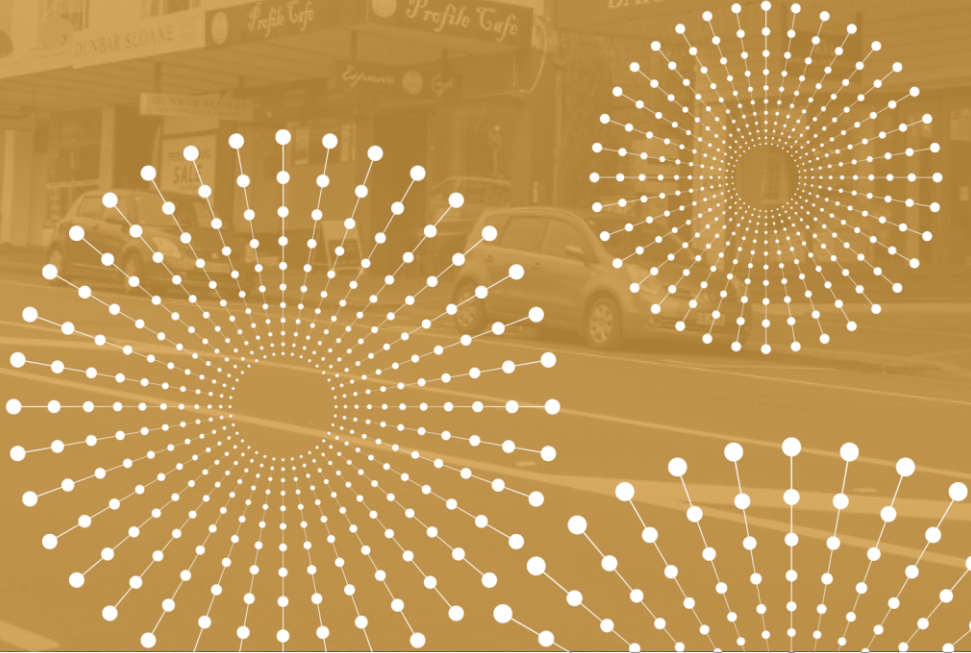
New Zealand adoption of a standard for audits of Less Complex Entities

Consultation document



November 2024

Consultation closes 19 February 2025





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PART ONE: Introduction





1.

What is this consultation about?

The External Reporting Board has issued this consultation document to seek feedback on:

- **Whether to adopt the International Standard on Auditing (ISA) for Less Complex Entities (LCE) in New Zealand.**
- **The applicability of the standard in New Zealand.**
- **If and how to incorporate the audit of service performance information within the New Zealand Standard.**

1. What is the ISA for LCE?

The International Auditing and Assurance Standards Board (IAASB) recently issued a new auditing standard, known as the *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (ISA for LCE). The ISA for LCE is a new stand-alone auditing standard available for auditors to use when auditing less complex entities. The standard contains all requirements necessary to obtain reasonable assurance about whether the financial statements of a less complex entity, as a whole, are free from material misstatements, whether due to fraud or error. If adopted in New Zealand, it will be referred to as ISA (NZ) for LCE.

2. Why are we consulting on this?

The type of entities seeking an audit varies considerably from large, listed companies to small charities. There are many potential LCEs in New Zealand that have audits of their financial statements, including non-profit organisations such as charities and sports clubs, schools and early childhood centres.

While the current auditing standards (ISA (NZ)) are scalable, we have heard comments that the auditing standards are getting increasingly long and detailed, and that they are largely written in the context of highly regulated, large, listed entities. The XRB has previously explored alternative products for LCEs, while monitoring the development of an international standard tailored to suit the nature and circumstances of audits of LCEs. At this time, we are consulting on whether the ISA for LCE would be suitable for New Zealand.

3. Seeking Your Feedback

This consultation explores whether or not we should adopt ISA for LCE, adapted for New Zealand circumstances, and if so, what types of entities the standard should apply to. While the XRB is considering the adoption of the international audit standard, the standard won't be mandated for use. Our questions that we'd like your feedback on are summarised on page 17.



This consultation document should be read in conjunction with the Exposure Draft available on the consultation page of our website.

2.



How to provide feedback

Responding to consultation questions

We are seeking comments on the questions raised in this consultation document. We will consider all comments received.

Please feel free to comment on any or all of the questions on the proposed standard.

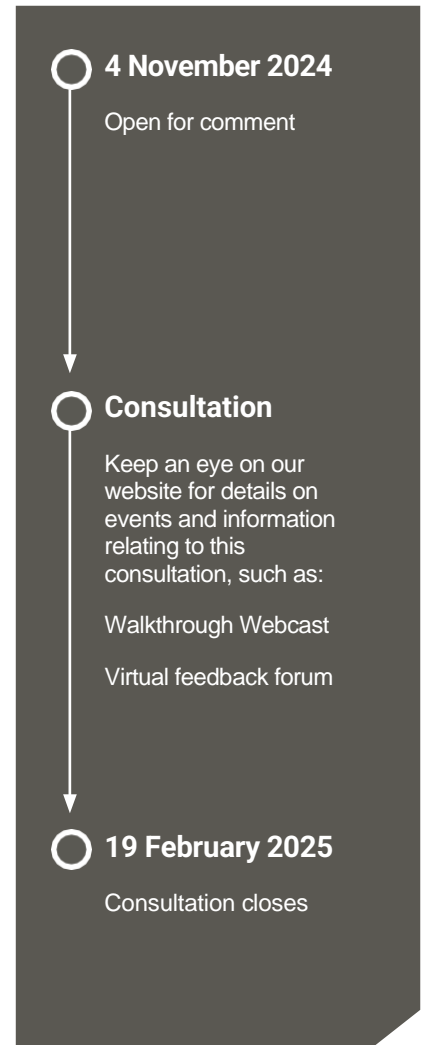
We appreciate both formal and informal comments, whether supportive or critical, as both supportive and critical comments are essential for us to reach a balanced view.

Making a submission

Submissions on this consultation can be provided via any of the avenues below:

- Email us: assurance@xrb.govt.nz
- On the 'Open for Comment' page on our [website](#)
- Comment on our [LinkedIn page](#)

The consultation closes on 19 February 2025



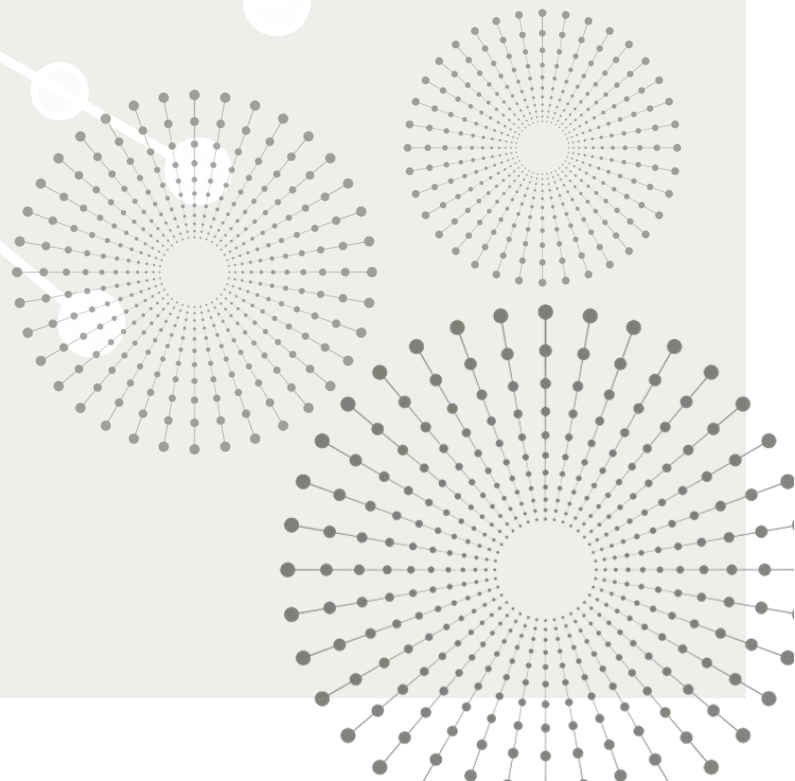
Publication of submissions, the Official Information Act and the Privacy Act

The information you send to us in a written submission or on an online form will be used by the XRB to help inform our consultation for this exposure draft. We intend to publish all submissions on our website, unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB's website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.



PART TWO: **EXPLORING BENEFITS AND ISSUES**



3.



Understanding the issues

3.1 Weighing up the potential benefits and issues

We recognise that there are a number of less complex entities that are audited, either voluntarily or by legislative requirement. We are aware of capacity constraints affecting the auditing profession, and that some view the ISA for LCE as a way to increase audit efficiency and effectiveness.

While the ISA for LCE presents expected benefits, it's important to consider any drawbacks that might arise from its adoption.

Potential benefits	Potential issues
<ul style="list-style-type: none"> Quality Focus: The ISA for LCE will help auditors deliver consistent high-quality audits for LCEs. The ISA for LCE requires the auditor to comply with relevant ethical requirements, including those pertaining to independence. For quality at the audit firm level, the ISA for LCE requires that the audit engagement partner be a member of a firm that applies PES 3¹ and PES 4². The ISA for LCE doesn't reduce expected audit quality or workload. It emphasises performing the right work in the right areas, with proportionate requirements to guide the audit process. It is a different type of audit, not a lesser audit. It helps auditors focus on aspects of the audit that are relevant for less complex entities. Proportionate and Tailored: The standard is specifically designed for the needs of audits of less complex entities, focusing on relevant requirements that are proportionate to the typical nature and circumstances of a less complex entity. Because of this tailored approach, there are strict parameters as to the types of entities that this standard can be for. This is discussed further in the next section. Aligned with ISAs: The standard contains requirements that are based on the underlying concepts from the full suite of ISAs and ISAs 	<ul style="list-style-type: none"> Perception of Reduced Audit Quality: The audit performed in accordance with the ISA for LCE might be perceived as a lesser quality or scaled down audit, due to not being done in line with the full ISAs. This could create the perception of a "two-tier" auditing environment, raising concerns that audits conducted under the ISA for LCE, and the assurance provided, are "less than" those performed using the full ISAs. Cost saving expectations: There may be an expectation that audits conducted under this standard will be inherently "cheaper" compared to full ISA audits. This could lead to pressure for auditors to lower fees for LCE engagements, potentially impacting the quality of the work performed. It's important to emphasise that the tailored nature of the requirements of the ISA for LCE doesn't necessarily translate into lower fees, as the level of assurance remains the same. Education, training and maintenance costs: There is an increased need for education, training and maintenance for auditors and firms that would use both the full ISAs (NZ) and the ISA (NZ) for LCE standard. There is also an increased need for education of users to mitigate the risk of an expectation gap and marketplace confusion. This may cause additional costs on

¹ Professional and Ethical Standard (PES) 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² Professional and Ethical Standard (PES) 4 *Engagement Quality Reviews*

<p>(NZ) but are proportionate and tailored to the specific needs of a less complex entity audit. This ensures that the audit approach remains consistent with the overall objectives of the full ISAs, and the same level of reasonable assurance, while acknowledging the reduced complexity of the engagement.</p> <ul style="list-style-type: none"> • Clear, Understandable and Concise: The standard is written with clarity and using plain language, making it easy for auditors to understand and implement. These drafting principles enhance the standards accessibility, allowing auditors to quickly grasp its requirements and apply them effectively. • Suited for New Zealand's economic environment: New Zealand has many entities that would meet the definition of less complex entities, and either are legally required to be audited or seek out audits voluntarily. 	<p>audit firms to implement the ISA for LCE standard.</p> <ul style="list-style-type: none"> • Specialisation risk: There are questions about the long-term implications for auditors who exclusively perform audits using the ISA for LCE. By concentrating solely on audits using the ISA for LCE, auditors may miss opportunities to develop a comprehensive understanding of both the ISA and ISA for LCE standards. This could pose challenges when needing to transition to full ISA audits, or when encountering more complex entities or audit scenarios. • Complexity reassessment risk: There is a risk that an entity initially assessed as a LCE may subsequently be determined to no longer meet the qualitative characteristics of a LCE. This could necessitate a reassessment of the audit approach and potentially a significant rework of the audit file already performed under the ISA for LCE.
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Alternatives

The XRB previously explored developing an alternative product using agreed-upon procedures for charities that are not required by legislation to have an audit or a review. Under this initiative, the practitioner would agree with the charity the procedures to be performed, perform those procedures and communicate the outcome in a report to enable the user of the report to draw their own conclusions based on the information provided. The report would not offer any assurance, but simply report factual findings.

Alongside this, we also explored whether the examination regime used in the UK would be suitable in New Zealand.

The ISA for LCE project's emergence and the continued voluntary uptake of audits and reviews by charities led to the XRB pausing this initiative.

Global context

It's important to note that adopting the ISA for LCE is optional for jurisdictions to adopt. i.e., New Zealand can choose not to adopt the ISA for LCE. One of the reasons that the IAASB developed this standard was to prevent the jurisdictional divergence in the audit of less complex entities, where some countries were starting to develop their own specific auditing standards over LCEs.

We are aware of some jurisdictions that have already committed to using the ISA for LCE standard (e.g., Norway, Sweden and Mexico), and are also aware of some jurisdictions that have decided not to adopt (e.g. Australia and Canada). The ISA for LCE may not be a good fit for jurisdictions where the legislative thresholds for audit exemption are high; where compilation work is prevalent or where alternative auditing standards are already established. Each country will decide on their own whether the ISA for LCE suits their jurisdiction.

Maintenance of the ISA for LCE

As noted above, one of the concerns emerging regarding the adoption of the ISA for LCE is the perception of a “two-tier” audit environment. The way in which the standard is maintained globally may impact on these perceptions.

Maintenance of the ISA for LCE refers to the ongoing process of keeping the standard up-to-date, and in line with revised or new auditing standards. The IAASB has committed to a 3-year period of stability meaning that during this initial period, until December 2028, there will be no major revisions to the ISA for LCE. This initial period of stability will provide auditors time to adopt and implement the standard before introducing any possible revisions.

The IAASB will maintain the ISA for LCE shortly after the corresponding ISA is amended, this means that there will be a time lag between the changes made to the full ISAs and the ISA for LCE.

