

FINANCIAL REPORTING STRATEGY¹ PARAMETERS FOR THE NZAuASB

24 August 2011

Introduction

1. In accordance with its terms of Reference, the NZAuASB has delegated authority from the XRB Board to develop or adopt and issue auditing and assurance standards (including professional and ethical standards for auditors). However, the XRB Board is responsible for determining the overall financial reporting strategy and it is important that the standards issued by the NZAuASB are consistent with that strategy.
2. This document outlines the technical strategic parameters that the XRB Board wishes the NZAuASB to work within when establishing auditing and assurance standards. It effectively represents the elements of the XRB's overall financial reporting strategy that are relevant to the work of the NZAuASB.
3. It is expected that this document will be revised from time to time to take account of changes to the XRB's overall financial reporting strategy, or to changes in legislative requirements or in the auditing environment.

Strategic Objective

Organisational

4. The XRB's outcome goal is:

To contribute to the creation of dynamic and trusted markets² through the establishment of an accounting and assurance standards framework that engenders confidence in New Zealand financial reporting; assists entities to compete internationally; and enhances entities' accountability to stakeholders.

5. The delivery of three outputs will be used to impact this outcome goal:
 - developing financial reporting strategy;
 - preparing and issuing accounting standards; and
 - preparing and issuing auditing and assurance standards.
6. All of the work of the organisation, including that of the NZAuASB is therefore linked to influencing the outcome goal.

NZAuASB

7. A key element of the outcome goal is an "*assurance framework that engenders confidence in New Zealand financial reporting*". The provision of high quality assurance that provides users with confidence about the fair presentation of the information presented in financial reports is vital to the achievement of this aspect of the goal. It is also important to the achievement of other aspects of the goal – international competitiveness and accountability.

¹ The term "Financial Reporting Strategy" is used as per section 24(1)(c) of the Financial Reporting Act 1993 and refers to financial reporting in its wider sense incorporating both accounting and assurance.

² "Markets" should be viewed in a wider multi-sectoral sense rather than in just a commercial or capital markets context.

8. The XRB Board therefore considers that the NZAuASB has a key role to play in the achievement of this goal. Accordingly, the XRB Board considers the NZAuASB's strategic objective should be:

To establish auditing and assurance standards which will encourage assurance providers to behave and provide assurance in a manner that engender confidence in New Zealand financial reporting³, assist entities to compete internationally, and enhance entities' accountability to stakeholders.

9. The XRB Board expects the NZAuASB to consider the suite of auditing and assurance standards, and how they are being applied, with this objective in mind, and to do so on an ongoing basis. The NZAuASB should issue such standards or guidance as it considers necessary from time to time to achieve its strategic objective.

Scope of Responsibilities

10. The scope of responsibilities of the NZAuASB encompasses:

- Ethics for assurance providers;
- Professional standards for assurance providers;
- Standards, guidance and practice statements for audits of historical financial information;
- Standards, guidance and practice statements for reviews of historical financial information;
- Standards, guidance and practice statements for assurance engagements other than audits or reviews of historical financial information.

11. The NZAuASB's scope of responsibilities does not include non-assurance engagements including Agreed Upon Procedures.

12. The standards and guidance should be applicable to all assurance providers regardless of whether the assurance being provided is required by statute (statutory assurance) or not.

Specific Strategic Parameters

Adoption of International Standards

13. The XRB has a strong preference to adopt international standards where they are generally applicable and appropriate in the New Zealand context. This approach is designed to enhance convergence with international practice as well as reducing standard setting costs in New Zealand.
14. Accordingly, the XRB Board wishes the NZAuASB to adopt international auditing and assurance standards as standards applying in New Zealand unless there are very strong reasons why they should not.
15. The XRB Board recognises that the majority of auditing standards are now based on International Standards on Auditing (ISAs) and so the existing suite of standards is consistent with this strategic approach. However, there are some standards, such as RS-1, that are domestic standards and which do not yet reflect the international standard. The XRB expects that over time the NZAuASB will move to international standards in these topic areas.

³ The content of "financial reports" includes both financial and non-financial information.

16. The XRB Board recognises that the NZAuASB may wish to consider modifying international standards for application in New Zealand. The XRB Board considers such modifications acceptable provided that they do not result in a lesser requirement than the international standards. However, modifications should consider the public interest, ensure the standards are of the highest quality, and not conflict with the international standard's requirements. The XRB Board considers that in committing to adopt international standards it is committing to using that set of standards as a whole. This means that the failure to adopt any particular standard, or to modifying it other than with superior requirements, would remove the ability of assurance providers in New Zealand to claim compliance with those standards.

Domestic Standards

17. If there are topic areas or other matters for which a standard is required in order to achieve the strategic objective, but for which no international standard exists (or is likely to exist in the foreseeable future), the XRB Board would expect the NZAuASB to develop a domestic standard. Domestic standards should only be developed where there is a gap in international standards, and not to replace an international standard.
18. Domestic standards may also be used to specify requirements that are additional to those contained in an international standard that has been adopted by the NZAuASB.
19. In developing domestic standards the NZAuASB should consider the public interest, and ensure the standards are of the highest quality.

Sectoral Specific Standards

20. Unlike the situation with accounting standards, the XRB Board does not consider there is a need for auditing and assurance standards that are specific to particular sectors i.e. for-profit, public or not-for-profit sectors. The XRB Board would therefore expect the NZAuASB to issue only one suite of auditing and assurance standards that are applicable to assurance providers in all sectors.
21. The XRB Board recognises, however, that there may be some topic areas that are more applicable in some sectors or entities than others. Providing assurance on Statements of Service Performance would be an example. The XRB Board supports the NZAuASB reflecting such scope of application in standards as the NZAuASB considers it appropriate.

Harmonisation with Australia

22. A second key strategic objective of the XRB is harmonisation with Australia. In the auditing and assurance standards space, harmonisation would be reflected in a substantively common set of standards that apply in both countries. This will allow assurance providers to operate in both jurisdictions within a single set of requirements.
23. The XRB Board expects the NZAuASB to work with its Australian counterpart, the Australian Auditing and Assurance Standards Board (AUASB), to work towards the establishment of harmonised standards based on international standards. In doing so the NZAuASB will need to consider the best way to deal with country specific requirements, including the possible use of domestic standards.
24. The impact on, or opportunity for, harmonisation should be a factor considered by the NZAuASB when developing or adopting any standard.

Engaging with International Standard Setters

25. A consequence of the XRB's "adopting international standards" strategy is that the NZAuASB's ability to determine the content of standards once the international exposure draft is issued is limited. This means that it is important that the NZAuASB engage with international standard setters during the project development phase. In other words it is necessary to refocus our technical effort and input from the back-end to the front-end of the standard setting process.
26. Accordingly the XRB Board expects the NZAuASB (with the support of and/or via the staff) to look for opportunities to engage with international standard setting bodies at an early opportunity in the process of developing an international standard. This engagement may be directly, or in conjunction with the AUASB, or via regional standard setting bodies, or other mechanisms.
27. Compared to many international counterparts, the XRB is a small standard setter with very limited resources, especially in the auditing and assurance area. The XRB Board therefore expects the NZAuASB to prioritise its contribution to international standard setting to topics or areas that are significant to New Zealand and/or in which New Zealand can make a worthwhile contribution.
28. The XRB Board also expects the NZAuASB to make submissions to relevant international standard setting bodies on due process documents issued by them, where those documents are relevant or important in the New Zealand context.