An example of this is the revised *Going Concern* standard, which is expected to be applicable from June 2026. As the ISA for LCE would still be under a period of stability, new requirements arising from the revised *Going Concern* standard would not be applicable for audits using the ISA for LCE until at least December 2028. This may be seen as an issue in that the audit requirements will be inconsistent between the ISA and ISA for LCE in respect to going concern during this period, yet the same level of reasonable assurance will be provided through an audit using the ISA or the ISA for LCE.

We are interested in your views as to whether the timing of the maintenance of the ISA for LCE globally impacts your perceptions of the audit undertaken in accordance with the ISA for LCE standard. This may be an issue if a full ISA has substantially different requirements or principles arising from its revision, and the ISA for LCE is not updated at the same time.

If you consider that the only way in which the perception issues can be mitigated is to maintain the ISA for LCE at the same time as the corresponding ISA, we also seek your views as to options for New Zealand, noting there may be global inconsistency issues if the maintenance of the NZ standard got ahead of the international standard’s maintenance.

1. Should the XRB adopt the ISA for LCE in New Zealand? Please provide your reasoning.
2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the issues? If not, why? Are there any other expected benefits or issues which should be considered?
3. How does the ISA for LCE maintenance timing affect your view on its adoption? Do you have any other comments on the maintenance of the standard?

3.2 Applicability of the standard in New Zealand

The requirements in the ISA for LCE are designed to be proportionate to the nature and circumstances of a LCE. It does not address complex matters or circumstances. If the ISA for LCE was used to audit a complex entity, compliance with the requirements of the ISA for LCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion, because insufficient or inappropriate consideration would be given to the complex matters or circumstances.

Part A, *Authority*, of the standard describes the limitations that will make the standard inappropriate for use. Limitations are designated into three categories:

1. **Specific Prohibitions:** Specific classes of entities for which the use of the proposed standard is prohibited. Examples include a listed entity, an entity one of whose main functions is to take deposits from the public, and an entity one of whose main functions is to provide insurance to the public.
2. **Qualitative characteristics:** that if not exhibited by an entity would ordinarily preclude the use of the ISA for LCE in the audit of that entity. All qualitative characteristics are to be considered both individually and in combination. The list is not exhaustive nor intended to be absolute (including numerical indicators).

Some of the qualitative characteristics include:

- **Business activities, business model and industry** - The business activities, business model, or the industry in which the entity operates, do not give rise to significant pervasive business risks. There are no specific laws or regulations that govern the business activities that add complexity (for example, prudential requirements). The entity's transactions result from lines of business or revenue streams.
- **Organisational structure and size** - The structure is relatively straightforward, with few reporting lines or levels and a small key management team (for example, five individuals or less).
- **Ownership structure** - The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.

The ISA for LCE can be used to perform audits of group financial statements, if eligible. The group and its entities or business units are evaluated under the same criteria as discussed above, including the same qualitative characteristics, but in the context of the group. The group structure, access to information or people and the consolidation process are also considered by the auditor in determining whether or not to use the ISA for LCE.

The use of the ISA for LCE is prohibited for group audits when component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents).

Notwithstanding that professional judgement is applied in determining whether the ISA for LCE is appropriate to use, if there is uncertainty about whether an audit meets the criteria as set out in the *Authority* of the standard, the use of the ISA for LCE is not appropriate. (i.e. if in doubt, you are out).

3. A Quantitative threshold to further limit the applicability of the standard. The IAASB provides the ability for standard setting authorities to set a quantitative threshold over which to exclude the audits of entities to be conducted using the ISA for LCE.

Strengthening the Authority in New Zealand

There are two aspects of the Authority that we are consulting on: Specific Prohibitions, and Quantitative Thresholds

(a) *Specific Prohibitions*

The ISA for LCE includes specific prohibitions on its use for certain types of entities, primarily those with public interest characteristics. In New Zealand, we propose to refine the specific prohibitions beyond listed entities, deposit takers, and insurers. This refinement would introduce an additional prohibition for FMC reporting entities considered to have higher level of public accountability (FMC HLPAs) in New Zealand.

This added prohibition aims to ensure that entities with a greater public interest or higher complexity remain

subject to audits conducted under the full ISAs (NZ).

We considered whether other FMC reporting entities, being those considered to have a lower level of public accountability (FMC LLPA) could also be specifically prohibited but noted that there may be entities in this category that are less complex and could possibly be audited under this standard. Those FMC LLPA entities that have characteristics of complexity would be scoped out of the standard through the qualitative characteristics section of the Authority.

Examples of FMC entities under the Financial Markets Conduct Act 2013 (FMC Act), or through a notice issued under the FMC Act, include:

FMC reporting entities with a “higher level of public accountability” (FMC HLPAs) include	FMC reporting entities with “lower levels of public accountability” (FMC LLPAs) include
<ul style="list-style-type: none"> (a) all issuers of equity securities or debt securities who make a regulated offer; (b) listed issuers; (c) licensed derivatives issuers; (d) recipients of money from a conduit issuer; (e) licensed managed investment schemes (MIS) (in respect of the investment fund financial statements); (f) registered banks; (g) credit unions; (h) licensed insurers; (i) building societies; and (j) any other entity designated as having a higher level of public accountability by the FMA. 	<ul style="list-style-type: none"> (a) licensed MIS managers (in respect of the manager’s own financial statements); (b) licensed providers of discretionary investment management services (DIMS); (c) licensed peer-to-peer lending service providers; (d) licensed crowd funding service providers; (e) licensed supervisors; and (f) licensed market operators (domestic).

As part of our development of Part 11 *Audit of Service Performance Information*, we considered whether or not to add qualitative characteristics or specific prohibitions to the *Authority*, in that if an entity exhibited complexity in its service performance information, it could not be audited under the ISA for LCE. We determined that such adjustment to the *Authority* to include mention of service performance information was not necessary. If an entity exhibited qualitative characteristics of complexity in its operations or finances, its service performance information reporting would likely exhibit complexity as well.

4. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?
5. Do you agree that we **do not** specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?
6. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate guardrails exist around the use of the ISA for LCE in New Zealand?

(b) Quantitative Thresholds

The IAASB provides the ability for standard setting authorities to set a quantitative threshold over which to exclude the audits of entities to be conducted using the ISA for LCE, based on key metrics of the entity (e.g., revenue, total assets) or the average number of employees during the period under audit.

For New Zealand, we have considered quantitative thresholds, such as excluding all Tier 1 financial reporting entities, or using the definition of [large](#) from the Financial Reporting Act 2013 as a quantitative threshold.

We determined that such a threshold is not needed because:

- a quantitative threshold is not necessarily an indicator of complexity.
- there could be undue audit effort in testing the accuracy of metrics used in the calculation of quantitative thresholds before determining whether the use of ISA (NZ) for LCE is appropriate.
- the specific prohibitions and qualitative characteristics will already scope out entities which have characteristics of complexity.

However, the XRB are open to considering whether a quantitative threshold is put in place should there be a strong view from stakeholders.

7. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?

3.3 Audit of service performance information with the ISA (NZ) for LCE*Reporting and Auditing requirements*

In New Zealand, many Public Benefit Entities (PBEs) are required to report Service Performance Information (SPI) based on the applicable financial reporting standard. Some of these PBEs are also required to have their general-purpose financial report, including the service performance information, audited. As many of these PBEs may be less complex entities, the XRB proposes adding a specific part to the ISA (NZ) for LCE to include necessary requirements for auditing SPI of a less complex entity. This is included as Part 11 *Audit of Service Performance Information* in the Exposure Draft.

Challenges with the audit of service performance information

While some PBEs have been reporting audited service performance information for a while, for others it is relatively new. Recently the XRB has been hearing about the challenges of reporting audited SPI by some PBEs and their auditors. These challenges include concerns over the verifiability of the information. In developing Part 11, we are considering how the principles, requirements and EEM in the ISA for LCE may be contributing to challenges and exploring what changes we might make to mitigate challenges.

We continue to explore opportunities to enhance both reporting and audit practices. While this may take time to resolve, we are using this consultation process to explore any root causes and/or possible solutions specific to the auditing requirements over SPI.

Part 11 Audit of Service Performance Information

Options explored to integrate the requirements for service performance information within the ISA (NZ) for LCE included:

1. Draft a new Part 11 *Audit of Service Performance Information* tailored to the needs of an audit of a LCE.

This approach ensures the standard remains standalone, in that an auditor would not use the ISA for LCE in conjunction with NZ AS 1 (Revised)³. Part 11 would only be applicable if the audit of service performance information is within the scope of the audit.

2. Amend NZ AS 1 (Revised) to allow its use by auditors of both the full ISAs (NZ) and the ISA (NZ) for LCE. This option does not support the goal of the ISA for LCE being standalone and necessitates extensive edits to NZ AS 1 (Revised).
3. Creating a standalone auditing standard over service performance information that covers all requirements necessary to audit service performance information, without needing to refer to the ISA for LCE. This option does not support the goal of the ISA for LCE being standalone for the audit of the whole financial report or performance report. It also would replicate many of the requirements of the ISA for LCE, making the requirements that the auditor has to comply with much longer.
4. Exclude service performance information audits from this standard's scope. This option was not considered viable, as it would severely restrict the applicability of the ISA (NZ) for LCE in NZ to financial statement audits only.

The XRB preferred the first option, as it maintains the standard's standalone nature and tailor's requirements to audits of less complex entities.

We developed the requirements of Part 11, with reference to the existing approach in NZ AS 1 (Revised), mindful that the requirements should be tailored and proportionate to an audit of a less complex entity but continue to enable the auditor to provide reasonable assurance. We also used the drafting principles set by the IAASB. These drafting principles mean that the ISA for LCE has been drafted 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.

Part 11 has been written to follow the flow of an audit of service performance information. To this end, we have recognised that it is important for an auditor to gain an understanding of the entity and its service performance information prior to setting materiality. So, understanding what the entity does, its vision, mission and strategy and who the users of the service performance information are, will help the auditor determine what the significant elements or aspects of service performance (i.e. those things that are important to users), and then help the auditor determine the materiality considerations relevant to the service performance information.

Part 11 is used in conjunction with Parts 1-10 of the ISA (NZ) for LCE. In accordance with paragraph N.Z.P.16A., reference to "financial statements" in the ISA (NZ) for LCE also refers to "service performance information" and where relevant "entity information" (i.e., where the audit is an audit of financial statements and service performance information and, where relevant, entity information).

Essential Explanatory Material in Part 11

The ISA for LCE includes Essential Explanatory Material (EEM) in blue boxes, to provide further guidance to the auditor. We have included EEM in Part 11. Key principles used in drafting EEM are:

- EEM further explains concepts or procedures in the requirements or why procedures are undertaken, but generally does not explain how the procedures should be implemented.
- EEM does not impose a requirement or expand any requirement.
- EEM is presented to the extent that it provides essential context for understanding a concept or a requirement. There are no examples on the application of the requirement presented in EEM.

Because of the drafting principles, the ED does not include all the application material from NZ AS 1 (Revised).

³ NZ AS 1 (Revised) *The Audit of Service Performance Information*

The decision on what application material to include as EEM is judgemental. In some areas, such as materiality, more EEM has been incorporated to provide additional clarification, as materiality can be complex to apply. The EEM is largely derived from the application material in NZ AS 1 (Revised), with some sections, such as the use of service organisations EEM, based on EEM within the ISA (NZ) for LCE.

Identified areas of challenges in auditing service performance information

We have considered challenges in auditing service performance information outlined below. As part of this work we reviewed other assurance standards, guidance, the current requirements of NZ AS 1 (Revised) and the ISA for LCE, to consider if any further EEM or requirements could be added to Part 11 to address these challenges, and what that would look like.

1. Obtaining audit evidence and attribution of service performance information.

The use of internal sources for reporting information can pose challenges in obtaining evidence for qualitative SPI, and the auditor may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources, alone, may not be sufficient. We therefore have added EEM below 11.9.1. as this guidance may be useful to the auditor given what we have heard around the challenges of using internally generated information, as it provides some useful considerations.

The use of externally sourced information, particularly when considering whether the service performance information is attributable to the entity is another area that could cause challenges. One of the assertions of service performance information is: “Attributable to the entity—the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with either directly or in conjunction with other entities with common goals.” For cases where the auditor is uncertain if the entity can report service performance information due to a lack of evidence, or the entity was involved in the service performance along with other entities, but the service performance information is based on information outside the entity’s direct control or traditional reporting boundary, we have added EEM to guide the auditor at paragraph 11.9.1. We welcome feedback on this EEM and whether it will be beneficial to the auditor.

2. Sampling

We considered whether any further requirements or EEM could be added regarding sampling. We found that Part 11, when used with the ISA for LCE, contained the key principles of sampling which would be used by the auditor to develop their methodology. On balance we have determined that as the requirements are consistent with other assurance standards we don’t think we need to add anything further to Part 11.

3. Long form reporting

Defined in NZ AS 1, a longform report is an “Auditor’s report including information and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion”.

We concluded that although Long-form reporting was referred to in the original NZ AS 1 and ISAE (NZ) 3000 (Revised), based on our research and anecdotal feedback, the use of such reports is not widespread. It would be difficult to facilitate the inclusion of long-form reporting into the ISA for LCE, given that the standard has a specified form and content written into the standard itself (not as an illustration based on required elements, as is done in other standards).

4. Materiality

Materiality is another challenge an auditor when auditing service performance information. Therefore, the requirements, have been clarified for the auditor to consider materiality for qualitative service performance information and determine materiality for quantitative service performance information. EEM provides additional guidance for the auditor when considering or determining materiality.

5. Risk response

Specific requirements have been added regarding the auditor's responsibility for designing and implementing overall responses to assessed risks of material misstatement at the service performance information level – to paragraphs 11.8.1 to 11.8.3. While these requirements are consistent with the principles outlined in ISA (NZ) 330 paragraph 5 and ISA (NZ) 240 paragraphs 29 and 30, which the auditor applies when using NZ AS 1 (Revised), these requirements have been tailored and included in Part 11 due to the standalone nature of the ISA (NZ) for LCE. This also builds on the requirement at paragraph 11.7.2. where the auditor is required to identify and assess the risks of material misstatement at the service performance information level (which is based on paragraph 32 of NZ AS 1 (Revised)).

Feedback is welcome on which requirements are causing challenges for auditors and reporting entities, and suggestions on how to mitigate these challenges, to ensure that the ISA (NZ) for LCE is fit for purpose when auditing SPI of a less complex entity. The XRB is also open to identifying possible solutions to address issues for auditing service performance information across all entities.

8. Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?
9. Do you consider that the requirements in Part 11 are appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be further tailored and included in Part 11? If so, what are these areas?
10. Do you agree that all the necessary and appropriate EEM is included in Part 11? If not, what do you recommend?
11. Are there any requirements currently causing challenges, or could cause challenges for auditors of service performance information? If so, do you have any suggestions on how to mitigate these challenges?

3.4 New Zealand specific amendments to the ISA for LCE

Should the ISA for LCE be adopted in New Zealand, the XRB proposes minor amendments to harmonise the international standards with local principles and practices reflected in the full ISAs (NZ). We believe that the amendments do not result in a standard that conflicts with, or results in lesser requirements, than the international standard.

In summary, the proposed amendments relate to the following:

1. Responsibilities for the financial statements being those of governance rather than management. This adjusts requirements relating to the engagement letter, auditor's report, and written representations. (Ref: Para. NZ4.2.1, NZ8.6.7 and others)
2. Adding reference to the specific NZ financial reporting frameworks and the Professional and Ethical Standards, and the NZ standard setters. (Ref: EEM under P.10., NZ4.3.4., and others)
3. Timing of the going concern assessment, being 12 months from the date of the auditor's current report to be consistent with the relevant ISAs (NZ). (Ref: Para. NZ9.5.20. and NZ7.4.2.)
4. Requiring, when applicable, the auditor to discuss facts which become known after the financial statements have been issued within a reasonable period of time with management and, where appropriate, those charged with governance. (Ref: Para. NZ8.4.7.)
5. Guidance for the auditor to communicate with management if the auditor will intend to rely on a written public statement. (Ref: EEM under 8.6.3.)
6. Adding guidance that comparative financial statements are not included in financial statements prepared

under NZ generally accepted accounting practice. (Ref: EEM under 9.7.)

7. Delete reference to checks/cheques in the definition of Accounting Records – as these are no longer used in New Zealand, and they are unlikely to be applicable to less complex entities. (Ref: Appendix 1)

Each amended requirement paragraph or amended EEM in proposed ISA (NZ) for LCE is prefixed by “NZ”. Amended requirement paragraphs have “[Amended by the NZAuASB]” also added to indicate that the paragraph differs from its international equivalent.

At the back of the ISA (NZ) for LCE are the *Conforming amendments arising from the ISA (NZ) for LCE*. These are based on the IAASB conforming amendments, but amend relevant New Zealand assurance standards. Broadly, these amendments add reference to the ISA (NZ) for LCE across the suite of assurance standards in New Zealand.

12. Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

3.5 Application date

Should the ISA for LCE be adopted in New Zealand We propose that the standard is applicable for audit engagements for periods beginning on or after 15 December 2025. We consider that this will allow sufficient time for preparation to implement the standard. If adopted, this standard will be optional to use by auditors, and can only be used in audits of less complex entities, as defined in the Authority of ISA (NZ) for LCE.

13. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

3.6 Other matters

Please share any additional thoughts or comments you may have regarding New Zealand adopting ISA (NZ) for LCE.

We welcome feedback on any other aspects addressed in the exposure draft or if you consider there are matters we have missed.

14. Do you have any other comments on the proposed standard?



4.

Consultation Questions

Respondents are asked to consider the following questions and to respond to the XRB by 19 February 2025.

Questions for respondents

1. Should the XRB adopt the ISA for LCE in New Zealand? Please provide your reasoning.
2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs? If not, why? Are there any other expected benefits or issues which should be considered?
3. How does the ISA for LCE maintenance timing affect your view on its adoption? Do you have any other comments on the maintenance of the standard?
4. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?
5. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?
6. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate guardrails exist around the use of the ISA for LCE in New Zealand?
7. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?
8. Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?
9. Do you consider that the requirements in Part 11 are appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be further tailored and included in Part 11? If so, what are these areas?
10. Do you agree that all the necessary and appropriate EEM is included in Part 11? If not, what do you recommend?
11. Are there any requirements currently causing challenges, or that could cause challenges for auditors of service performance information? If so, do you have any suggestions on how to mitigate these challenges?
12. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?
13. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?
14. Do you have any other comments on the proposed standard?



5.

Glossary

EEM	Essential Explanatory Material
FMC HLP	FMC reporting entities considered to have Higher Level of Public Accountability
FMC LLP	FMC reporting entities considered to have Lower Level of Public Accountability
IAASB	International Auditing and Assurance Standards Board
ISA for LCE	International Standard on Auditing for Audits of Financial Statements of Less Complex Entities – the international version of ISA (NZ) for LCE
ISA (NZ) for LCE	International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities
ISA	International Standards on Auditing
ISA (NZ)	International Standards on Auditing (New Zealand)
NZAS	New Zealand Auditing Standards
NZAASB	New Zealand Auditing and Assurance Standards Board
Part 11	The NZ specific part added to the ISA for LCE to enable the audit of Service Performance Information
PBE	Public Benefit Entities
SPI	Service Performance Information
XRB	External Reporting Board

XRB STANDARDS
NAVIGATOR



ISAs (NZ) and other standards are available on the XRB Standards Navigator
<https://standards.xrb.govt.nz/standards-navigator/>



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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	17 October 2024
Subject:	Review standard for Service Performance Information
Date:	2 October 2024
Prepared By:	Lisa Thomas

 Action Required **For Information Purposes Only**

Agenda Item Objectives

1. The purpose of this agenda item is to:
 - a. DISCUSS the issues raised at agenda item 7.2 based on a full analysis of the feedback received through consultation of the exposure draft and wider feedback received on SPI.
 - b. DISCUSS the recommendations made by staff to ensure the proposed review standard for SPI is fit for purpose.

Background

2. The proposed review standard for SPI was exposed for a 90-day consultation period closing on 17 July 2024.
3. The consultation document focused on the key stages of a review engagement and whether the proposed requirements reflect an appropriate level of work effort for a review engagement of SPI.
4. During the consultation period we held a focus group attended by a mix of 15 preparers and assurance practitioners. We received 5 submissions from: 2 academics, one assurance practitioner, CAANZ/CPA Australia and the Office of the Auditor General.
5. The XRB has also held workshops aimed at preparers, assurance practitioners and funders on service performance information to obtain an understanding of the key issues with the reporting and assurance of service performance information.
6. At the August 2024 NZAuASB meeting, staff presented the high level issues from the submissions and workshops. A detailed analysis of the submissions has now been completed and staff responses to significant comments are included at agenda item 7.2.

Matters to Consider

7. Staff have considered submission responses to the exposure draft and feedback from the wider SPI workshops. One of the key messages from the workshops was the difficulty in applying the wider ISAs (NZ), which are primarily designed for financial statement audits, to the context of SPI. In response to this, we have also reviewed ISRE (NZ) 2400 to identify whether any requirements in ISRE (NZ) 2400 contribute to further challenges for the practitioner, when applied in conjunction with the proposed SPI review standard.
8. From our work the following key issues were identified:

- a. Lack of internal controls
 - b. Reliable data
 - c. Other procedures
 - d. Use of the verb “consider”
 - e. Reconciling to underlying accounting records
 - f. Reporting
 - g. Appropriate and meaningful
 - h. Materiality
9. We have challenged ourselves on whether the proposed review standard for SPI is fit for purpose and helps the assurance practitioner address challenges and issues identified. As such, an open mind approach is reflected in some of our recommendations.
 10. Staff would like to hear board members views on these recommendations and any alternative ideas board members have in how the review standard can be improved.
 11. As we finalise the review standard, we want to ensure the proposed standard contributes positively to the XRB’s wider response to concerns on SPI.

Next Steps

12. Staff propose the following next steps:
 - a. Approval of the SPI review standard updated based on the outcome of discussions at this meeting together with the basis for conclusion at the December 2024 NZAuASB meeting.
 - b. Updating the NZAuASB on the development of detailed project plans and coordinated response to the clarity, capability and capacity, and verification workstreams approved by the XRB to address wider SPI issues.

Recommendations

13. Staff recommendations can be found at agenda item 7.2.

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Issues Paper
Supplementary Agenda item 7.3	Updated draft standard

Review Standard for Service Performance Information: Issues Paper

Lack of internal controls

What we heard

1. Both ISRE (NZ) 2400 and proposed NZ SRE 1 require engagement terms to include management's acknowledgement of responsibility for the entity to have a system of internal control that prevents material misstatement caused by fraud or error. The standards also require the practitioner to consider whether the information systems of the entity are adequate to enable the practitioner to perform analytical review.
2. Feedback from the SPI workshops was that systems are often not mature or are non-existent for SPI reporting. This was sometimes a resourcing issue, lack of involvement by senior leadership or a reflection of the stage the entity was in its reporting process.
3. Proposed NZ SRE 1 requires the practitioner to obtain an understanding of the entity including its service performance reporting process and any related internal controls. One respondent¹ commented that the level of understanding required by the proposed standard was too specific for smaller entities, may be cumbersome for clients, and would increase the amount of documentation and cost to the client.

Staff View

4. Staff believe that, as proposed, having the same breadth and depth of understanding of the entity and its service performance reporting process is important regardless of the level of assurance being provided.
5. By engaging early with the entity, the practitioner may be able to identify controls that the entity hadn't considered, or where changes may be needed to disclosures, particularly if the entity does not have mature processes and reporting in place.

Recommendation

6. Proposed NZ SRE 1² encourages the practitioner to engage early with the entity. Staff recommend including this messaging in obtaining an understanding of the entity's internal controls.
7. Whilst not a significant change to the standard, this prompt to engage early may change the behaviour between the assurance practitioner and the entity to work together early to identify controls, whether alternative disclosures need to be considered or whether further controls need to be put in place.

Does the board agree with the recommendation to add application material to encourage the practitioner to engage early with the entity when obtaining an understanding of internal controls?

Does the Board have any comments for the proposed wording drafted at paragraph A19 in the supplementary agenda item 7.3.

¹ Eyles Audit

² Proposed NZ SRE 1, para A1, A5 and A22

Does the Board have any other recommendations to the proposed standard to enable the practitioner to address a lack of internal controls to support analytical review procedures?

Reliable data

What we heard

8. Obtaining sufficient appropriate evidence is a key challenge for service performance reporting. One respondent³ commented that there is anecdotal evidence that a lack of appropriate evidence to support service performance reporting may be driving the selection of what is reported. Preliminary research by another respondent⁴ found that many “appropriate and meaningful” measures are moved out of the statutory service performance reporting perhaps due to the cost and time to assess evidence.
9. Part of the acceptance procedures of ISRE (NZ) 2400 is that it is the practitioner’s preliminary understanding that information required to perform the review will be available and reliable. Despite this, practitioners report that clients are unable to provide data or answer the question of “how do they know?”.

Staff view

10. NZ SRE 1⁵ recognises that evidence may not come from traditional reporting information systems and source records. We have explored how the standard could go further to help eliminate the fear of “getting it wrong” and give the practitioner the confidence to apply professional judgement in assessing materiality over the sufficiency and appropriateness of evidence available. This needs to be balanced with not lowering the bar of what is sufficient appropriate evidence or implying greater work effort for a limited assurance engagement.

Recommendation

11. Our recommendation is to add further application material of key messages that:
 - The practitioners should consider the importance of the measure to users when assessing the sufficiency and appropriateness of evidence
 - Multiple sources of evidence may be required
 - When testing the relevance or reliability of evidence, the practitioner can accept records and documents as genuine unless they have reason to believe the contrary.⁶

Does the Board agree with the recommendation to add further application material capturing the key messages identified?

Does the Board have any feedback on the proposed wording at paragraph A60, in supplementary agenda item 7.3.

Does the Board have any further recommendations when there is a lack of sufficient appropriate evidence?

³ T Scott

⁴ C Yang

⁵ Proposed NZ SRE 1, para A50

⁶ ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, para A24

Other Procedures

What we heard

12. ISRE (NZ) 2400 requires the practitioner to design and perform enquiry and analytical procedures to obtain sufficient appropriate evidence. Due to the nature of SPI, analytical procedures may not always be appropriate or practical therefore NZ SRE 1 proposes that “other procedures” may also be considered necessary.
13. Feedback⁷ from the consultation was that it was not clear when “other procedures” would be required.
14. Practitioners at the SPI workshops expressed concern of the challenge to apply auditing standards, scoped for financial assurance engagements, to SPI. We considered this in the context of applying “other procedures” and equally if the practitioner was required to apply “additional procedures” in accordance ISRE (NZ) 2400⁸ and proposed NZ SRE 1⁹.

Staff view and recommendation

15. To provide clarity on when “other procedures” should be applied, we recommend updating the exposure draft¹⁰ that it is a matter of professional judgement and that it may only be required in “some” instances¹¹.
16. In performing “other” or “additional” procedures, ISRE (NZ) 2400 and proposed NZ SRE 1 do not specify any mandatory requirements. Therefore, unlike applying the ISAs (NZ), this enables the practitioner to apply their professional judgement and have flexibility in designing procedures to obtain appropriate evidence, for example, when using sampling.
17. As such we do not recommend any changes to the proposed standard to address the challenge of applying ISRE (NZ) 2400 when performing “other” or “additional procedures” during a review engagement of SPI.

Does the board agree with the recommendation:

- To highlight professional judgement to provide clarity when “other procedures” may be required; and
- that no further changes are required to the proposed standard to address challenges of applying ISRE (NZ) 2400 when performing “other” or “additional” procedures?

Does the board have any feedback on the proposed wording at paragraph 7(a), 31 and A52 in supplementary agenda item 7.3?

Use of the verb “consider”

What we heard

18. To assess whether the SPI is appropriate and meaningful, the proposed review standard requires the assurance practitioner to “consider” factors rather than “evaluate” those factors as required by the auditing standard. Whilst respondents acknowledged that the use

⁷ CAANZ/CPA Australia, Focus Group feedback

⁸ ISRE (NZ), para 57

⁹ Proposed NZ SRE 1, para 34

¹⁰ Proposed NZ SRE 1, para 7 and 31

¹¹ Proposed NZ SRE 1, para A52

of the verb to “consider” indicates a lower work effort¹², concerns were raised by the focus group and through submissions¹³ whether the term would promote consistency as it isn’t clear what the difference in work effort would look like in practice.

19. Respondents¹⁴ reported research that assurance over service performance information was potentially considered less valuable, and by using the word “consider” may further encourage a compliance mindset.
20. Another respondent¹⁵ noted that due to the difficulties with the term “appropriate and meaningful” for both preparers and practitioners, the instructional verb of “consider” could be lowered.

Staff view and recommendations

21. Per the IAASB drafting principles, to lower work effort from “consider” would be to “remain alert” meaning to not actively obtain evidence but to respond if something comes to the practitioner’s attention. As the assessment of “appropriate and meaningful” is a fundamental step in the assurance of SPI and required in all assurance engagements, we recommend maintaining the verb to “consider”.
22. To help provide a consistent approach by practitioners in applying “consider”, we recommend including in the application material of proposed NZ SRE 1¹⁶ how documentation may differ between when the assurance practitioner evaluates factors versus considers the factors.

Does the Board agree with the recommendation to maintain the verb “consider” in evaluating the factors of whether the SPI is “appropriate and meaningful”?

Does the Board have any feedback on the proposed example in the application material at paragraph A6 and A24, in supplementary agenda item 7.3, to promote consistency in the use of the word “consider”?

Reconciling to underlying accounting records

What we heard

23. In response to concerns raised of applying the wider ISAs (NZ) to SPI, this issue was identified from our review of potential challenges in applying ISRE (NZ) 2400 to SPI.
24. ISRE (NZ) 2400¹⁷ requires the practitioner to obtain evidence that the financial statements agree with, or reconcile to, the entity’s underlying accounting records such as the general ledger or trial balance. ISRE (NZ) 2400 only requires compliance with relevant requirements¹⁸ therefore unless measures are extracted from the financial statements then, arguably, this requirement would not be relevant to service performance measures.

¹² C Yang, CAANZ/CPA Australia, Eyles Audit

¹³ C Yang, CAANZ/CPA Australia

¹⁴ C Yang, T Scott

¹⁵ T Scott

¹⁶ Proposed NZ SRE 1, para A6 and A24

¹⁷ ISRE (NZ) 2400, para 56

¹⁸ ISRE (NZ) 2400, para 19

Staff view

25. The proposed standard requires the assurance practitioner to obtain sufficient appropriate evidence however there is currently no requirement to link underlying records to the service performance information reported. Although double entry journals are not applicable for qualitative SPI, there should be an expectation that, as part of an entity's obligations to keep proper accounting records, that the entity maintains a summary or aggregation of the service performance information reported.

Recommendation

26. Staff recommend adding a requirement to proposed NZ SRE 1 for the practitioner to obtain evidence that underlying records agree to the SPI. Including the requirement would highlight an expectation that an entity's reporting system and processes should include underlying records of the performance that can be traced to the SPI reported. Requiring appropriate systems and processes to be in place, will lead to an improvement in the reporting and assurance of service performance information.

Does the Board agree with the recommendation to add a requirement in line with ISRE (NZ) 2400 for the practitioner to agree the SPI to the entity's underlying records?

Does the Board have any feedback on the wording at para 39 and A58 of supplementary agenda item 7.3?

Reporting

What we heard

27. Staff considered reporting tools available to the assurance practitioner to enhance communication with user.
28. There was general agreement from the consultation feedback¹⁹ that the proposed reporting was clear. One respondent²⁰ felt however that main users being small clubs and charities would have difficulty in understanding the reports and supported a more concise report.

Staff views

Summary of work performed

29. For limited assurance engagements, a summary of work performed is included in the assurance report to help users understand the basis for the practitioner's conclusion. It is ordinarily more detailed than a reasonable assurance report, so that users have an appreciation of the limitations of the nature, timing and extent of procedures performed. ISRE (NZ) 2400²¹ and proposed NZ SRE 1²² require statements regarding the procedures performed being primarily enquiry, analytical and for NZ SRE 1, other procedures.
30. To improve users understanding of the conclusion, we recommend updating the requirement in proposed NZ SRE 1 to require the practitioner to be more descriptive of any "other" or "additional" procedures performed. This detail may include specific circumstances affecting the nature and extent of the procedures performed. Alternatively,

¹⁹ CAANZ/CPA Australia, OAG, Focus Group

²⁰ Eyles Audit

²¹ ISRE (NZ) 2400, para 86 (g) ii

²² Proposed NZ SRE 1, para 50 (c) ii

rather than a requirement, application material could be used to encourage a detailed summary rather than a requirement. Anecdotally however, encouraging actions do not bring about significant change.

Additional information

31. We also recommend encouraging additional information in the review report to improve the transparency to users on the entity’s service performance reporting. Including findings or recommendations on the service performance information would help users to understand the level of maturity of the entity’s service performance information. By encouraging through application material, rather than a requirement, will provide flexibility in the amount of additional information provided as the entity gains more maturity in its SPI reporting process.

Emphasis of Matter or Other Matter paragraph

32. Other tools available in proposed NZ SRE 1²³ to enhance transparency to users are an “emphasis of matter” or “other matter” paragraph. We have seen examples²⁴ of how an emphasis of matter has been used when an entity is on a journey to achieving completeness in performance reporting. This could be provided as an example in application material of how this tool can be used by practitioners to enhance transparency of the entities process and improve the quality of reporting.

Recommendations

33. With proposed NZ SRE 1 scoped for smaller charities, the recommendations above to improve the communicative value of the report has the potential to create less value to users appearing over complicated rather than more transparent and informative. In the long run however, improving transparency may improve the quality of reporting overtime, enhancing user understanding of an entity’s service performance. Therefore, staff recommend:

- Requiring more description in the review report of any “other” procedures performed
- Additional application material encouraging additional information such as findings or recommendations
- An example of an emphasis of matter to highlight the maturity of an entity’s service performance reporting.

Do you agree with the recommendation to require more communicative reporting for SPI to help enhance transparency and value to users including:

- More description of “other procedures”
- Additional information such as findings or recommendations
- An example of an emphasis of matter or other matter as an alternative to modified opinion in some instances.

Does the Board have any feedback on the proposed wording in supplementary agenda item 7.3 in paragraphs:

- Paragraph 51 – More description of “other procedures”
- Appendix 3 - More description of “other procedures”

²³ Proposed NZ SRE 1, paragraphs 53 and 54

²⁴ [Audits of the Annual Performance Statements of Australian Government Entities — 2022-23 | Australian National Audit Office \(ANAO\)](#)

- Para A66 and A67 - Additional information such as findings or recommendations
- Para 54 - An example of an emphasis of matter or other matter as an alternative to modified opinion in some instances.

Appropriate and Meaningful

What we heard

34. Whilst we received support for consistency between the assurance and reporting standards, we also received feedback²⁵ that the subjectivity and ambiguity of the term “appropriate and meaningful” used in both the assurance and reporting standards, creates challenges for the preparer and practitioner in developing and assessing performance measures.
35. One respondent²⁶ noted that the varying approach of identifying and reporting SPI creates difficulties for the assurance practitioner to judge completeness of the performance measures.
36. Throughout the proposed standard, a “two step” approach has been adopted, requiring the practitioner to first consider whether the information reported is appropriate and meaningful, before obtaining evidence on whether it is materially misstated. This is consistent with the auditing standard for SPI. However, despite this, one respondent²⁷ noted a reluctance by practitioners to qualify assurance reports when information is not appropriate and meaningful.
37. To be clearer and drive more consistency, it was recommended²⁸ including the two-step approach upfront in the objective of the standard.

Staff view

38. The term “appropriate and meaningful” is adopted from the reporting requirements for SPI. To provide greater clarity to its meaning, it is being considered as part of the wider work of the XRB on SPI.
39. Providing assurance over the “what and how” the entity has reported is an important and fundamental step in an engagement of SPI. As such it reflected throughout the standard and both steps are reported on in the proposed assurance report.

Recommendation

40. Staff agree with the respondent’s recommendation to update the objective to reflect the “two-step” approach.

Do you agree with the recommendation to specify the two step approach in the objective?

Do you have any feedback for the proposed wording in paragraph 7(a), supplementary agenda item 7.3?

²⁵ C Yang

²⁶ C Yang

²⁷ C Yang

²⁸ CAANZ/CPA Australia

Materiality

What we heard

41. The complexity of materiality for qualitative information was noted by respondents²⁹. One respondent³⁰ encouraged more application guidance particularly for qualitative materiality noting that the application material on materiality in ISAE (NZ) 3000 (currently used for review engagements of service performance information) was more extensive and should be replicated in the proposed review standard or in other guidance material.

Staff View

42. Staff mapped the application material of ISAE (NZ) 3000 to ISRE (NZ) 2400 and proposed NZ SRE 1. Although no significant areas of difference were identified, minor changes including further examples were identified to draw the reader's attention to qualitative factors to consider when considering materiality.

Recommendation

43. Staff recommend the addition of further examples and minor wording change to draw the reader's attention to the existing application material.

Do you agree with the recommended changes to application material at paragraph A43.

Does the Board have any feedback on the proposed wording in supplementary agenda item 7.3 in paragraphs A43

²⁹ CAANZ/CPA Australia, Eyles Audit

³⁰ CAANZ/CPA Australia

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	8.1
Meeting date:	17 October 2024
Subject:	GHG Assurance Monitoring
Date:	30 September 2024
Prepared By:	Anna Herlender and Karen Tipper

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to:
 - a. inform the Board about the status of our monitoring over the assurance of GHG emissions disclosures in climate statements.
 - b. provide the Board with an overview of the content of GHG guidance that we intend to draft.

Background

2. In June 2024, the Board was provided with summary of staff observations on the first tranche of published climate statements that included assurance over GHG emissions.
3. While the mandatory assurance of GHG emissions has not yet started, we continue to collect and monitor publicly available information within the climate statements relating to GHG assurance.
4. In August 2024, we held a sandbox session for assurance practitioners to discuss the mandatory GHG assurance regime. This session was a closed-door session with the objective of understanding challenges and any areas where additional guidance is needed with the goal of achieving consistency across practitioners as we move into a period of mandatory assurance.
5. At this session, support was heard for the XRB to draft additional guidance and pursue a communication plan.
6. In engaging with many parties, the XRB have prioritised two areas of focus to support GHG assurance, developing guidance:
 - to report and assure scope 3 GHG emission disclosures, because evidence for scope 3 emissions is often lacking or very difficult to obtain as this source is outside of the entity's control.
 - to highlight key aspects within the assurance report of importance for users.

Matters to Consider

7. Agenda Item 8.2 includes information we gathered based on a review of 177 climate statements lodged to Companies Office until the end of August 2024. None of these climate statements

included GHG assurance in accordance with the XRB standard NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures.

8. Additional observations not included in the snapshot on agenda item 8.2:
 - a. 62% climate statements used an adoption provision in Aotearoa New Zealand Climate Standards not to disclose any of their scope 3 emissions. Some entities used the provision and disclosed some of their scope 3 emissions.
 - b. There was an example of an assurance practitioner issuing limited assurance over scope 3 emissions in 2024 year, while reasonable assurance was provided in previous years. While the assurance report is silent on this fact, the climate statement provides the following explanations: *“In FY22 and FY23 Deloitte provided ‘Reasonable’ assurance over Meridian’s Scope 1, Scope 2 and Scope 3 GHG emissions. In FY24 Deloitte provided ‘Reasonable’ assurance over Meridian’s Scope 1 and Scope 2 emissions, and ‘Limited’ assurance over Meridian’s Scope 3 emissions. This change in assurance levels is due to a global shift in standards on increasing verification required over third-party data”*.
9. Some climate related entities published their climate statements; however they were not lodged with the Companies Office by the end of August and are not included in the snapshot. We are aware of the following climate statements:
 - [Air New Zealand climate-statement](#) includes assurance of GHG emissions disclosures in accordance with the XRB standard NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures. Reasonable assurance over scopes 1 and 2 and limited over scope 3 was performed by their financial statement auditor. The assurance report includes an Other Matter paragraph specifying that the GHG inventory was assured under a separate engagement. No Key Matters or other communication tools are included in this the assurance report.
 - [Mercury climate statement](#) includes an assurance report over the whole climate statement. Limited assurance was provided their financial statement auditor Ernst & Young, and the engagement was performed in accordance with ISAE (NZ) 3000 and ISAE (NZ) 3410.
10. Agenda item 8.3 includes an overview of the two pieces of GHG guidance that we are intending to draft following feedback from the sandbox session. These are:
 - Guidance on scope 3 GHG Emissions
 - How to read the GHG Assurance Report.

Recommendations

11. We recommend that the Board NOTE the GHG snapshot.
12. We recommend that the Board NOTE the suggested content of the GHG guidance.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	GHG Assurance Snapshot
Agenda item 8.3	GHG Guidance Plan

AGENDA ITEM NO. 8.3

Date: 2 October 2024

To: NZAuASB Members

From: Judy Ryan and Karen Tipper

Subject: Guidance on GHG emissions for preparers and assurance practitioners

Purpose and introduction¹

1. The objective of this paper is for the NZAuASB members to NOTE the GHG non-authoritative guidance that we are intending to draft.
2. Two separate pieces of guidance are proposed.
 - a. Guidance on scope 3 GHG Emissions. This is intended to be for both preparers and assurance practitioners
 - b. How to read the GHG Assurance Report. This is intended to be for users of assurance reports.

Background

3. In accordance with the Assurance 2024/25 prioritisation plan, the assurance team are monitoring the GHG mandatory assurance regime and committed to hold workshops and issue guidance as needed in the lead up to mandatory assurance. We held our first session with assurance practitioners in August to understand any areas that they wanted to raise with us as we approach the first year of mandatory assurance. As a result of this session, we received clear support that additional guidance in certain areas was needed to support the regime and to promote consistency of practice.

Guidance for scope 3 GHG emissions

4. We propose that guidance on GHG emissions measurement and reporting for preparers and considerations for assurance practitioners is combined side-by-side in the one document.
5. We consider combining the guidance has the advantage of providing clarity to both the preparer and assurance practitioner and providing visibility of both sets of expectations.
6. The intention is that both viewpoints would be clearly identified within the document and that either party would quickly be able to find the guidance relevant to them.
7. It is intended that this guidance would be drafted together with the sustainability team and issued as XRB guidance.

Content of the proposed guidance

8. Based on the feedback from assurance practitioners and informal conversations with preparers that identified common issues, we propose that the guidance covers the following areas:
 - (a) Data quality, inherent uncertainty and tradeoffs. This topic area would include:
 - i. using generic spend based data and activity data and the business decision making and quality trade-offs that might be required.
 - ii. What sort of data would you need to support assurance. How you would document internal quality checking processes

- iii. What needs to be considered by the preparer when a third-party system is used?
 - iv. If propriety systems are used, what should be disclosed?
 - v. Evidence that could be provided for assurance.
 - vi. What needs to be considered/documentated by the preparer for inherent uncertainty.
 - vii. What is transparent disclosure for inherent uncertainty?
 - viii. What are the possible implications of uncertainty and lack of access to third party data on the assurance report?
- (b) Emission factors. This topic area would cover:
- i. Possible sources of emission factors.
 - ii. What sorts of things you might consider when thinking about the emission factors that best represent the entity's activity, and
 - iii. How you might choose between available emission factors, hierarchy of choices and the trade offs.
 - iv. Documentation of judgements and decision making.
 - v. What the assurance practitioner should consider with regard to emission factors.
- (c) Exclusion of material emission sources. This topic area would include:
- i. What are reasonable grounds for exclusion of material sources?
 - ii. What impact do material exclusions have on assurance, particularly completeness.
 - iii. What is transparent disclosure on exclusions?
- (d) Documentation: this topic area would include:
- i. What needs to be documented by the preparer, for example – the organisational boundaries, reporting boundaries, consolidation approach chosen, sources of emissions, materiality judgements, methods, standards assumptions, uncertainties.
 - ii. What could suitable and appropriate assurance evidence look like?

Guidance: How to read the GHG Assurance Report

- 9. Based on feedback received, we identified a need to provide more guidance about the content of the assurance report over the disclosures in the climate statement. We identified that this should be targeted to users of the report and should explain and provide more clarity over the reporting tools included in NZ SAE 1ⁱ and what they mean.
- 10. In June 2024, the XRB released joint guidance with the FMA for [Navigating Climate Statements](#). This guidance included a section on the assurance report and our How to read the assurance report is intended to supplement this.

Proposed Content

- 11. Users need to understand the scope of the assurance of the GHG disclosures engagement and what it covers. The mandatory engagement is not over the full climate statement.
- 12. There are different levels of assurance that can be obtained:
 - a) Limited – this is the minimum level required by the New Zealand Climate Standardsⁱⁱ. It is a base level of assurance, but it still needs to be a meaningful level of assurance,
 - b) Same requirements for preparation/preconditions for assurance exist for limited and reasonable assurance engagements.

- c) Level of work differs between reasonable and limited. An assurance practitioner would not design and perform as many evidence gathering activities or pursue evidence trails to the same depth for limited assurance as in a reasonable assurance engagement.
- d) Procedures carried out are included in a limited assurance conclusion to understand the areas the assurance practitioner has focused on.

13. What to look for in the report

- e) Scope – what has been assured and what has not.
- f) Communication tools, including inherent uncertainty paragraph, and what they mean.
- g) Understanding a modification
 - i. Why a modification may be more common at the start of the mandatory assurance regime.
 - ii. Types of modifications and what do they mean as not all modifications are created equally and what it may cover.

Recommendations

14. We recommend prioritising the drafting of the proposed guidance to support the implementation of mandatory assurance regime with the aim of publishing in early 2025.

ⁱ <https://standards.xrb.govt.nz/standards-navigator/nz-sae-1/#1> NZ SAE 1, Assurance Engagements over Greenhouse Gas Emissions Disclosures.

ⁱⁱ Aotearoa New Zealand Climate Standards comprising NZ CS1, NZ CS2 and NZ CS 3 ([XRB Standards Navigator » Standards Navigator](#))

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	9.1
Meeting date:	17 October 2024
Subject:	Audit Quality Measures
Date:	4 October 2024
Prepared By:	Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objectives of this agenda item:
 - a. To explore the use of Audit Quality Indicators as a measure of audit quality.
 - b. To explore ways to evaluate the value of standard setting actions on audit quality.

Background

2. The XRB's strategic intent includes ensuring high-quality reporting and assurance that maintains trust and confidence. A necessary condition for high quality reporting is high quality reporting and assurance standards. Relevant to our work in assurance, the standards require robust and independent examination. The statement of intent 2022-2027 noted considerable activity examining trust and confidence, including audit quality. The XRB are committed to monitor and work with key stakeholders to inform audit quality reforms in New Zealand and explore the value of audit to enhance trust and confidence. We seek to facilitate debate and provide thought leadership. This is reflected in the NZAuASB 2024/25 prioritization schedule to explore audit quality.
3. In 2023 the XRB commissioned [research](#) into Audit Committee Chairs' perceptions of quality and performance of audits to inform discussions on the role of audit in maintaining trust and confidence in financial reporting in New Zealand.
4. We continue to monitor developments, explore what others are doing and what further opportunities or actions we should undertake to continue to inform the discussion on audit quality in New Zealand.
5. Audit quality is a complex subject. There is no definition or analysis of audit quality that has achieved universal recognition. Further, perceptions of audit quality vary among stakeholders. Each stakeholder – users, auditors, regulators, management/governance and society in general – may have different views as to what constitutes audit quality, and therefore how to measure audit quality.
6. In addition to providing thought leadership on audit quality, we are also exploring how the XRB's assurance standards improve audit quality. This is relevant as the XRB considers updating its Statement of Intent. We continue to explore how to assess the performance of the standard setting activities, mindful that it can be challenging to measure the impact through fixed quantitative targets.

Matters to Consider

7. For this agenda item we have undertaken a broad review of information, literature, studies and research available on audit quality.
8. Firstly, agenda item 9.2 explores various initiatives and studies around the use of Audit Quality Indicators (AQIs) as a measure of audit quality. Our conclusion on the use of AQIs is that they are a useful tool for engaging in discussion with those charged with governance. The CPAB pilot study shows that AQIs are more valuable when they are engagement specific. On the other hand, engagement specific AQIs lack the comparability of a fixed set of AQIs. We also observed that AQIs are predominantly input based (i.e., AQIs often measure the inputs that contribute to audit quality, not the impact).
9. We have observed that some firms in New Zealand issue publicly available transparency reports/audit quality reports. We are not recommending requiring transparency reporting in New Zealand. This is consistent with the XRB's position in response to the IAASB's quality management consultation's proposed requirement relating to communicating information about the firm's system of quality management in.
10. Secondly, the assurance team has been considering how we communicate with stakeholders, particularly around the cost/benefit of proposed new standards and how those standards contribute to audit quality. This challenge links with the Minister's expectation that for each new proposed standard the XRB needs to consider the value of those standards and the implications of their benefits and costs. We intend to develop a wraparound consultation document when we expose international proposals to seek views on the costs and benefits of each proposal.
11. Agenda item 9.3 considers audit quality at a more holistic level and explores some of the elements that contribute to audit quality, including, for example, the PIOB's public interest framework for developing high quality auditing and ethics standards that are in the public interest and indicators that have been used by the XRB to demonstrate the broader impact of our standards.

Action requested of the Board

12. We ask the board for thoughts on possible next steps (if any):
 - To commission research to facilitate:
 - debate and thought leadership on audit quality matters.
 - an effective way to inform the cost/benefit evaluation of standards issued.
 - an effective way to evaluate the impact of the XRB's standards on audit quality.
 - To partner with others to explore use of AQIs in New Zealand.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Audit Quality Indicators
Agenda item 9.3	Evaluating impact of standards on audit quality

AQIs and how they can be used in measuring audit quality

1. This paper explores the use of audit quality indicators as a measure of audit quality.
2. While there is currently no common approach to measuring audit quality, over the last decade a number of initiatives or proposals have been issued by various bodies world-wide which set out Audit Quality Indicators (AQIs) that might be used to measure audit quality.
3. The appendix provides a high-level summary of the initiatives that we reviewed. In the majority of initiatives, the AQIs are set by a regulatory body.
4. AQI initiatives differ significantly throughout different countries. Some issuing bodies have suggested a more flexible, principles-based approach while others have published a mandatory, rules-based list of AQIs.
5. Some initiatives provide a set of up to 28 AQIs, while others suggest less than ten AQIs on which to report. While in most initiatives AQIs are quantitative, some narrative contextual information is helpful.
6. Some initiatives require AQIs to be made public while in other cases the information is considered to be sensitive and is therefore meant to be private for audit committee use only. Not all the initiatives differentiate between the engagement and firm level. Some firms publicly disclose certain firm-level metrics through audit quality reports, transparency reports, or similar documents.
7. Management and leadership within audit firms can use AQIs to encourage a culture focused on quality. Audit Committees can make use of AQIs when appointing their auditor, and to assess quality on an ongoing basis, by benchmarking against other firms.

Reporting against a fixed set of AQIs

8. In its Release statement, the PCAOB explains, reporting against a fixed set of AQIs can increase comparability and transparency between audits and audit firms. An important potential benefit of AQIs is enhanced by the transparency of information available for discussion with those charged with governance, for instance when selecting an audit firm. For AQIs to serve these purposes, the information acquired from AQIs needs to be comparable across firms and to be interpreted in the correct context.
9. Further, the PCAOB notes, the current voluntary reporting regime does not provide consistent, comparable information that stakeholders can rely on to inform their decisions over time. Current disclosures are inconsistent across firms, and there are no common definitions or calculations allowing for consistent comparisons. Most of the disclosures are voluntary, so firms are free to revise or discontinue such reporting anytime.

Conclusions from the Canadian pilot project

10. The Canadian Public Accountability Board (CPAB) launched an exploratory AQI Pilot project with six Canadian audit committees, their management and external auditors to get feedback about the usefulness of AQIs and to support broader national and international discussions. This Pilot was expanded to 18 reporting issuers. Unlike many of the other AQI initiatives, reporting of AQIs in Canada is not regulator driven.

11. The CPAB found that AQIs are a useful tool that, with proper context and discussion among all stakeholders, can provide insights and facilitate collaboration among auditors, management and the audit committee and provide more in-depth information to assist in evaluating and achieving sustained audit quality.

12. Potential benefits of using AQIs:

- provides management, the external auditor and the audit committee with a clear understanding of their responsibility in facilitating a quality audit by being open about expectations
- facilitates more efficient and effective interactions between the audit committee and the auditor because discussions focus on the most important areas of the audit
- creates an improvement in the knowledge of, and engagement in, the audit process and audit quality by all members of the audit committee as a result of increased information on the most important areas of the audit
- improves project management over the audit, including co-ordination and collaboration in the execution of the audit
- provides better information for the purposes of auditor evaluation

13. Challenges included:

- determining relevant AQI measures and understanding the relationship between multiple AQIs
- evaluating AQIs, such as identifying evaluation criteria and understanding any discrepancies
- identifying changes required in audit firm systems and processes needed to facilitate reporting

Common AQIs

14. AQIs that are commonly reported across various regimes include:

- Timing of audit execution
- Use of specialists
- Partner/manager leverage
- Experience of engagement team
- Management deliverables
- Audit hours by areas of significant risk

15. Understanding the context around each reported AQI is important. For example, an increase in the number of hours a partner spends on an audit engagement could mean improved audit quality (due to the increased involvement of an experienced auditor) or decreased audit quality (lower-level staff were not competent requiring increased partner time to deal with numerous issues).

16. Composition of the engagement team is foundational to audit quality. Strong engagement teams are appropriately staffed, have the right mix of industry and specialist expertise, and

include a diverse skillset which enables the team to exhibit appropriate professional scepticism and judgment. Half of the AQIs most frequently selected by participants in the CPAB pilot study¹ were engagement team-related.

17. Used appropriately, relevant AQIs can have a positive impact on audit quality.

Application in New Zealand

18. In NZ, transparency reporting is not mandatory. Some firms issue publicly available transparency reports. Examples include [KPMG](#) and [PwC](#). The firms use these reports to tell their story on audit quality, but there is limited comparability between the publicly available reports.

19. The implementation of AQIs can enhance the transparency and effectiveness of the audit process by offering measurable metrics that stakeholders can rely on. While the subjectivity and complexity of audits present challenges in establishing consistent measures, the use of AQIs fosters a culture of continuous improvement and accountability within audit firms. By adopting a flexible yet structured approach to AQIs, organisations can better assess and communicate the quality of their audits, ultimately contributing to greater investor confidence and market stability.

20. The use and reporting of AQIs is likely to have the most impact when AQIs are agreed between the audit firm and the stakeholder and are addressed at the engagement level.

21. AQIs are unlikely to provide significant direct evidence linked to assessing the value of our standard setting actions on improved audit quality.

22. We are not recommending requiring transparency reporting in New Zealand.

¹ Pilot study by Chartered Professional Accountants of Canada (CPA Canada), the Canadian Public Accountability Board (CPAB) and the Institute of Corporate Directors (ICD).

International initiatives

In the UK, Transparency reporting was implemented as part of broader efforts to improve audit and corporate governance. Auditors of public interest entities are required to publish annual Transparency Reports. On a voluntary basis, each of the six largest UK audit firms agreed to give information on 11 AQIs in their transparency reports. The approach is a flexible, not prescriptive one, as it recognised that each firm operates differently and hence it is appropriate to provide some flexibility whilst still covering the different areas of quality identified. This public reporting of AQIs is helpful to enable stakeholders, including Audit Committee Chairs, to understand audit quality within the firms.

- **The PCAOB** has a proposed rule under consideration that would mandate public reporting of specific metric disclosures in 11 areas relating to inputs, processes and measurements of an audit. The proposed rule would capture audits, and auditors, of companies that account for the overwhelming majority of U.S. public company market capitalization.
- **Netherlands** Uniform AQIs have been established by the regulator to measure and compare audit quality consistently. The goal of these AQI's is to provide more transparency regarding the quality of statutory audits of audit firms. These 11 AQIs will be presented on a dashboard to provide users of the financial statements with all relevant information about the audit firm.
- **South Africa** The IRBA launched its AQI measures in 2019 and since then has prepared an anonymised report on firms based on the data provided by those firms. This report provides feedback on a set of measures that audit firms reported on to the regulator, as well as provides audit committees with insights relevant to the appointment, performance, independence and appointment of the auditor. Since 2018, The IRBA has encouraged the public reporting of relevant internal information in the form of a transparency report. Transparency reporting is done on a voluntary basis.
- **Singapore** The Accounting and Corporate Regulatory Authority (ACRA) introduced an Audit Quality Indicators (AQIs) Disclosure Framework to help Audit Committees of listed companies better evaluate and select the right auditor. The AQIs comprise eight comparable quality markers that correlate closely with audit quality based on ACRA's observations from inspecting auditors over the past decade. The AQI Disclosure Framework is available for voluntary adoption by audit firms for audits of financial statements of listed entities in Singapore. The Big-Four have collectively agreed to participate. To further enhance the use of AQIs the ACRA introduced six targets on selected AQIs to provide audit committees with a common yardstick for comparison and to facilitate meaningful audit quality conversations with the auditors.
- **Australia** Under the Corporations Act auditors must publish a transparency report on their website if they have conducted audits for specific entities. The prescribed information required to be published in the transparency report does not include specific AQIs.
- **Canada** In 2016, the Canadian Public Accountability Board (CPAB) launched an exploratory AQI Pilot project with six Canadian audit committees, their management

and external auditors to get feedback about the usefulness of AQIs and to support broader national and international discussions. In 2017 the Pilot was expanded to 18 reporting issuers. Reporting of AQIs is not required in Canada.

Resources

Accountancy Europe [Overview of Audit Quality Indicators Initiatives December 2015](#)

PCAOB [Docket 41: Firm and Engagement Metrics](#)

FRC UK [Audit Quality Indicators AQR Thematic Review May 2020](#)

CPAB [Audit Quality Indicators](#)

ASIC [REP 678 Audit quality measures, indicators and other information](#)

IRBA [Transparency reporting and Audit Quality Indicators](#)

[Audit Quality Indicators in the Netherlands: Perspectives from Audit Personnel](#), masters thesis by Leon Jansen (2023)

ACRA Singapore [Audit Quality Indicators and Industry Average](#)

Evaluating impact of standards on audit quality

1. In this paper we consider what is audit quality and how we can evaluate the value that our standard setting actions contribute to improved audit quality and trust and confidence.

What is audit quality?

2. Audit quality is a complex subject. There is no definition or analysis of audit quality that has achieved universal recognition.
3. An independent audit that provides reasonable assurance that the financial statements are free of material misstatements, whether due to error or fraud, increases the reliability of that information and enhances investor and market confidence. Much of the value of audit is intrinsic.
4. Management is responsible for preparing financial statements and furnishing financial information to relevant market participants. Management is also responsible for designing, implementing, and monitoring internal controls to ensure that valid data goes into the accounting system, that the system is secure, and that the information coming out of the system is reliable and in accordance with appropriate accounting standards.
5. Corporate governance—the system by which companies are directed and controlled—has always been essential in management’s provision of information to external parties. Audit committees are one important component of governance. Audit committee responsibilities include oversight of the financial reporting process.
6. Many factors lead to a quality audit, but it is the combination of auditor expertise and independence that bolsters the level of trust and confidence in company financial statements and forms the basis of audit quality.
7. Perceptions of audit quality vary among stakeholders. Each stakeholder – users, auditors, regulators, management/governance and society in general – may have different views as to what constitutes audit quality, and therefore how to measure audit quality. For example, for users, audit quality might be linked to a clean opinion. Regulators might measure audit quality in terms of compliance with standards. For the auditor, audit quality might be measured in terms of satisfactorily completing all tasks required by the firm’s audit methodology. Each stakeholder may have a different view of which metrics should be used to measure audit quality.
8. Measuring audit quality is inherently complex due to the multifaceted nature of audits and the subjective elements involved. One of the primary challenges is the subjectivity in assessing audit quality. Audits require professional judgment, and different auditors might interpret the same set of circumstances differently. This subjectivity makes it difficult to establish consistent and objective measures of quality. Additionally, the expectations of various stakeholders further complicate the measurement process.
9. Audit quality isn’t only about the work of the auditor. Better and more comprehensive reporting by management and those charged with governance also contribute to the quality of the audit.

IAASB Framework for Audit Quality

10. The International Auditing and Assurance Standards Board (IAASB) issued its [Framework for Audit Quality](#) (the Framework) in 2014. The Framework describes the input-, process- and output factors that contribute to audit quality at the engagement, audit firm and national levels, for financial statement audits. Audit quality is likely to have been achieved by an engagement team that:
- Exhibited appropriate values, ethics and attitudes;
 - Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;
 - Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;
 - Provided useful and timely reports; and
 - Interacted appropriately with relevant stakeholders.
11. AQIs can help to measure the inputs referred to in the Framework, i.e., that the engagement team exhibited appropriate values, ethics and attitudes, and was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work.
12. Quality monitoring programmes, both internal and external, are useful in evaluating the process factors.
13. Revisions to the auditing standards to improve transparency in the auditors' report about how the auditor has dealt with certain matters contributes to the output factors. The auditor's report is an important tool through which auditors effectively communicate how they discharge their mandate and how they address the Public Interest.
14. Research initiatives that explore the effect of transparency mechanisms in the auditor's report may provide a means for assessing the impact of the standards.

The Role of the PIOB in setting high quality auditing & ethical standards

15. The mission of the Public Interest Oversight Board (PIOB) is to enhance confidence in capital markets by ensuring a Public Interest focus in the setting of international auditing and assurance standards and in the setting of ethics standards for the accountancy and audit professions.
16. The PIOB has developed a [Public Interest Framework](#) to ensure that international audit-related standards are responsive to the public interest. This framework outlines the principles and processes that guide the development and oversight of these standards, ensuring they are independent, transparent, and accountable.
17. The Public Interest Framework sets out a set of qualitative characteristics to be used as criteria to assess a standard's responsiveness to the public interest. These qualitative characteristics include:
- *Consistency* with priorities established through a strategic planning process, based on the assessment of public interest and stakeholder needs;
 - *Coherence* with the overall body of standards, including that requirements addressing the same subject matter are not in conflict;

- Appropriate *scope* to address the identified key issues, and to clearly specify to whom the standard applies;
- *Scalability*, including the proportionality to the standard's relative impact on different stakeholders, e.g., how a standard addresses the audit or assurance needs of small and medium sized enterprises (SMEs) as well the needs of complex, listed entities;
- *Timeliness* in addressing identified needs without sacrificing quality;
- *Relevance*, through recognizing and responding to emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology, and developing principles-based requirements that enable the objectives of those requirements to be achieved in differing circumstances;
- *Completeness*, in reflecting the results of broad consultation and in balancing stakeholder priorities;
- *Comprehensiveness*, through limiting the extent to which there are exceptions to the principles set out;
- *Clarity and conciseness*, to enhance understandability and minimize the likelihood of differing interpretations, and thus supporting proper intended application and facilitating implementation;
- *Implementability*, and ability of being *consistently applied and globally operable* across entities of all sizes and regions, respectively, as well as considerations of the different conditions prevalent in different jurisdictions. Standards that cannot be adopted, or cannot be implemented by practitioners are not of much use; and
- *Enforceability*, through clearly stated responsibilities that make it possible to ascertain the extent to which an auditor or professional accountant has complied with the standards.

18. Globally, the standard setting boards apply the public interest framework in their standard setting activities. This is primarily done by the standard setting boards as an internal check but may benefit from external stakeholder input, for example, a survey of auditing and assurance firms may be a way of measuring the XRB's auditing and assurance standards against the public interest framework characteristics.

Value of external monitoring programmes

19. Auditors have a critical role in providing confidence to the capital markets by providing assurance over the financial statements of market participants. Regulatory oversight of auditors of public interest entities and practice review programmes are important elements of the audit quality process.
20. Regulatory inspections monitor compliance with auditing and quality management standards focusing on specific engagements as well as the firm's system of quality management which under the new quality management standards the firm is required to evaluate on an annual basis.
21. In New Zealand, the [FMA's audit quality monitoring report](#) continues to emphasise that high audit quality is vital to ensuring investors can make active choices based on clear, concise and effective information.

22. In addition to regulatory monitoring, Chartered Accountants Australia and New Zealand (CA ANZ) undertakes a practice review programme. Practice Review helps to ensure that members in public practice:
- perform high quality work that complies with the relevant professional, technical and legislative requirements, and
 - keep up to date with changes in requirements.
23. While the FMA's quality monitoring report is available publicly, the CA ANZ practice review report is available only to members.
24. In the XRB's research report, [Trust and Confidence – Views from Audit Committee Chairs](#), audit committee chairs agreed that the FMAs quality inspections are important and beneficial in building trust and confidence. However, a wide range of views were expressed on the processes carried out by the FMA, with concern expressed that the process has forced a focus on compliance.

Reporting our service performance information

25. XRB's output 3 is about the work we do in setting auditing and assurance standards and other related services and guidance, including engaging with our stakeholders on auditing and assurance topics. The outcome impact is the provision of internationally credible audit and assurance, and ethical standards supports high quality and consistent audit and assurance practice and ensures trust and confidence in reported information is enhanced through third party independent assurance.
26. Performance measures reported against include:
- Issuing domestic standard, guidance and/or consultation document in accordance with agreed work plan.
 - Following due process requirements and policies followed, including legislative consultation requirements and international convergence and harmonisation policies.
 - Promoting awareness of frameworks, standards and guidance throughout life cycle, from development to implementation.
27. The XRB reports on specific outcomes in accordance with the NZAuASB's agreed work plan.
28. In addition, the XRB identifies several mechanisms used to measure our contribution to the achievement of our outcomes including the annual stakeholder survey (refer agenda item x), research (including the perceptions of audit committee chairs) as well as external indicators and reports that have a natural correlation to our impact as standard setters, for example, the CA ANZ investor confidence survey and the FMA Investor confidence survey.
29. The reported measures provide some anecdotal evidence about the value of audit and trust and confidence.

Action requested of the Board

30. We ask the board for their views/recommendations on suitable frameworks to measure the impact of the auditing standards on audit quality and thoughts on possible next steps (if any):
- To commission research to facilitate:

- debate and thought leadership on audit quality matters.
 - an effective way to inform the cost/benefit evaluation of standards issued.
 - an effective way to evaluate the impact of the XRB's standards on audit quality.
- To partner with others to explore use of AQIs in New Zealand.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 10.1
Meeting date: 17 October 2024
Subject: Discussion with the Capitals Coalition
Date: 30 September 2024
Prepared By: Karen Tipper

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To receive an update from Mark Gough on what his perspectives in sustainability assurance.
2. Mark is the CEO of the Capitals Coalition.

Background

3. Mark Gough is the CEO of the [Capitals Coalition](#), a global collaboration of business, governments and civil society that is transforming the way that decisions are made by including the value provided by nature and people.
4. Previously, Mark led the Natural Capital Coalition and was on the board of the Social and Human Capital Coalition. He championed and delivered the bringing together of these two communities, creating a unified, systemic, collaborative approach.
5. Mark has worked extensively in the private sector, leading programs and strategy for The Crown Estate and Reed Elsevier (now RELX), as well as advising many more.
6. Among other board and advisory positions, Mark is on the Steering Committee for the Global Commons Alliance, the Impact Management Platform and the Nature Positive Initiative. Mark was also one of the founders of Business for Nature, and as a key partner, Capitals Coalition currently sits on its Leadership Group.

Matters to Discuss

7. Mark will brief the Board on:
 - a. The purpose of the Capitals Coalition,
 - b. His perspective on the developing sustainability assurance market and observations from his experience.

Material Presented

Agenda item Board Meeting Summary Paper

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 11.1
Meeting date: 17 October 2024
Subject: Sustainability Assurance
Date: 30 September 2024
Prepared By: Karen Tipper

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to:
 - a. Update the Board on the finalisation of International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagement (ISSA 5000),
 - b. Consider if and how the issues raised in the XRB submission to the IAASB were addressed by the IAASB as the standard was finalised,
 - c. Note other issues that have been included in the final standard.

Background

2. The IAASB issued their ED ISSA 5000 for consultation in August 2023 and the NZAuASB approved their submission to the IAASB in November 2023.
3. ISSA 5000 is intended to be a professionally agnostic standard that can be applied to:
 - a. All sustainability information prepared in accordance with any sustainability reporting framework'
 - b. Limited and reasonable assurance engagements
4. The IAASB unanimously approved ISSA 5000 in September 2024. The final standard is intended to be published in December 2024 with an effective date for periods beginning on or after 15 December 2026.
5. We understand that Australia has signalled that they intend to early adopt ISSA 5000 so it can be used for their mandatory climate assurance regime.

Matters to Consider

6. There is currently no mandatory sustainability assurance requirement in New Zealand other than the mandatory assurance of the GHG disclosures in the climate statements. This mandatory engagement is covered by our temporary standard NZ SAE 1ⁱ, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*.
7. Staff are still exploring whether ISSA 5000 is suitable for adoption for New Zealand. This will be a strategic decision for the XRB Board once ISSA 5000 is published.

Recommendation

8. We recommend that the Board NOTE the update and provide FEEDBACK on the final standard and its suitability for New Zealand to inform a strategic discussion with the XRB board

Material Presented

Agenda item	11.1 Board Meeting Summary Paper
Agenda item	11.2 Issues Paper
Supplementary Agenda item	11.3 ISSA 5000 Requirements
	11.4 ISSA 5000 Application Material

ⁱ <https://standards.xrb.govt.nz/standards-navigator/nz-sae-1/#1>

Subject: Issues Paper ISSA 5000: Sustainability Assurance

1. The objectives of this paper are:
 - a. To update the Board on the finalisation of ISSA 5000,
 - b. To consider if and how the issues raised in the XRB's submission to the IAASB were addressed by the IAASB as the standard was finalised,
 - c. To note other issues that have been included in the final standard.
2. We are asking the Board to NOTE the update and provide FEEDBACK on the final standard to inform our recommendations to the XRB Board on the suitability for adopting ISSA 5000 in New Zealand.

Part 1: Issues raised in NZAuASB submission to the IAASB

Scope

3. The NZAuASB raised that the scope of the standard should be clearly limited to assurance over general purpose reporting. The IAASB has not changed the scope of the standard as they intend that it should be applied to all types of sustainability information, regardless of how the information is presented. The application guidance provides examples of how information may be limited to certain matters, aspects or topics.

At least as Demanding

4. The NZAuASB raised that the "at least as demanding" approach would not result in a profession agnostic standard. Multiple submissions received by the IAASB indicated that the at least as demanding requirement required more clarity. The IAASB has responded by including the following hierarchy in the final approved standard. At least as demanding means:
 - a. a member of a firm that applies ISQM 1 and the IESBA Code, or
 - b. professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding.

An appropriate authority could be a standard setter (NZAuASB) or regulatory authority, an oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority (para A63).

Binary Conclusions

5. The NZAuASB raised the risk of increasing the assurance expectation gap due to the binary nature of the conclusions allowed by the standard and encouraged the IAASB to include other examples such as long-form reporting that provide more information to users.
6. The requirement for limited or reasonable assurance has not changed but additional clarification has been included for limited assurance and inherent uncertainty and forward-looking information (refer paragraph 12 of this paper). Application material (A560) includes reference to long-form reporting and indicates that both short-form and long-form reporting are allowed under ISSA 5000 depending on the users' needs. Other information included in long-form reporting that is not expected to affect the conclusion must be clearly separated from the conclusion.

Alignment with GHG Assurance Standard – 3410 Assurance Engagements on Greenhouse Gas Statements

7. The Board recommended moving ISAE 3410 to become a topic specific standard under ISSA 5000. This was considered by the IAASB but they are intending to sunset ISAE 3410 in due course, as they consider that all necessary requirements and application material from ISAE 3410 have now been covered in ISSA

5000. The risk assessment process in ISSA 5000 has been updated to align to ISAE 3410. Para 120L requires the practitioner to assess the risk of material misstatement at the disclosure level for limited assurance whereas the draft ED-5000 required practitioners to design and perform risk procedures to identify disclosures where material misstatements are likely to arise.

Sustainability Matters definition

8. The NZAuASB supported the definition of sustainability matters but felt that the last sentence that referred to sustainability matters being the equivalent of underlying subject matter in other IAASB standards was too broad. The IAASB has significantly updated this definition, in collaboration with the IESBA and the definitions are expected to align in the final standards. They have removed the references to cultural and economic matters and impacts.

Environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.

For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards (para 18).

Additional Guidance

9. The NZAuASB recommended additional guidance be provided. The IAASB has committed to releasing other guidance including first time implementation guidance that they intend to release at the same time as the final standard is published.

Materiality

10. The NZAuASB highlighted that the description of the entity’s materiality process and the assurance practitioner’s materiality may create confusion. The IAASB has addressed this, and the entity’s process has been clarified as the entity’s process to identify sustainability information to be reported.
11. The IAASB has included a conditional requirement for the practitioner to consider “double materiality” if the applicable criteria require the entity to apply both financial materiality and impact materiality in preparing the sustainability information.

Estimates and Forward-Looking information

12. The NZAuASB encouraged the IAASB to consider a flexible approach for estimates and forward-looking information, including considering the approach in ISAE 3400 *The Examination Of Prospective Financial Information* for hypothetical projections with a focus in the conclusion over the reasonableness of underlying assumptions and appropriate caveats. The IAASB has included additional useful application material (A245-A266) to address the uncertainty in projected information and to cover considerations of evidence that may be provided to support forward-looking sustainability information and measurement or evaluation uncertainty. This includes specific reference to climate scenarios.

Groups

13. The NZAuASB recommended that there should be a specific ISSA relating to groups and value chain considerations. The final standard has been significantly expanded to address group reporting and to include requirements for the assurance of sustainability groups. This includes definitions of group and group sustainability information and application material for group sustainability engagements (aligned to ISA 600¹) and consideration for group components. The definition of component has been clarified:

¹ <https://standards.xrb.govt.nz/standards-navigator/isa-nz-600/#1>

- a. a “group component” relates to a component within the reporting entity’s operational control, and
 - b. a “value chain component” relates to a component outside the reporting entity’s operational control. This is aligned to the IESBA definitions.
14. The IAASB has included the concept of a “one-to-many” report in ISSA 5000. This is an assurance report from another practitioner that has been designed for use by user entities and their assurance practitioners across a value chain.

Key Sustainability Matters

15. The NZAuASB recommended that key sustainability matters be required in the assurance report, in a similar manner as key audit matters. This has not been included, as the IAASB considered that it would not be appropriate to include these for a limited assurance engagement. Jurisdictions can choose to mandate key sustainability matters but these are not required in the global baseline at this time.

Part 2: Other Issues included in the final standard

Fraud and Non-Compliance with Laws and Regulations

16. The IAASB has added requirements:
- a. For reasonable assurance engagements for the practitioner to treat risks of management override of controls as risks of material misstatement due to fraud, and for the practitioner to design and perform procedures for this.
 - b. For the practitioner to discuss suspected instances of fraud or NOCLAR with management and those charged with governance
 - c. For the practitioner to determine whether they are required or have responsibilities to report identified or suspected fraud or NOCLAR to an appropriate authority outside the entity.
17. Application material has been included to acknowledge that some relevant ethical requirements may require the practitioner to consider communicating instances of suspected NOCLAR with the financial statement auditor

Relationship with the audited financial statements

18. Paragraphs 12 – 13 confirm that ISSA 5000 should not be used to audit any sustainability information contained within the financial statements.
19. Paragraph 173 includes a requirement for the sustainability practitioner to communicate with the financial statement auditor if the practitioner identifies that a material inconsistency appears to exist between the audited financial statements and the sustainability information, or the audited financial statements appear to be materially misstated.

NZASB Board Meeting Summary Paper

AGENDA ITEM NO. 12.1
Meeting date: 17 October 2024
Subject: Modified Auditor's Reports
Date: 30 September 2024
Prepared By: BM

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to:
 - a. CONSIDER the application of the modified audit reports policy paper **at agenda item 11.2**.
 - b. AGREE that there are no implications for the auditing and assurance standards from the modified audit reports received from 1 September 2023 to 30 September 2024

Background

2. The application of the modified audit reports policy memorandum at **agenda item 11.2** has been prepared jointly by the assurance standards team and the accounting standards team. It will be considered by NZASB members at their 15 October NZASB meeting. Appendices A and B are most applicable to this board, Appendices C and D were specifically prepared for the NZASB board.
3. We received 13 modified audit reports during the period of the review (13 months from 1 September 2023 to 30 September 2024). By comparison last year we received 17 in the period 1 October 2022 to 31 August 2023. There have been no issues identified with the assurance standards.
4. As noted in the memorandum, we have aligned the reporting period to September, to allow for quarterly sharing of data between XRB, FMA, and the Companies Office.
5. In our August 2023 *Need to Know* assurance webinar, we reminded auditors that, when required, they need to use our portal to file their modified audit reports and financial statements. The Assurance Alert newsletter following that webinar also provided a link to our portal. We have also issued a post on LinkedIn to remind to auditors to file their modified audit reports when required.
6. The re-design of the portal last year has worked well. This redesign resulted in an improved layout of the questionnaire and added questions to capture data of more relevance to us (particularly around the type of entity and legislative reasons for filing the report). This has also improved efficiency in sharing data with the FMA and MBIE (Companies Office), with one report being able to be shared between both organisations.
7. As yet, we have not received any modified audit reports for Incorporated Societies. The Incorporated Societies Act 2022 applies from October 2023, and societies registered under that act are required to be audited if their total expenditure is over \$3million. The Incorporated Societies Act 2022 requirement for auditors is as follows:

107 Auditor’s report must be sent to Registrar and External Reporting Board if requirements have not been complied with

If an auditor’s report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements to which it relates to the Registrar and the External Reporting Board.

8. We will look to update the XRB policy on modified audit reports in the coming year for legislative changes arising from practitioners needing to submit to the XRB their modified audit reports over the financial statements of incorporated societies, and modified assurance reports over mandatory GHG emissions disclosures.

Recommendation

9. We recommend that the Board AGREES that there are no implications for the auditing and assurance standards from the modified audit reports received from 1 September 2023 to 30 September 2024.

Material Presented

Agenda item 12.1	Board Meeting Summary Paper
Agenda item 12.2	Memorandum
Supplementary Agenda item 12.3	XRB Policy on Modified Audit Reports

Date: 30 September 2024

To: NZASB Members and NZAuASB Members

From: Alex Stainer and Bruce Mcniven

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

Purpose and introduction

1. The purpose of this paper is to inform the Boards of the modified audit reports received in the 13 month period from 1 September 2023 to 30 September 2024 and to consider whether there are any implications for the accounting standards or the auditing and assurance standards.
2. Modified audit reports are received from auditors who are required to submit modified audit reports to the XRB under the Companies Act 1993 and the Financial Markets Conduct (FMC) Act 2013¹. Auditors of Incorporated Societies (registered under the Incorporated Societies Act 2022) will also be required to submit modified audit reports to the XRB in due course. The Financial Markets Conduct Act has also been amended² to require, modified assurance reports of mandatory GHG emissions disclosures to be sent to the XRB (and other specified parties).
3. During the period, we have only received modified audit reports under the Companies Act and FMC Act.

Recommendation

4. We recommend that, from the modified audit reports received in the 13 months from 1 September 2023 to 30 September 2024:
 - (a) The NZASB Board AGREES that there are no current implications for the accounting standards.
 - (b) The NZAuASB Board AGREES that there are no current implications for the auditing and assurance standards.

Background

5. The Companies Act 1993³, Incorporated Societies Act 2022⁴ and the Financial Markets Conduct Act 2013⁵ require an auditor to send a copy of their audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of those Acts have not been complied with.

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

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

³ [Section 207C](#)

⁴ [Section 107](#)

⁵ [Section 461G](#)

6. The Modified Audit Reports Policy (the Policy) sets out the processes to be followed by the XRB Board and its sub-Boards, the NZASB and the NZAuASB, in respect of such audit reports. The Policy also applies when modified audit reports are referred to the XRB by any other party.
7. The Policy is included at **agenda item 12.3** (supporting papers) for reference purposes. We will look to update the policy in the coming year for legislative changes – add reference to modified audit reports relating to incorporated societies, and GHG emissions disclosures.
8. The key aspects of the Policy in respect to the Boards’ review are as follows:
 - (a) For the NZASB – focus on modified audit opinions in relation to material misstatements in the financial statements.
 - (b) For the NZAuASB – focus on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
 - (c) For both Boards – consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any potential issues about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
9. No action needs to be taken by the Boards if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard. Non-compliance is a matter for the appropriate regulator.

Modified audit reports received in the review period

10. The current review period is 13 months from 1 September 2023 to 30 September 2024. Due to timing of the board meeting last year, the previous review period was 11 months from 1 October 2022 to 31 August 2023. Going forward, we intend to keep the review period consistent to the 12-months ended 30 September each year.
11. During the review period of 1 September 2023-30 September 2024, we received 13 modified audit reports – 2 were received in September 2023, the remaining 11 were received in the 12-month period ended 30 September 2024.
12. Based on a year end of 30 September, we have provided below the stats on the audit reports received by quarter over the past 3 years.

Quarter received	OCT-DEC	JAN-MAR	APR-JUN	JUL-SEP	TOTAL
Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Oct 2023-Sep 2024	4	1	4	2	11
Oct 2022-Sep 2023	8	2	4	7	21
Oct 2021- Sep 2022	3	0	3	5	11
SUM	15	3	11	14	43

13. Further analysis follows:

Act report is received under	Under section 461G(2) of the Financial Markets Conduct Act 2013	Under section 207C of the Companies Act 1993	TOTAL
Oct 2023-Sep 2024	3	8	11
Oct 2022-Sep 2023	4	17	21
Oct 2021- Sep 2022	0	11	11
SUM	7	36	43

14. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website. Over the previous two years we have been encouraging practitioners to upload to our website, rather than email or post. No reports were received via post during the period under review.
15. We have engaged with the FMA and the Companies Office to share information on modified audit reports received to ensure we have a complete set of modified audit reports (as some entities may submit to the regulator and/or Companies Office and not the XRB even though there is a legal requirement to do so). No reports were received via the FMA, and one was received from the Companies Office as part of this process.
16. Commencing 30 June 2024, we will be sharing modified audit reports with FMA and MBIE (Companies Office) on a quarterly basis, at the FMA’s request. Previously sharing was undertaken on an annual basis around August/September.
17. [Appendix A](#) provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.
18. [Appendix B](#) provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from the Accounting Team and the Assurance Team. In all cases the proposed action is ‘None’ as we have not identified any modified audit reports that indicate an issue with the accounting standards or the auditing and assurance standards.
19. [Appendix C](#) provides a 5-year summary of the types of modified audit reports received.

Current review period observations

20. In the current review period, of the 13 modified audit reports received:
 - (a) two of the modifications are the same as for the previous review period. This is because the reason for the modification in the previous reporting period often impacts on the next period (e.g., valuation of property, plant and equipment), or the auditor issues a modification on an ongoing matter for which they are unable to obtain sufficient appropriate audit evidence (e.g., where a client is unwilling to undertake impairment testing).
 - (b) three of the modifications have more than one reason. In Appendix A, each basis for modification is noted separately.
 - (c) three of the qualified opinions related to inventory. These were typical reasons such as incorrect valuation, and the stocktake just not occurring. One report had two modifications over inventory, the first being not being unable to attend the stocktake

and undertake alternative procedures, the second being a difference in quantities between the stocktake quantities and what is recorded in the accounts. None of these reasons have implications for accounting or auditing standards.

- (d) four of the qualified opinions related to valuation of property, plant and equipment, including investment property. Again these were typical reasons for modification, such as not holding ownership of the investment property to meet the asset recognition criteria, unable to obtain audit evidence on the valuation of the investment property, a group not undertaking impairment testing, valuation of land and buildings not undertaken at balance date. None of these reasons have implications for accounting or auditing standards.
- (e) as in previous years, there were no adverse opinions.

No current implications for the accounting standards

- 21. The Accounting Team’s review has not identified any current implications for the accounting standards from the modified audit reports received from 1 September 2023 to 30 September 2024. The Accounting Team noted that one modification (#477) required additional investigation, a summary of the Accounting Team’s analysis can be found in [Appendix D](#).

No implications for the auditing and assurance standards

- 22. The Assurance Team’s review has not identified any current implications for the auditing and assurance standards from the modified audit reports received from 1 September 2023 to 30 September 2024.

Question for the NZASB Board

Q1A. Does the NZASB Board AGREE that there are no current implications for the accounting standards from the modified audit reports received from 1 September 2023 to 30 September 2024?

Question for the NZAuASB Board

Q1B. Does the NZAuASB Board AGREE that there are no current implications for the auditing and assurance standards from the modified audit reports received from 1 September 2023 to 30 September 2024?

Attachments (in supporting papers)

Agenda item 12.3: Modified Audit Reports Policy

Appendix A – Summary of modified audit reports

The table below displays the types of modified audit reports received across the three review periods:

A: 1 September 2023 to 30 September 2024

B: 1 October 2022 to 30 August 2023

C: 1 December 2021 to 30 September 2022

Modification in relation to:	Adverse Opinion			Disclaimer of Opinion			Qualified Opinion		
	Financial statements are materially misstated			Unable to obtain sufficient appropriate audit evidence			Unable to obtain sufficient appropriate audit evidence		
Review period:	A	B	C	A	B	C	A	B	C
Service Performance Information	–	–	–	–	–	–	1	1	–
Accounting records	–	–	–	–	–	1	–	–	–
Opening balances - unaudited	–	–	–	–	1	–	1	–	–
Going concern	–	–	–	2	2	4	–	–	1
Valuation of inventory, including Opening balances - inventory	–	–	–	–	1	2	4	3	1
Valuation of receivables or WIP	–	–	–	–	–	2	–	1	–
Valuation of property, plant and equipment, including investment property	–	–	–	–	–	–	4	4	5
Valuation of share investments	–	–	–	–	–	–	1	–	–
Accounting of Investments in Associates and Joint Ventures	–	–	–	–	2	3	–	4	–
Carrying amount of right-of-use asset	–	–	–	–	–	1	–	–	–
Accounting of shares (liabilities or equity)	–	–	–	–	1	–	–	–	–
Valuation of biological assets or forestry assets	–	–	–	–	–	–	1	1	–
Carrying amount of goodwill and other indefinite life intangibles	–	–	–	–	–	–	1	–	1
Valuation of related party advances	–	–	–	–	–	–	–	–	1
Valuation of Cash-generating unit (division)	–	–	–	–	1	–	–	–	–
Accounting for the acquisition of a business combination	–	–	–	–	1	–	–	–	–
Valuation of taxation balances	–	–	–	–	1	1	–	–	–

Share-based compensation	-	-	-	-	-	1	-	-	-
Revenue and accrued revenue recognition	-	-	-	1	-	1	-	-	-
Sub-total	-	-	-	3	10	16	13	14	9
TOTAL							16⁶	24⁷	25⁸

⁶ 13 audit reports received in this period, but in three instances (#468, #471, #480) there is more than one reason for the modification

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

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

Appendix B — Modified Audit Reports received in the review period

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

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion – summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
1.	466 Holding company for investment in Elevator technology company BD: 31-Mar-23 AR: 20-Sep-23	Qualified Opinion <ul style="list-style-type: none"> Opening balances – inventory: <i>31-Mar-22 stocktake did not occur. Unable to undertake alternative procedures over opening balances.</i> 	NZ IAS 2 <i>Inventories</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
2.	467 Retirement village care operations BD: 30-Jun-23 AR: 22-Sep-23	Qualified Opinion on the Financial Statements Unmodified Opinion on Service Performance Information <ul style="list-style-type: none"> Valuation of investment property: <i>Company has recognised investment property for which it does not hold ownership of the investment property to meet the asset recognition criteria under the PBE Standards.</i> 	***PBE IPSAS 16 <i>Investment Property</i>	N/A – New this year.	None. No issues identified with accounting standards. We do not consider this an issue with the recognition criteria of investment property. Investment property has been recognised where they had entered into an operating lease for the property.	None. No issues identified with assurance standards.
3.	468 Council controlled organisation	Qualified Opinion on the Financial Statements and Service Performance Information	NZ IAS 36 <i>Impairment of Assets</i>	Yes	None.	None.

Industry	Balance date (BD) Audit Report (AR) date	Type of modified audit opinion – summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
	BD: 30-Jun-23 AR: 29-Sep-23	<ul style="list-style-type: none"> Valuation of property, plant and equipment <i>No impairment testing: The Group is designated for-profit for accounting purposes. One of the subsidiaries is a public benefit entity (PBE). The subsidiary has concluded, under PBE accounting standards, that certain PP&E assets (held for operational purposes) are not impaired. However, the Group is a for-profit entity, which requires it to assess the value of the assets on a commercial basis to determine whether there is an impairment under NZ IAS 36 (as there is an indicator of impairment) – this was not done by the Group.</i> Lack of supporting evidence for SPI: <i>Limited evidence to support the “Shareholder’s funds to total assets” and “Net profit after tax” performance measures.</i> 	PBE FRS 48 <i>Service Performance Reporting</i>		No issues identified with accounting standards. However, we are aware that such mixed group issues will continue.	No issues identified with assurance standards.
4.	469 – N/A: Used for test purposes					
5.	470 Retirement village BD: 30-Jun-23 AR: 1-Dec-23	Qualified Opinion <ul style="list-style-type: none"> Valuation of Land and Buildings: <i>Land and buildings recognised at an independent valuation obtained in 2019, not at balance date. Auditor unable to determine whether there has been a change in value since then.</i> 	PBE IPSAS 17 <i>Property, Plant and Equipment</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
6.	471 Engineering BD: 30-Jun-23 AR: 7-Dec-23	Disclaimer of Opinion <ul style="list-style-type: none"> Valuation of Accrued Revenue: <i>Unable to obtain sufficient appropriate audit evidence on the amount the Accrued Revenue recorded by the Group. The amount will depend on the outcome of commercial negotiations</i> 	NZ IFRS 15 <i>Revenue</i> NZ IAS 1 <i>Presentation of Financial Statements</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion – summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
		<p><i>which are still underway and for which the outcome is uncertain.</i></p> <ul style="list-style-type: none"> Going Concern: <i>The Group has several factors that give rise to a material uncertainty that may cast significant doubt about the Group's ability to continue as a Going Concern.</i> 				
7.	472 Manufacturing and distribution of merino based products BD: 31-Dec-22 AR: 7-Dec-23	Qualified Opinion <ul style="list-style-type: none"> Opening balances – unaudited: <i>The previous years financial statements were not audited and accordingly there is no assurance expressed in respect of the comparative information presented in the consolidated financial statements, nor the opening balances of the Group's consolidated statement of financial position.</i> 	N/A	N/A – New this year	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
8.	473 Property Development BD: 31-Mar-23 AR: 4-Mar-24	Qualified Opinion <ul style="list-style-type: none"> Valuation of Inventory: <i>Net Realisable Value (NRV) from a valuer is lower - therefore inventory is not reported at the lower of cost and NRV</i> 	NZ IAS 2 <i>Inventories</i>	N/A – New this year	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
9.	474 Land ownership company BD: 31-Dec-23 AR: 27-Mar-24	Qualified Opinion <ul style="list-style-type: none"> Valuation of investment property: <i>Unable to obtain sufficient appropriate audit evidence to provide assurance over the estimated future NZ emission units prices which form a significant part of the valuation.</i> 	NZ IFRS 13 Fair Value Measurement	N/A – New this year	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
10.	475 Tulip bulb cultivator BD: 30-Jun-23	Qualified Opinion on the financial performance and cash flow. Unqualified Opinion on financial position	NZ IAS 41 <i>Agriculture</i>	Yes – carry forward of LY	None.	None.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion – summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
	AR: 28-Mar-24	<ul style="list-style-type: none"> Opening balance: Valuation of biological assets: <i>Unable to verify balance of quantity of bulbs at 30-Jun-22.</i> 		closing balance qualified opinion	No issues identified with accounting standards.	No issues identified with assurance standards.
11.	476 – N/A: Auditor resubmitted form, replaced by 477					
12.	477 Holds settlement fishing quota, income shares and other assets for the benefit of the charitable purpose of its shareholder BD: 31-Mar-24 AR: 31-May-24	Qualified Opinion on the Financial Statements Unmodified Opinion on Statement of Service Performance <ul style="list-style-type: none"> Valuation of investments: <i>Company has not valued investment in unlisted shares at fair value.</i> 	PBE IPSAS 41 <i>Financial Instruments</i>	N/A – New this year	On further analysis we have not identified issues with accounting standards. We provide further information about our analysis in Appendix D.	None. No issues identified with assurance standards.
13.	478 – N/A: Auditor resubmitted form, replaced by 479					
14.	479 AI/Logistics/Education BD: 31-Mar-24 AR: 26-Jun-24	Qualified Opinion <ul style="list-style-type: none"> Goodwill valuation: <i>The calculation of the deferred consideration and the assessment of goodwill impairment involves a number of subjective assumptions relating to the future performance of the subsidiary and the resulting impact of this performance on the share price of the Group. Auditor has been unable to obtain sufficient appropriate audit evidence to provide assurance over these assumptions due to their subjective nature.</i> 	NZ IFRS 13 <i>Fair Value Measurement</i> NZ IFRS 3 <i>Business Combinations</i>	N/A – New this year	None. No issues identified with assurance standards.	None. No issues identified with assurance standards.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion – summary	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
15.	480 Sales and marketing services and trading of toys and consumer products BD: 31-Dec-21 AR: 13-Jul-23	Qualified Opinion <ul style="list-style-type: none"> Opening balances – inventory: <i>unable to attend stocktake due to being appointed after 31-Dec-2020 stocktake occurred. Unable to undertake alternative procedures.</i> Inventory Valuation: <i>There were differences between the inventory quantities counted and those recorded at 31-Dec-21. The Company has been unable to explain these variances. The auditor was unable to satisfy themselves by alternative means concerning the existence of inventory.</i> 	NZ IAS 2 <i>Inventories</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
16.	481 Retailer of books and stationery products BD: 31-Mar-24 AR: 29-Jul-24	Disclaimer of Opinion <ul style="list-style-type: none"> Going concern: Unable to obtain sufficient appropriate audit evidence to form an opinion as to whether the application of the going concern assumption is appropriate. 	NZ IAS 1 <i>Presentation of Financial Statements</i>	N/A – New this year.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
17.	482 – N/A: Not a modified audit report					

Appendix C

5-year summary view

Modification	2020 16-Nov-19 – 19-Oct-20	2021 1-Jan-21 – 30-Nov-21	2022 1-Dec-21 - 30-Sep-22	2023 1-Oct-22 – 30-Aug-23	2024 1-Sep-23 – 30-Sep-24
Service Performance Information	-	-	-	1	1
Accounting records	5	5	1	-	-
Opening balances - unaudited	-	-	-	1	1
Going concern	7	3	5	2	2
Valuation of inventory	5	3	3	4	4
Valuation of receivables or WIP	1	-	2	1	-
Valuation of PPE including investment property	1	1	5	4	4
Accounting of Investments in Associates and Joint Arrangements	1	-	1	6	-
Valuation of biological assets	-	-	-	1	1
Carrying amount of goodwill and other indefinite life intangibles	1	2	1	-	1
Other	2	-	7	4	2
Total	23	14	25	24	16
Total modified audit reports	20	12	14	17	13

[Summary based on periods XRB collated these reports for. This view is intended to show any trends for modifications. 'Other' includes a range of modifications which are infrequent and do not have more than 1 or 2 instances over the last 5 years.]

Appendix D

Accounting Standards Team additional analysis on modified audit opinion (#477)

1. Entity #477 received a qualified audit opinion for not revaluing an equity instrument to fair value in line with PBE IPSAS 41 Financial Instruments. They instead held the investment at a deemed cost. They made the following disclosure in the notes to their accounts:

“The Board, in their deliberation, considered the potential costs associated with obtaining a formal valuation of [...] shares. They concluded that such a valuation did not offer any discernible benefit to shareholders, which led to the decision to forego this process.”

2. PBE IPSAS 41 has been mandatory for periods beginning on or after 1 January 2022 and this was the entity’s first year applying the Standard.
3. The entity in question has also been in correspondence with the Companies Office as they were provided notice that future filing of financial statements will be rejected by the Companies Office if they continue to have a qualified opinion in respect of this matter.

Accounting Standards Team actions

4. The accounting standards team:
 - (a) revisited the requirements in PBE IPSAS 41 (and NZ IFRS 9) and compared these to the previous Standard PBE IPSAS 29 (and NZ IAS 39).
 - (b) reviewed the IASB and IPSASB basis for conclusions in respect of IFRS 9 and IPSAS 41 to understand the analysis undertaken for this issue
 - (c) checked historical modified audit opinions to see if any previous occurrences

Comparison of treatment for equity instruments

Under IPSAS 41 and IFRS 9	Under IPSAS 29 and IAS 39
Elect to measure equity instruments at Fair Value through Other Comprehensive Income; otherwise will be measured at Fair Value through Surplus and Deficit (as very unlikely to meet the conditions to be measured at amortised cost).	Equity instruments shall be measured at fair value. There was a concession that equity instruments could be carried at cost if an entity was unable to reliably measure the instrument at fair value (No such concession in IFRS 9 or IPSAS 41).

5. We note that during our consultation period for PBE IPSAS 41, the lack of a concession in this respect drew no comments nor was it raised as a potential issue during this time.

IFRS Basis for Conclusions

6. IASB noted the following reasons for equity instruments to be measured at fair value:
 - (a) Fair value provides the most timely and relevant information, and can differ significantly from historical cost
 - (b) Entities would need to ensure that the recoverable amount is not less than cost for the purposes of impairment regardless

- (c) Removing the exception from IAS 39 reduces complexity and improves comparability and usefulness for users
7. IASB noted that some respondents disagreed with removing the exception on the basis:
- (a) there can be a lack of reliability in a fair value measurement for some types of equity instruments, and
 - (b) the cost and difficulty involved with determining fair value on a recurring basis.
8. IASB considered those arguments as follows:
- (a) Measuring all equity instruments at fair value is reliable if appropriate measurement techniques and inputs are employed, and fair value meets more of the qualitative characteristics in the Conceptual Framework than cost as it is also relevant.
 - (b) Valuation methods for equity investments are well-developed, and basic shareholder rights generally enable an entity to obtain the necessary information to perform a valuation.
 - (c) Acknowledged that there are circumstances in which the cost of determining fair value could outweigh the benefits from fair value measurement. However, the IASB concluded that if the volume of the investments individually or aggregated is material the incremental benefit of fair value generally outweighs the additional cost because of the impact of the investments on the financial performance and position of the entity.

IPSASB Basis for Conclusions

9. IPSASB acknowledged concerns that measuring fair value can be challenging for investments in the form of unquoted equity instruments. To ease concerns, they have collated multiple examples of factors to be considered in determining fair value for unquoted equity instruments.

Historical modified audit opinions

10. We have not received any other modified audit opinions in relation to an entity not revaluing an equity instrument to fair value where required.
11. We have only received several qualified opinions where the auditor was unable to obtain sufficient appropriate evidence to support the fair value of investments used.

Our conclusion

12. We are comfortable that both international boards have given this issue enough consideration before establishing this measurement requirement – including a review of the requirement considering the Conceptual Framework. We do not consider that there is any NZ or PBE specific context that would rebut the arguments in favour of fair value measurement, that was not already heard by the IASB. IPSASB have acknowledged this issue and in response prepared multiple examples to help with the application of this requirement, some of which would be applicable to this specific entity.
13. Where an equity investment is material, we consider that there are established valuation techniques in which most PBE entities should be able to comply. We do not consider any further action to be required in respect of this issue.